【For Immediate Release】

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

# Hengan International Announces 2017 Interim Results

## Overall Profit Attributable to Shareholders Increased to RMB1.854 billion Interim Dividend at RMB0.95 Per Share

*** ***

### *Robust Growth in E-Commerce Sales*
### *Hengan's Amoeba Business Strategy Begins to Bring Positive Impact*

**Financial Highlights**

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **Change** |
| *** Revenue** | **9,562,746** | 9,577,341 | **-0.2%** |
| *** Gross profit margin** | **48.6%** | 48.1% | **+0.5 p.p.** |
| *** Operating profit** | **2,616,808** | 2,301,451 | **+13.7%** |
| *** Profit attributable to shareholders** | **1,853,935** | 1,627,500 | **+13.9%** |
| **Overall profit attributable to shareholders** | **1,853,935** | 1,635,040 | **+13.4%** |
| **Overall Basic earnings per share (RMB)** | **1.539** | 1.346 | **+14.3%** |
| **Interim dividend per share (RMB)** | **0.95** | 0.85 | **+11.8%** |

*Remarks: *Continuing operations*

(24 August 2017 - Hong Kong) – **Hengan International Group Company Limited** ("Hengan International" or the "Company", SEHK stock code: 1044, together with its subsidiaries, the "Group") announces today its interim results for the six months ended 30 June 2017.

During the period, the Group's implemented the "small sales team" operating model (also known as "Hengan's Amoeba model"). The layout and full rollout of this operating model was completed at the end of April 2017, with the Group began to see some benefits in the second quarter. During the reform of sales structure, the Group's overall sales were a bit affected, coupled with the intense competition in the personal hygiene product market. For the six months ended 30 June 2017, the Group recorded revenue for continuing operations of approximately RMB9,562,746,000 (2016 first half: RMB9,577,341,000), slightly dropped by about 0.2% compared with that of the previous period.

– Cont'd –

During the period, the Group optimized its product portfolio and expanded the economies of scale. The aforementioned efforts helped offset the negative effects of intensifying market competition and rising wood pulp prices, gross profit margin rose to about 48.6% (2016 first half: 48.1%). Distribution costs and administrative expenses decreased to approximately 25.8% (2016 first half: 26.8%) of the Group's revenue, which was attributable to the implementation of operating model as it effectively controlled the marketing and advertising expenses for sales channels and lowered labor costs. Overall profit attributable to shareholders of the Company increased by about 13.4% to approximately RMB1,853,935,000 (2016 first half: RMB1,635,040,000). The Board of Directors declared an interim dividend of RMB0.95 per share for the six months ended 30 June 2017 (2016 first half: RMB0.85).

Regarding the Group's interim results, Mr. Sze Man Bok, Chairman of Hengan International, said, "Reviewing the first half of 2017, China's economic growth remained steady. According to the National Bureau of Statistics of China, the country's gross domestic product for the first half of 2017 increased by 6.9% year-on-year, better than market expectations and well above the government's annual growth target of 6.5%. Momentum in China's retail market began to pick up with retail sales of consumer goods for the first half of 2017 increased by 10.4% year-on-year, the growth rate was 0.4 percentage point higher than the first quarter. The layout and full rollout of "small sales team" operating model was completed at the end of April 2017, with the Group began to see some benefits in the second quarter."

**Sanitary Napkin**

Against the backdrop of accelerating urbanization and rising social and economic status of women in China, Chinese women's awareness of and demand for personal health continued to increase, thus facilitating the stable development of the sanitary napkins market.

During the period, the Group continued to optimize its product portfolio, such as Sweet Sleeping Panty series, which caters to female needs at night, and has been well received by market. Coupled with the robust e-commerce sales, the Group's sanitary napkins business managed to maintain stable growth and strengthened the Group's leading market position. During the period, revenue of the sanitary napkins business grew by approximately 7.2% to approximately RMB3,439,616,000, which accounted for around 36.0% of the revenue (2016 first half: 33.5%).

In the first half of 2017, the gross profit margin increased to approximately 72.1% (2016 first half: 71.8%), as a result of the persistent decline in the prices of petrochemical products (such as non-woven fabric), a major raw material for sanitary napkins, coupled with the benefits of product portfolio optimization.

– Cont'd –

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

**Tissue Paper**

Hygiene education has been improving and income level has been rising in China. Also, China’s tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. In the first half of 2017, accelerating sales growth in e-commerce sales channel effectively offset the negative impacts from the intense market competition. During the period, revenue from the Group’s tissue paper segment increased slightly by about 0.1% to approximately RMB4,569,685,000 accounting for approximately 47.8% (2016 first half: 47.7%) of the Group’s total revenue.

During the period, gross profit margin decreased to approximately 35.3% (2016 first half: 37.7%) due to the persistent increase in the price of wood pulp, a raw material for tissue paper production and intense market competition. In the second half of 2017, the Group will launch numerous new high-end products and leverage on the sales improvement brought by "small sales team" business strategy, to mitigate the pressure from rising raw material costs.

The Group's annualized production capacity was approximately 1,260,000 tons, which is expected to increase to approximately 1,430,000 tons by the fourth quarter of 2017 or the first half of 2018. The Group will expand its production capacity according to the market conditions and sales performance in the future.

The Group is expected to launch series of new products in the second half of 2017, including famous animated character, Minions-themed tissue paper series, Hearttex-customized edition of product series under the theme of Hearttex’s spokesperson, Hebe Tien.The Group will also further promote the simple and handy “super mini” wet wipes series to step up its efforts in the development of younger generation’s market. On the other hand, the Group will continue to cater for consumption habit of e-commerce market, introduce online exclusive products and leverage on the "small sales team" business strategy, the Group believes that the sales performance of tissue paper segment will maintain steady growth.

– Cont’d –

**Disposable Diapers**

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

During the period, competition in the diapers market intensified. The Group strategically stepped up its efforts to develop disposable diapers business through online sales channels and maternity stores. The Group focused on selling exclusive products for online sales channels and maternity stores, in accordance with the targeted customer groups. Hence, sales performance gradually improved during the period, with sales from online sales channels achieved triple-digit growth year-on-year, which effectively eased the decline in overall sales of disposable diapers. For the year ended 30 June 2017, revenue from the sales of diapers decreased by approximately 6.2% to approximately RMB1,001,198,000 , accounting for approximately 10.5% (2016 first half: 11.1%) of the Group's revenue.

During the period, as the prices of petrochemical products (such as super absorbent polymer), a major raw material for disposable diapers increased and market competition intensified, gross profit margin dropped to around 46.5% (2016 first half: 49.8%). In the second half of this year, the Group will further promote the high-ended brand Q•MO and continue to enhance the existing mid-to-high-end products to improve its gross profit margin.

After the implementation of China's "two-child" policy in 2016, the national population and birth rate will increase gradually, which will drive the long-term growth of the diapers market in China. The Group will continue to set sights on developing mid-high-end and high-end markets in the long run, strive to upgrade existing products and launch new products, step up investments in maternity stores and online sales channels to tap into the huge potential market. In addition, the Group will stay focused on producing and developing disposable diapers touting safety and quality as well as leveraging on its national and international certification to strengthen consumers' confidence in the Group's disposable diapers and increase its competitiveness, in order to stand out among the competitors.

**E-commerce**

In response to the changes in personal and hygiene products consumption habits, the Group has gradually accelerated the development of its e-commerce sales channels including online stores and Wechat stores, in the aspects of product type, sales model and product promotion. During the period, the Group's e-commerce business achieved extraordinary growth. The Group's core

– Cont'd –

business segments were benefited from the rapid expansion of e-commerce sales channels. For the six months ended 30 June 2017, revenue from e-commerce reached about 840 million, up by more than 160% over the same period last year. E-commerce's contribution to total sales revenue also rose to about 8.8% (first half of 2016: 3.3%)

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

**Hengan's Amoeba Model**

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

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

**Acquisition of Wang-Zheng Group**

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

– Cont'd –

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

**Foreign Currency Risks**

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

As at 30 June 2017, apart from certain forward exchange contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

**Liquidity, Financial Resources and Bank Loans**

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

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and RMB5.75 billion domestic corporate bonds. The Group also completed the issue of the first tranche 3-year panda bonds of RMB 2 billion and the issue of the first tranche of 5-year domestic bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.3% per annum respectively.

In addition, the Group successfully registered for the proposed issue of RMB5 billion super & short-term commercial paper during the period. The Group may issue super & short-term commercial paper in batches within two years from the date of acceptance of the registration

– Cont'd –

notice. The suggested amount of the first issuance of super & short-term commercial paper is expected to be approximately RMB1 billion (the exact amount will be finalized by the Group at the time of issuance).

The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328 million, out of which part of the convertible bonds had been partly redeemed on 27 June 2016, and the remaining amount of about RMB466 million will be repaid on 27 June 2018.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 1.0% to 4.4% (2017 first half: from 0.3% to 4.6%).

As at 30 June 2017, the Group's gross gearing ratio of continuing operations was approximately 130.2% (31 December 2016: 108.1%). 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 about negative 6.7% (31 December 2016: negative 4.9%) as the Group was in a net cash position.

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

**Outlook**

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

"With a view to seizing market opportunities and enhancing its competitiveness, the Group will continue to enhance operational efficiency, flexibly optimize its product mix according to the changing market conditions and launch new and upgraded products to cater to different consumer needs. Meanwhile, the Group will also closely monitor the trends of raw material prices to further improve its gross profit margin. With its strong brand equity and a high level of corporate governance, as well as a nationwide distribution network, the Group is confident of maintaining its leading position in China's personal hygiene product market. It will strive to achieve continuous healthy business growth and create greater value for shareholders."

– End –

### ***Company Background***

Hengan Group was established in 1985. It is principally engaged in production, distribution and sales of personal hygiene products in mainland China. The shares of Hengan International have been listed on the Hong Kong Stock Exchange since 1998. The Group has become a Hang Seng Index constituent since June 2011.

For further information, please contact:

**iPR Ogilvy & Mather**

Callis Lau / Tina Law / Lorraine Luk / Charmaine Siu / Yana Choi

Tel : (852) 2136 6952/ 2136 618 / 2169 0467/ 2169 0646/ 3920 7645

Fax : (852) 3170 6606

E-mail: hengan@iprogilvy.com