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

"Growing with You for a Better Life"

FINANCIAL SUMMARY
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Unaudited		
	2018	2017	% of
	RMB'000	*RMB'000*	change
		(Restated)	
Revenue	**10,136,897**	8,719,647	16.3%
Gross profit margin	**39.6%**	43.7%	
Operating profit	**2,681,943**	2,616,808	2.5%
Profit attributable to shareholders	**1,946,907**	1,853,935	5.0%
Earnings per share			
— Basic	**RMB1.614**	RMB1.539	
— Diluted	**RMB1.613**	RMB1.539	
Finished goods turnover (days)	**37**	47	
Trade and bills receivables turnover (days)	**44**	54	
Rate of return on equity (annualised)	**23.3%**	24.3%	

INTERIM FINANCIAL INFORMATION

The Board of Directors of Hengan International Group Company Limited ("Hengan International" or the "Company") (the "Board") is pleased to present the unaudited interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2018, together with the comparative figures and selected explanatory notes (the "Interim Financial Information"). The interim financial information has been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

* *For identification purposes only*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
			(Restated)
	Note	***RMB'000***	*RMB'000*
			(Note 4)
Revenue	*7*	**10,136,897**	8,719,647
Cost of goods sold		**(6,118,320)**	(4,911,615)
Gross profit		**4,018,577**	3,808,032
Selling and distribution costs		**(1,169,529)**	(1,014,404)
Administrative expenses		**(569,064)**	(609,187)
(Net impairment losses)/reversal of impairment losses on financial assets	*9*	**(14,685)**	3,034
Other income and other gains – net		**416,644**	429,333
Operating profit		**2,681,943**	2,616,808
Finance income		**28,961**	73,135
Finance costs		**(247,073)**	(234,530)
Finance costs — net		**(218,112)**	(161,395)
Profit before income tax	*9*	**2,463,831**	2,455,413
Income tax expense	*10*	**(512,679)**	(600,538)
Profit for the period		**1,951,152**	1,854,875
Profit attributable to:			
Shareholders of the Company		**1,946,907**	1,853,935
Non-controlling interests		**4,245**	940
		1,951,152	1,854,875
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*11*	**RMB1.614**	RMB1.539
— Diluted	*11*	**RMB1.613**	RMB1.539

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit for the period	**1,951,152**	1,854,875
Other comprehensive income:		
Items that may be reclassified to profit or loss		
— Currency translation differences	**34,659**	(7,411)
Total comprehensive income for the period	**1,985,811**	1,847,464
Attributable to:		
Shareholders of the Company	**1,980,185**	1,848,031
Non-controlling interests	**5,626**	(567)
Total comprehensive income for the period	**1,985,811**	1,847,464

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 (Restated) RMB'000 (Note 4)
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	**7,912,162**	8,044,858
Construction-in-progress	*13*	**796,607**	878,088
Investment properties	*13*	**217,166**	216,753
Land use rights	*13*	**804,269**	773,327
Intangible assets	*13*	**697,796**	503,246
Prepayments for non-current assets		**216,938**	141,132
Deferred income tax assets		**185,617**	172,244
Investments accounted for using the equity method	*21*	**90,252**	–
Long-term bank time deposits	*15*	**1,889,738**	2,499,738
		12,810,545	13,229,386
Current assets			
Inventories		**3,536,959**	3,435,666
Trade and bills receivables	*14*	**2,599,190**	2,312,060
Other receivables, prepayments and deposits		**1,405,130**	1,406,346
Current income tax recoverable		**158,213**	52,431
Derivative financial instruments		**7,164**	29,433
Restricted bank deposits	*15*	**5,254**	3,002
Cash and bank balances	*15*	**17,888,344**	18,429,716
		25,600,254	25,668,654
Total assets		**38,410,799**	38,898,040

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

As at 30 June 2018

	Note	**Unaudited 30 June 2018** *RMB'000*	Audited 31 December 2017 (Restated) *RMB'000* *(Note 4)*
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	*19*	**127,111**	127,080
Other reserves		**3,269,585**	3,141,363
Retained earnings		**13,339,430**	12,837,975
		16,736,126	16,106,418
Non-controlling interests		**271,587**	237,883
Total equity		**17,007,713**	16,344,301
LIABILITIES			
Non-current liabilities			
Borrowings	*17*	**3,247,107**	3,247,233
Finance lease payables		**183**	264
Deferred income tax liabilities		**108,295**	120,007
		3,355,585	3,367,504
Current liabilities			
Trade and bills payables	*16*	**2,089,301**	2,128,813
Other payables and accrued charges	*16*	**982,933**	1,005,732
Contract liabilities		**64,827**	193,559
Current income tax liabilities		**4,336**	20,222
Borrowings	*17*	**14,886,972**	15,375,385
Convertible bonds	*18*	**–**	455,537
Derivative financial instruments		**18,929**	6,698
Finance lease payables		**203**	289
		18,047,501	19,186,235
Total liabilities		**21,403,086**	22,553,739
Total equity and liabilities		**38,410,799**	38,898,040

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Unaudited					
	Attributable to the Company's shareholders					
	Share capital *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2018	**127,080**	**3,141,363**	**12,837,975**	**16,106,418**	**237,883**	**16,344,301**
Profit for the period	**–**	**–**	**1,946,907**	**1,946,907**	**4,245**	**1,951,152**
Currency translation differences	**–**	**33,278**	**–**	**33,278**	**1,381**	**34,659**
Total comprehensive income	**–**	**33,278**	**1,946,907**	**1,980,185**	**5,626**	**1,985,811**
Transactions with owners						
2017 final dividends paid *(Note 12(b))*	**–**	**–**	**(1,387,190)**	**(1,387,190)**	**(6,443)**	**(1,393,633)**
Capital contribution by non-controlling interests	**–**	**–**	**–**	**–**	**34,521**	**34,521**
Redemption of convertible bonds	**–**	**(12,966)**	**12,966**	**–**	**–**	**–**
Share-based compensation						
— Value of employee services	**–**	**14,831**	**–**	**14,831**	**–**	**14,831**
— Proceeds from shares issued *(Note 19)*	**31**	**21,851**	**–**	**21,882**	**–**	**21,882**
Total of transactions with owners	**31**	**23,716**	**(1,374,224)**	**(1,350,477)**	**28,078**	**(1,322,399)**
Appropriation to statutory reserves	**–**	**71,228**	**(71,228)**	**–**	**–**	**–**
Balance at 30 June 2018	**127,111**	**3,269,585**	**13,339,430**	**16,736,126**	**271,587**	**17,007,713**
Balance at 1 January 2017	126,991	2,944,971	11,654,829	14,726,791	34,065	14,760,856
Profit for the period	–	–	1,853,935	1,853,935	940	1,854,875
Currency translation differences	–	(5,904)	–	(5,904)	(1,507)	(7,411)
Total comprehensive income	–	(5,904)	1,853,935	1,848,031	(567)	1,847,464
Transactions with owners						
2016 final dividends paid *(Note 12(b))*	–	–	(1,325,377)	(1,325,377)	–	(1,325,377)
Acquisition of subsidiaries	–	–	–	–	146,349	146,349
Capital contribution by non-controlling interests	–	–	–	–	22,966	22,966
Disposal of a subsidiary with loss of control	–	(169)	–	(169)	–	(169)
Share-based compensation						
— Value of employee services	–	21,460	–	21,460	–	21,460
Total of transactions with owners	–	21,291	(1,325,377)	(1,304,086)	169,315	(1,134,771)
Appropriation to statutory reserves	–	140,876	(140,876)	–	–	–
Balance at 30 June 2017	126,991	3,101,234	12,042,511	15,270,736	202,813	15,473,549

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**2,247,323**	2,339,692
Income tax paid	**(679,109)**	(591,303)
Net cash generated from operating activities	**1,568,214**	1,748,389
Cash flows from investing activities		
— Acquisition of subsidiaries, net of cash acquired *(Note 8)*	**(110,504)**	40,796
— Acquisition of an associate *(Note 21)*	**(90,252)**	–
— Net proceeds on disposal of a subsidiary	**–**	(642)
— Purchase of property, plant and equipment, intangible assets, non-current assets and construction-in-progress	**(298,427)**	(403,025)
— Proceeds on disposal of property, plant and equipment	**32,728**	31,811
— Increase in long-term and short-term bank time deposits	**(1,176,201)**	(3,662,844)
— Interest received	**302,341**	143,967
Net cash used in investing activities	**(1,340,315)**	(3,849,937)
Cash flows from financing activities		
— Proceeds from capital contribution by non-controlling interests	**34,521**	–
— Proceeds from borrowings *(Note 17)*	**9,396,067**	15,631,412
— Repayment of borrowings *(Note 17)*	**(9,989,535)**	(11,446,204)
— (Increase)/decrease in restricted bank deposits	**(2,252)**	11,620
— Redemption of convertible bonds *(Note 18)*	**(462,309)**	–
— Interest paid	**(219,577)**	(115,716)
— Dividends paid *(Note 12)*	**(1,387,190)**	(1,325,377)
— Dividends paid to non-controlling interests	**(6,443)**	(737)
— Finance lease payments	**(176)**	–
— Proceeds from shares issued under the employee share option scheme	**21,882**	–
Net cash (used in)/generated from financing activities	**(2,615,012)**	2,754,998
(Decrease)/increase in cash and cash equivalents	**(2,387,113)**	653,450
Cash and cash equivalents at 1 January	**6,784,580**	5,562,802
Effect of foreign exchange rate changes	**59,540**	(54,231)
Ending cash and cash equivalents at 30 June	**4,457,007**	6,162,021

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

1. General information

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") are engaged in the manufacturing, distribution and sale of personal hygiene products in the People's Republic of China (the "PRC") and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, British West Indies, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since December 1998.

This interim condensed consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 22 August 2018.

This interim condensed consolidated financial information has been reviewed, not audited.

2. Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, *'Interim financial reporting'*. The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), except for the adoption of the new and amended standards as disclosed in Note 4 below.

3. Accounting policies

The principal accounting policies applied in the preparation of this interim condensed consolidated financial information are consistent with those of the annual consolidated financial statements for the year ended 31 December 2017 and corresponding interim financial period, except for the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. Accounting policies *(Continued)*

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The impact of adopting following standards are disclosed below:

(i) HKFRS 9 *Financial instruments*, and

(ii) HKFRS 15 *Revenue from contracts with customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 below.

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group.

Standards and amendments		Effective for annual periods beginning on or after
HKFRS 16 *(i)*	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(i) HKFRS 16, *Leases*

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 recognized. 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 the reporting date, the Group has non-cancellable operating lease commitments of RMB28,476,000. Part of these are related to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

3. **Accounting policies** *(Continued)*

(b) *(Continued)*

(i) HKFRS 16, *Leases (Continued)*

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. **Changes in accounting policies**

This note explains the impact of the adoption of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the interim financial information

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.

The Group has adopted IFRS 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.

4. Changes in accounting policies *(Continued)*

(a) *Impact on the interim financial information* (Continued)

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 *(Note 4 (d)(ii))*	–	193,559	193,559

	Six months ended 30 June 2017		
Statement of profit or loss (extract)	**As originally presented**	**HKFRS 15**	**Restated**
	RMB'000	*RMB'000*	*RMB'000*
Revenue *(Note 4 (d)(i))*	9,562,746	(843,099)	8,719,647
Selling and distribution costs	(1,857,503)	843,099	(1,014,404)

(b) *HKFRS 9 Financial Instruments — Impact of adoption*

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.

4. Changes in accounting policies *(Continued)*

(b) HKFRS 9 Financial Instruments — Impact of adoption (Continued)

The Group applied the HKFRS 9 simplified approach to measuring 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 interim financial information during the six months ended 30 June 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.

(c) HKFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

4. Changes in accounting policies *(Continued)*

(c) HKFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018 *(Continued)*

(i) Investments and other financial assets (Continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

From 1 January 2018, the Group assesses the expected credit losses associated with its financial assets on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. There are no derivatives designated as a hedging instrument for the Group.

Derivatives of the Group are categorised as financial assets/liabilities at fair value through profit or loss and the changes in fair value are recognised in the consolidated statement of profit or loss under "other income and other gains — net" in the period in which they arise.

4. Changes in accounting policies *(Continued)*

(d) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

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.

(i) 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 six months ended 30 June 2017 decreased by RMB843,099,000. For the six months ended 30 June 2018, revenue and selling and distribution costs decreased by RMB897,699,000.

(ii) Presentation of assets and 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).

(e) HKFRS 15 Revenue from Contracts with Customers — Accounting policies

Sales of goods

The Group manufactures and sells a range of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

4. Changes in accounting policies *(Continued)*

(e) *HKFRS 15 Revenue from Contracts with Customers — Accounting policies* (Continued)

Sales of goods (Continued)

The personal hygiene products are often sold with retrospective volume discounts based on aggregate sales over a period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in other payables and accrued charges) is recognised for expected volume discounts payable to customers in relation to sales. No element of financing is deemed present as the sales are made with a credit term of 30-90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

5. Estimates

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

6. Financial risk management and financial instruments

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management policies since year end.

6. Financial risk management and financial instruments *(Continued)*

6.2 Liquidity risk

Compared to the year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2018 (Unaudited)					
Borrowings	**14,886,972**	**2,004,097**	**4,097**	**1,246,117**	**18,141,283**
Interest payables of borrowings	**364,416**	**52,590**	**40,201**	**6,485**	**463,692**
Net settled derivative financial instruments	**18,929**	**–**	**–**	**–**	**18,929**
Financial lease payables	**203**	**156**	**27**	**–**	**386**
Trade, bills and other payables	**2,547,917**	**–**	**–**	**–**	**2,547,917**
Total	**17,818,437**	**2,056,843**	**44,325**	**1,252,602**	**21,172,207**
At 31 December 2017 (Audited)					
Borrowings	15,375,385	2,004,021	54,021	1,198,016	18,631,443
Interest payables of borrowings	258,180	85,128	40,282	27,093	410,683
Convertible bonds	462,591	–	–	–	462,591
Net settled derivative financial instruments	6,698	–	–	–	6,698
Financial lease payables	289	219	45	–	553
Trade, bills and other payables	2,926,835	–	–	–	2,926,835
Total	19,029,978	2,089,368	94,348	1,225,109	22,438,803

6. Financial risk management and financial instruments *(Continued)*

6.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2018.

	Unaudited 30 June 2018 Level 2 ***RMB'000***	Audited 31 December 2017 Level 2 *RMB'000*
Assets:		
Interest rate swap contracts	**7,164**	7,005
Foreign exchange forward contract-held for trading	**–**	22,428
	7,164	29,433
Liabilities:		
Interest rate swap contracts	**(2,584)**	(6,698)
Foreign exchange forward contract-held for trading	**(16,345)**	–
	(18,929)	(6,698)

During the six months ended 30 June 2018, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no significant changes in the reclassification of financial assets or liabilities.

Level 2 trading derivatives comprise forward foreign exchange contracts and interest rate swaps. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued with reference to quotations provided by various banks. The effects of discounting are generally insignificant for level 2 derivatives.

6. Financial risk management and financial instruments *(Continued)*

6.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet date:

- Trade and bills receivables
- Other receivables
- Long-term bank time deposits
- Restricted bank deposits
- Cash and bank balances
- Trade and bills payables
- Other payables
- Financial lease payables
- Borrowings

7. Segment information

The chief operating decision-makers have been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of segment profit/(loss) without allocation of other income and other gains — net, finance income/(costs) and income tax expense which is consistent with that in the annual consolidated financial statements.

The Group operations are mainly organised under the segments of manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated statement of profit or loss.

Most of the Group's companies are domiciled in Mainland China. The revenue from external customers in Mainland China accounted for more than 90% of the Group's total revenue.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with those of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Addition to non-current assets comprise addition to property, plant and equipment, investment properties, construction-in-progress, land use rights and intangible assets.

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets, including certain cash and bank balances and derivative financial instruments. Unallocated liabilities comprise corporate borrowings.

7. Segment information *(Continued)*

The segment information for the six months ended 30 June 2018 is as follows:

	Unaudited				
	Sanitary napkin products *RMB'000*	**Disposable diaper products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Segment revenue	**3,245,205**	**816,114**	**5,313,365**	**1,372,656**	**10,747,340**
Inter-segment sales	**(22,459)**	**(5,291)**	**(228,937)**	**(353,756)**	**(610,443)**
Revenue of the Group	**3,222,746**	**810,823**	**5,084,428**	**1,018,900**	**10,136,897**
Segment profit	**1,656,816**	**158,601**	**404,609**	**67,892**	**2,287,918**
Unallocated costs					**(22,619)**
Other income and other gains — net					**416,644**
Operating profit					**2,681,943**
Finance income					**28,961**
Finance costs					**(247,073)**
Profit before income tax					**2,463,831**
Income tax expense					**(512,679)**
Profit for the period					**1,951,152**
Non-controlling interests					**(4,245)**
Profit attributable to shareholders of the Company					**1,946,907**
Addition to non-current assets	**84,808**	**27,583**	**178,114**	**152,373**	**442,878**
Depreciation charge	**80,272**	**17,176**	**235,735**	**25,641**	**358,824**
Amortisation charge	**7,979**	**1,197**	**6,717**	**1,104**	**16,997**
As at 30 June 2018					
Segment assets	**5,625,061**	**3,049,536**	**12,762,255**	**7,136,116**	**28,572,968**
Deferred income tax assets					**185,617**
Current income tax recoverable					**158,213**
Investments accounted for using the equity method					**90,252**
Unallocated assets					**9,403,749**
Total assets					**38,410,799**
Segment liabilities	**2,298,668**	**974,301**	**2,769,022**	**2,312,500**	**8,373,491**
Deferred income tax liabilities					**108,295**
Current income tax liabilities					**4,336**
Unallocated liabilities					**12,916,964**
Total liabilities					**21,403,086**

7. Segment information *(Continued)*

The segment information for the six months ended 30 June 2017 is as follows:

	Unaudited				
	Sanitary napkin products *RMB'000*	Disposable diaper products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Segment revenue (restated)	3,085,885	903,996	4,325,193	815,748	9,130,822
Inter-segment sales	(16,356)	(4,310)	(125,992)	(264,517)	(411,175)
Revenue of the Group (restated)	3,069,529	899,686	4,199,201	551,231	8,719,647
Segment profit	1,597,774	174,239	393,907	51,889	2,217,809
Unallocated costs					(30,334)
Other income and other gains — net					429,333
Operating profit					2,616,808
Finance income					73,135
Finance costs					(234,530)
Profit before income tax					2,455,413
Income tax expense					(600,538)
Profit for the period					1,854,875
Non-controlling interests					(940)
Profit attributable to shareholders of the Company					1,853,935
Addition to non-current assets	54,974	35,758	216,423	23,448	330,603
Depreciation charge	83,626	17,757	223,535	9,948	334,866
Amortisation charge	4,740	1,076	6,632	217	12,665
As at 31 December 2017 (Audited)					
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

8. Business combination

On 4 April 2018, the Group had entered into a sale and purchase agreement to acquire 100% shareholding of Sunway Kordis Holding Limited (together with its subsidiaries, "Sunway Kordis Group"), at a consideration of RMB142,205,000. The acquisition was completed on 10 April 2018.

Sunway Kordis Group 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 is expected to 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.

The following table summarises the consideration paid for Sunway Kordis Group, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	At 10 April 2018, the date of acquisition *RMB'000*
Purchase consideration	
— Cash paid	**142,205**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Cash and banks	**31,701**
Property, plant and equipment *(Note 13)*	**32,490**
Construction-in-progress *(Note 13)*	**3,485**
Land use rights *(Note 13)*	**28,400**
Intangible assets *(Note 13)*	**57,512**
Deferred income tax assets	**2,952**
Inventories	**37,161**
Trade and other receivables	**37,119**
Current income tax recoverable	**1,008**
Borrowings *(Note 17)*	**(26,000)**
Trade payables and other payables	**(49,301)**
Deferred income tax liabilities	**(22,899)**
Total identifiable net assets *(Note)*	**133,628**
Goodwill *(Note 13)*	**8,577**
	142,205
Acquisition-related costs (included in administrative expenses in the interim condensed consolidated statement of profit or loss for the period ended 30 June 2018)	**797**

8. Business combination *(Continued)*

Note:

The Group has engaged external valuers to perform fair value assessments in accordance with HKFRS 3 *Business Combination*. As at 30 June 2018, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalised the fair value assessments. The relevant fair values of individual assets/liabilities stated above are provisional.

	10 April 2018
	RMB'000
Outflow of cash to acquire business, net of cash acquired	
— cash consideration	**(142,205)**
— cash and bank balance in the subsidiary acquired	**31,701**
Cash outflow on acquisition	**(110,504)**

(a) Revenue and profit contribution

The acquired business contributed revenue of RMB52,296,000 and net losses of RMB509,000 to the Group for the period from 10 April 2018 to 30 June 2018. If the acquisition had occurred on 1 January 2018, consolidated revenue and consolidated net profit of the Group for the six months ended 30 June 2018 would have been increased by RMB107,945,000 and decreased by RMB1,887,000 respectively.

9. Profit before income tax

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

	Unaudited Six months ended 30 June **2018** ***RMB'000***	 2017 *RMB'000*
Crediting		
Government grant income	**157,427**	171,858
Interests income from long-term and short-term bank time deposits	**278,664**	150,488
Interests income from cash and cash equivalents	**15,470**	73,135
Net gains on derivative financial instruments	**–**	7,351
Exchange gains from operating activities — net	**27,246**	97,343
Exchange gains from financing activities — net	**13,491**	–
Reversal of impairment losses on trade and bills receivables	**–**	3,034
Reversal of provision for decline in value of inventories	**2,740**	–
Charging		
Depreciation of property, plant and equipment *(Note 13)*	**356,372**	332,561
Depreciation of investment properties *(Note 13)*	**2,452**	2,305
Amortisation of land use rights *(Note 13)*	**11,788**	11,291
Amortisation of intangible assets *(Note 13)*	**5,209**	1,374
Employee benefit expense, including Directors' emoluments	**761,014**	713,680
Losses on disposal of property, plant and equipment	**24,311**	7,707
Operating lease rentals	**45,269**	42,386
Net impairment losses on trade and bills receivables	**14,685**	–
Provision for decline in value of inventories	**–**	6,722
Net losses on derivative financial instruments	**33,556**	–
Exchange losses from financing activities — net	**–**	57,017
Interest expenses on borrowings	**232,359**	162,668
Interest expenses on convertible bonds	**6,875**	7,219
Miscellaneous taxes and levies	**59,091**	67,806

10. Income tax expense

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax on profits for the period	**454,713**	456,642
Withholding income tax on profits of the current period	**68,596**	71,657
Deferred income tax on other timing differences, net	**(10,630)**	72,239
Income tax expense	**512,679**	600,538

Taxation on Mainland China income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in Mainland China in which the Group operates. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25% (2017: 25%).

Hong Kong and overseas profits tax has been provided at the rate of taxation prevailing in which the Group operates respectively on the estimated assessable profits for the period.

Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the subsidiaries of the Group.

The profits of the PRC subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately RMB68,596,000 (2017: RMB71,657,000) for the six months ended 30 June 2018 have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future.

11. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**1,946,907**	1,853,935
Weighted average number of ordinary shares in issue (thousands)	**1,206,215**	1,204,888
Basic earnings per share (RMB)	**1.614**	1.539

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share as at 30 June 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 six months ended 30 June 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. For the six months ended 30 June 2017, 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 and convertible bonds are anti-dilutive.

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**1,946,907**	1,853,935
Weighted average number of ordinary shares in issue (thousands)	**1,206,215**	1,204,888
Adjusted for:		
— Share options (thousands)	**511**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,206,726**	1,204,888
Diluted earnings per share (RMB)	**1.613**	1.539

12. Dividends

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Interim, proposed/paid, RMB1.00 (2017: RMB0.95) per share *(Note (a))*	**1,206,285**	1,144,644

Notes:

(a) An interim dividend of RMB1.00 (equivalent to HK$1.148264) (2017: RMB0.95 (equivalent to HK$1.115809)) per share was proposed by the Board of Directors on 22 August 2018. This interim dividend, amounting to RMB1,206,285,000, has not been recognised as a liability in this interim condensed consolidated financial information.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its dividend payable is the middle rate of HK$ 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 21 August 2018 is 0.87088.

(b) A final dividend of RMB1,387,190,000, equivalent to HK$1,716,641,000(2017: RMB1,325,377,000, equivalent to HK$1,491,148,000) related to the period up to 31 December 2017 was paid in May 2018.

13. Capital expenditure — net book value

	Unaudited				
	Property, plant and equipment	**Construction-in-progress**	**Investment properties**	**Land use rights**	**Intangible assets**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2018	**8,044,858**	**878,088**	**216,753**	**773,327**	**503,246**
Acquisition of subsidiaries *(Note 8)*	**32,490**	**3,485**	**–**	**28,400**	**66,089**
Additions	**42,885**	**252,236**	**2,166**	**14,330**	**797**
Transfer from construction-in-progress	**204,329**	**(337,202)**	**–**	**–**	**132,873**
Transfer from property, plant and equipment	**(439)**	**–**	**439**	**–**	**–**
Disposals	**(57,039)**	**–**	**–**	**–**	**–**
Depreciation/amortisation	**(356,372)**	**–**	**(2,452)**	**(11,788)**	**(5,209)**
Currency translation differences	**1,450**	**–**	**260**	**–**	**–**
At 30 June 2018	**7,912,162**	**796,607**	**217,166**	**804,269**	**697,796**

	Unaudited				
	Property, plant and equipment	Construction-in-progress	Investment properties	Land use rights	Intangible assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	7,344,807	1,094,145	194,848	751,308	498,510
Acquisition of subsidiaries	60,520	–	10,647	–	–
Additions	41,085	284,517	1,019	3,982	–
Transfer from construction-in-progress	246,564	(246,564)	–	–	–
Transfer from property, plant and equipment	(1,046)	–	1,046	–	–
Disposals	(9,518)	–	–	–	–
Depreciation/amortisation	(332,561)	–	(2,305)	(11,291)	(1,374)
Currency translation differences	(2,031)	–	(84)	–	–
At 30 June 2017	7,347,820	1,132,098	205,171	743,999	497,136

The Group's investment properties are stated at historical cost at the end of each reporting period.

14. Trade and bills receivables

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Trade receivables	**2,659,797**	2,339,547
Bills receivables	**15,970**	29,974
	2,675,767	2,369,521
Less: provision for impairment	**(76,577)**	(57,461)
Trade and bills receivables, net	**2,599,190**	2,312,060

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

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Within 30 days	**1,024,489**	932,311
31 to 180 days	**1,461,976**	1,217,240
181 to 365 days	**81,300**	134,336
Over 365 days	**108,002**	85,634
	2,675,767	2,369,521

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximated their fair values as at the balance sheet date.

15. Long-term bank time deposits, restricted bank deposits and cash and bank balances

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Long-term bank time deposits		
Term deposits with initial term over one year	**1,889,738**	2,499,738
Restricted bank deposits	**5,254**	3,002
Cash and bank balances		
— Term deposits with initial term over three months and within one year	**13,431,337**	11,645,136
— Cash and cash equivalents	**4,457,007**	6,784,580
	17,888,344	18,429,716
Total	**19,783,336**	20,932,456

The cash and cash equivalents represented cash deposits held at call with banks and in hand and term deposits with initial term within three months.

16. Trade, bills and other payables and accrued charges

	Unaudited 30 June 2018	Audited 31 December 2017 (Restated)
	RMB'000	*RMB'000*
Trade payables	**2,083,989**	2,128,813
Bills payables	**5,312**	–
	2,089,301	2,128,813
Other payables and accrued charges		
— Payables for purchase of property, plant and equipment	**429,055**	509,566
— Accrued expenses and other payables	**529,561**	469,731
— Other taxes payables	**24,317**	26,435
	982,933	1,005,732
Total payables and accrued charges	**3,072,234**	3,134,545

The ageing analysis of trade and bills payables based on invoice date is as follows:

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
Within 30 days	**1,202,155**	1,361,045
31 to 180 days	**825,356**	733,593
181 to 365 days	**40,844**	14,364
Over 365 days	**20,946**	19,811
	2,089,301	2,128,813

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

17. Borrowings

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Non-current		
Long-term bank loans — unsecured	**254,311**	256,058
Medium-term notes (a)	**1,998,015**	1,997,174
Corporate bonds (b)	**994,781**	994,001
	3,247,107	3,247,233
Current		
Trust receipt bank loans	**99,236**	225,688
Current portion of long term bank loan	**4,097**	–
Short-term bank loans — unsecured	**14,771,639**	15,102,697
Short-term bank loans — secured	**12,000**	47,000
	14,886,972	15,375,385
Total Borrowings	**18,134,079**	18,622,618

As at 30 June 2018, the effective interest rate of the Group's bank borrowings was approximately 2.68% (31 December 2017: 1.63%) per annum.

(a) Medium-term notes

In September 2016, the Company issued a medium-term notes 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.

(b) Corporate bonds

In September 2016, 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.

17. Borrowings *(Continued)*

Movements in borrowings are analysed as follows:

	Unaudited *RMB'000*
At 1 January 2018	**18,622,618**
Acquisition of subsidiaries *(Note 8)*	**26,000**
New borrowings	**9,396,067**
Repayments of borrowings	**(9,989,535)**
Bonds payable — interest adjustment	**1,621**
Currency translation differences	**77,308**
At 30 June 2018	**18,134,079**
At 1 January 2017	15,443,261
Acquisition of subsidiaries	102,992
New borrowings	15,631,412
Repayments of borrowings	(11,446,204)
Bonds payable — interest adjustment	1,567
Currency translation differences	(323,896)
At 30 June 2017	19,409,132

18. Convertible bonds

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Fair 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 difference	**324,688**	324,790
Liability component		
— Current	**–**	455,537
	–	455,537

On 27 June 2013, the Company issued zero-coupon convertible bonds which will be due on 27 June 2018 (the "maturity date"), in the aggregate principal amount of HK$5,434 million, equivalent to RMB4,328 million with an initial conversion price of HK$120.0825, equivalent to RMB95.6457 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be 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 2.7% 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 period ended 30 June 2018, no bondholders 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 resulting in transfer of a sum of RMB12,966,000 from convertible bonds equity reserve to retained earnings.

19. Share capital

Ordinary shares, issued and fully paid

	Number of shares	*RMB'000*
At 1 January 2018	**1,205,910,917**	**127,080**
Employee share option schemes — Shares issued upon exercise of share options	374,500	31
At 30 June 2018 (unaudited)	**1,206,285,417**	**127,111**
At 30 June 2017 and 1 January 2017	1,204,888,221	126,991

20. Commitments

(a) Capital commitments

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Contracted but not provided for in respect of:		
Machinery and equipment	**245,386**	365,058
Leasehold land and buildings	**63,602**	120,456
Total capital commitment	**308,988**	485,514

(b) Commitments under operating leases

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Not later than 1 year	**25,250**	26,317
Later than 1 year and not later than 5 years	**3,226**	4,025
Total operating lease commitment	**28,476**	30,342

21. Investments accounted for using the equity method

On 23 April 2018, the Group entered into an initial investment agreement and a shareholders' agreement (the "Agreements") to acquire 36.46% shareholdings of Finnpulp Oy for cash consideration of EUR11,666,666 (equivalent to approximately RMB90,252,000). As a consequence, the Group gained significant influence over this investment to an associate. Details of the above acquisition are set out in the announcement of the Group dated 23 April 2018.

The Group will have the right but not the obligation to subscribe for additional new shares or acquire existing shares of Finnpulp Oy at the Building Stage, when the commencement of the construction of the bioproduct mill, which expected in 2019, to eventually hold a total of 40–49% of Finnpulp Oy.

Finnpulp Oy is currently engaged in planning and aiming to build a large-scale bioproduct mill in Kuopio, Finland. The Group believes that the entering into the transactions contemplated by the Agreements will allow the Group to expand its business to the upstream pulp manufacturing industry to stabilise the supply of wood pulp in the future, and therefore enhance the Group's long-term development.

The carrying amount of equity-accounted investments has changed as follows in the six months to June 2018:

	Unaudited ***RMB'000***
At 1 January 2018	**–**
Additions	**90,252**
At 30 June 2018	**90,252**

22. Contingent liabilities

At 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

23. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

(a) During the period, the Group had the following significant related party transactions:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	–	44,971
— heat energy	–	30,863
	–	75,834

Weifang Power is an electricity power plant company, the Group used to purchase electricity and heat energy from Weifang Power at prices determined according to the terms of the contracts entered. On 27 December 2017, the Group entered into a sale and purchase agreement to acquire 100% shareholding of Weifang Power. From 27 December 2017, Weifang Power was no longer a connected party of the Group and the services provided by it to the Group would no longer be considered as connected transaction thereafter.

(b) For the six months ended 30 June 2018, the key management compensation amounted to approximately RMB3,763,000 (2017: RMB4,263,000).

24. Subsequent event

(a) Details of the interim dividend proposed are given in Note 12.

(b) On 2 August 2018, a wholly owned subsidiary of the Group completed the issuance of the second tranche of the Corporate Bonds on the Shanghai Stock Exchange in the principal amount of RMB3 billion with a coupon rate fixed at 4.58% per annum. The Corporate Bonds will mature in three years from the issue date.

BUSINESS REVIEW

In the first half of 2018, the global and Chinese economy maintained mild growth. China's gross domestic product increased by 6.8% year-on-year, slightly better than the annual target of 6.5%. The consumption expenditure per capita for the household articles and services category grew by 11.8% compared to that in the first half of 2017. The household necessities market continued to grow.

During the period under review, with the foundation of the nation-wide rollout of the "small sales team" operating model (also known as "Hengan's Amoeba model"), Hengan Group continued to push forward the transformation and evolution of Amoeba, and implemented the "small team" strategy in various operation units. The Group continued to adhere to the "customer-oriented" principle, fully utilise Amoeba's advantage of high flexibility and prompt-response, to enhance operating efficiency and improve the expense ratio, while promoting sales. During the period, "small sales team" successfully reinvigorate the sales network and the Group's overall sales resumed double-digit growth. For the six months ended 30 June 2018, the Group's revenue increased significantly by about 16.3% to approximately RMB10,136,897,000 (2017 first half (Restated): RMB8,719,647,000).

During this period, due to the significant increase in the overall prices of wood pulp, the Group's production cost of tissue business significantly increased. The Group's gross profit margin dropped to about 39.6% during the period under review (first half of 2017 (Restated): 43.7%). The Group will continue to optimise its product portfolio and expand the economies of scale in the second half of 2018 so as to mitigate the negative effects of rising wood pulp prices. Although the company strengthened brand promotion during the period and resulted in the increase in selling and distribution costs and administrative expenses by approximately 7.1% compared to last year, selling and distribution costs and administrative expenses still decreased to approximately 17.2% (first half of 2017 (Restated): 18.6%) of the Group's revenue. The decrease was mainly attributable to the implementation of "small sales team" operating model which effectively improved the sales efficiency.

In the first half of 2018, operating profit rose by about 2.5% to approximately RMB2,681,943,000 (2017 first half: RMB2,616,808,000). Profit attributable to shareholders of the Company increased by about 5.0% to approximately RMB1,946,907,000 (2017 first half: RMB1,853,935,000). The Board of Directors declared an interim dividend of RMB1.00 per share for the six months ended 30 June 2018 (2017 first half: RMB0.95).

Sanitary Napkin

Sanitary napkin has entered the Chinese market for decades and the market penetration rate is already quite high. With the constantly rising education level, income and social status of women, the mature females who have more disposable income, pay more attention to product quality and tend to buy premium high-end product. In the light of the consumer needs, the Group keeps upgrading and renewing the product portfolio. The Space 7 series (launched in the second half of 2017), which targets the white-collar market in first and second tier cities, has received positive response from the market. Moreover, the upgraded functional product lines under the Group's sanitary napkin flagship brand, Space 7, including Super Slim series, Super Long 420 night series and Sweet Sleeping Panty series received overwhelming response from the market. The sales of sanitary napkin business remained stable and the performance was in line with the broader market in the first half of 2018.

During the period, revenue from the sanitary napkins business grew by approximately 5.0% to approximately RMB3,222,746,000, which accounted for approximately 31.8% of the revenue (first half of 2017 (Restated): 35.2%). In the first half of 2018, thanks to the increased proportion of high-end and upgraded products in the product mix which offset the impact of higher costs of petrochemical raw materials, the gross profit margin of the sanitary napkins business increase to approximately 69.3% (2017 first half (Restated): 68.7%).

Looking forward, leveraging on the market knowledge on the consumer market of the "small sales team", the Group will develop more brand new, upgraded and repackaged products that suit the market needs to cater to consumer taste of different age groups and further develop the white-collar market with higher consumption power in the first and second tier cities. With its advantage as a National Brand, the Group will continue to expand the product category of female care products and offer various product combos to provide full-cycle care for female. It is expected the total sales will remain steady growth in 2018.

Tissue Paper

With growing disposable income and improving awareness of personal hygiene among Chinese citizens, demand for tissue paper rises sustainably. However, China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. Rising demand for high quality tissue paper has been driving and accelerating the development of the household paper industry so far this year.

In the first half of 2018, tissue paper segment was still the largest income source of the Group, which accounted for approximately 50% of the revenue. With high cost of raw materials and tightened environmental policies during the period, industry consolidation had been speeded up. Those medium and small sized manufacturers with low pricing power and failed to meet the environmental standard were therefore gradually eliminated from the market. With its scale of economies, the Group maintained a stable price level and along with its leading environmental production technologies, the Group gained market share and increased product penetration. In the first half of 2018, the upgraded product mix, like "super mini" wet wipes series, continued to be popular. Strong sales of upgraded products and e-commerce sales rendered an outstanding sales performance of tissue paper business during the period.

During the period, revenue from the Group's tissue paper segment largely increased by about 21.1% to approximately RMB5,084,428,000, accounting for approximately 50.2% (first half of 2017 (Restated): 48.2%) of the Group's total revenue. Tissue paper segment recorded a substantial increase in revenue, which was mainly attributable to the "small sales team operation" strategy that improved sales of traditional and modern channels, compared with the first half of 2017, continued significant growth of the sales from e-commerce channel, and the increased market share as a result of market consolidation. During the period, gross profit margin of tissue paper business was affected by the persistent increase in the prices of wood pulp, a raw material for tissue paper production. Gross profit margin decreased to approximately 25.8% (first half of 2017 (Restated): 29.6%). However, the Group is confident of mitigating the pressure from rising raw material costs as the sustainable positive effect of the "small sales team" operating model will become more evident in the second half of 2018 while the Group will also continue to launch high-quality and high-end products and increase its contribution to overall sales, along with the price hike of certain products in June.

The Group's annualised production capacity was approximately 1,360,000 tons, and is expected to increase to approximately 1,420,000 tons by the second half of 2018. The Group will consider expanding its production capacity according to the market conditions and sales performance in the future. In the second half of 2018, the Group will continue to upgrade its product mix. Through increasing promotional campaigns, and the proportion of high demand high-end products, including Minions-themed tissue paper series, Hebe Tien-customized Tea Classical series, Bamboo π series and Super Mini series in the product mix, the Group could further strengthen the high-end and young image of the Hengan-branded tissues, at the same time satisfying consumers' needs. On the other hand, the Group will capitalise on the growth momentum of the e-commerce market with the launch of online exclusive themed products to fulfill the different needs of families and individuals. Leveraging on the flexible and consumer-intimate "small sales team", the Group believes that the sales of tissue paper segment will maintain a robust growth.

Disposable Diapers

With the implementation of "Two Child Policy" and a rapidly aging population in China, the potential users of disposable diapers increased. Also, the market penetration rate of disposable diapers in China is still relatively low compared with that in other developed countries, implying huge untapped market potential. Besides, economic development makes China citizens pay more attention to quality of life. With rising awareness of personal hygiene, parents can afford and are more willing to buy high-end and high quality products for their children. However, more than half of sales of the disposable diapers market derived from the online sales channel which continued to adversely affect the traditional sales channel. Therefore, the sales from the traditional sales channel dropped significantly this year.

During the period under review, the Group's sales of disposable diapers through traditional channels still accounted for around 40% of the total sales of disposable diapers business and continued to be impacted by the e-commerce channel. Therefore, this channel sales decreased, in line with the decline of the market. In light of this, the Group has expedited the sales development through e-commerce channel in the past two years and during the period. As at 30 June 2018, sales of disposable diapers through e-commerce channel increased to more than 30% of the overall diaper sales. In addition to online sales channel, the Group continued to move on its omni-channel strategy and increased investment in maternity stores. Through the omni-channel which includes supermarket, maternity stores and online sales channel, the Group promotes "Q • MO", the iconic high-end brand that acquired CE Marking, FDA certificate and CQM certificate, to wider consumer base. The sales of "Q • MO" increased more than threefold when compared to the same period of last year. Its sales contributed to a mid-single digit percentage of diapers sales. Besides, for the first half year of 2018, "Soft and thin", the upgraded product of Anerle, continued to receive positive feedback from the market and it recorded a double digit growth in sales. Although the sales portion of e-commerce channel increased and the development of the high-end products speeded up, the sales portion through traditional channels were declined significantly in the recent years in line with the market, its sales for the period ended 30 June 2018 still accounted for around 40% of the total sales of disposable diapers and its sales were declining by more than 30% compared to last period. As a result, the revenue of the diapers business for the period decreased by approximately 9.9% to approximately RMB810,823,000 for the six month ended 30 June 2018, which accounted for approximately 8.0% of the Group's revenue (2017 first half (Restated): 10.3%).

During the period under review, the gross profit margin level remained relatively stable by adjusting and narrowing the price difference between online and offline sales as well as increasing the proportion of high margin products in the product mix. The gross profit margin of the first half year of 2018 only slightly reduced to approximately 39.9% (2017 first half (Restated): 40.4%). In the second half of 2018, the Group will further promote its omni-channel strategy through increasing exclusive products for e-commerce channel and maternity stores in order to increase their contribution to diapers sales. In addition, the Group will continue to upgrade current products, enriching the "Q • MO" series and shift the product positioning to high-end market, in order to stand out from the immense competition among domestic and overseas brands, as an outstanding "National Brand".

First Aid Products

Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB16,659,000 (2017 first half: RMB12,704,000). The business only accounted for approximately 0.2% (2017 first half (Restated): 0.1%) of the Group's revenue from continuing operations, and did not have any significant impact on the Group's overall results.

Other Income

For the six months ended 30 June 2018, revenue of Wang-Zheng for the six months ended 30 June 2018, amounted to RMB185,988,000 (only one month revenue was recognised in last period), and the revenue of Sunway Kordis Holding Limited for the three months between April to June 2018, which contributed additional revenue of RMB155,072,000 and RMB52,296,000 respectively to the consolidated statement of profit or loss the Group. Therefore, other income of the Group increased by 84.8% year on year.

E-commerce

In the first half of 2018, the online retail sales of physical goods increased by approximately 30% year on year. Its contribution to the total retail sales of consumer goods increased to 17.4% from 13.8% in the first half of 2017. It reflected the continued shift of consumption from in-store shopping to online shopping. To cater to the change in the consumption pattern and habit of the Chinese consumers, the Group has started to move on its "Omni-Channel Sales". Apart from the traditional channels like distributors and supermarket, the Group has been making use of sales channel like online stores and Wechat stores, to further expand its sales network in China. During the period under review, through the strategic collaborations with well-known large-scale e-commerce operators in China, the Group has started to make use of big data to analyse the discrepancy in online shopping habit between varied districts, ages and occupations, so that the Group could flexibly allocate the resources used in production, supplies, and sales. Through 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.

During the period under review, the Group continued to increase the coverage of its e-commerce channel and launched exclusive products and product combos for e-commerce sales channels. Moreover, the Group adjusted the difference between online and offline pricing and selectively invested resources during the period, the profitability of e-commerce sales therefore increased. The Group's sales, especially sales from tissues, continued to be benefited from the high growth in e-commerce channel. As at 30 June 2018, revenue from e-commerce (including Retail Export (零售通) and wechat sales) exceeded about 1.2 billion, up by more than 60% over the same period last year. E-commerce's contribution to total sales revenue also rose to approximately 12.7% (first half of 2017 (Restated): 9.2%). The Group believes the improved efficiency in sales, supplies, and logistics could equip the Group for the e-commerce peak season in the second half of the year.

Hengan's Amoeba Model

Hengan Group started to implement the "small sales team" operating model by the end of 2016. Leveraging on the flexibility and market responsiveness of the "small sales team", which could build up closer relationship with consumers, and the "consumer-oriented" principle, the Group has been able to swiftly adjust its supplies, production capacity and product development, effectively formulate sales strategies for market in different districts, and launch products for different consumer groups.

As "small sales team" operating model has been widely adopted by the Group internally, the Group extended the "small team strategy" to its major business divisions, factories, operation centres and e-commerce units, the strategy has achieved initial success by gradually establishing the small sales team that were based on the platform. In addition to the double-digit sales growth achieved in the first half, the expense ratio continued to drop while the Group increased the spending in advertising and promotions. The expense ratio improved by more than 1% year-on-year.

Looking ahead, the Group will extend the "small team operation" strategy to more operation divisions, to enhance the overall flexibility, operation, production, and sales efficiency, further improve the expense ratio, as well as stimulate sales growth by aligning to the "consumer-oriented" principle so as to satisfy consumers' needs in the aspects of product development and sales.

Investment in Finnpulp Oy

In April of 2018, the company announced that the investment in Finnpulp Oy ("Finnpulp") with 5,833,333 shares in total, the sale share took up around 36.46% of Finnpulp's shareholder's equity. The consideration payable under the transaction amounted to EUR11,666,666 (equivalent to approximately RMB90,252,000). Under the Initial Investment Agreement, the Group enjoyed an option to purchase up to 40-49% of the increased share capital of Finnpulp before the building phase begins.

Finnpulp is currently engaged in planning and aiming to build a large-scale bio-product mill in Kuopio, Finland. The target of the planned mill is to produce approximately 1,200,000 tonnes of northern bleached softwood sulphate kraft pulp per year for global markets and other bio-products. The Group believes that the investment can enable 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. In addition, the Group is also actively exploring the sale of wood pulp which has been procured but not used in the Group's production in the PRC and Southeast Asia, which may become an additional source of revenue for the Group. The Group's investment in Finnpulp has gained positive responses from the local market as it will help Kuopio's economic development, promote infrastructure projects and create job opportunities.

Acquisition of Sunway Kordis Holding Limited

The company announced the acquisition of the entire issued share capital of the Sunway Kordis Holding Limited ("Sunway Kordis"). The total consideration payable was RMB142 million. Sunway Kordis and its subsidiaries are 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 Group believes that the entering into 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. As Sunway Kordis mainly specialises in exporting, the group will seek to leverage on its overseas sales network to bring Hengan's product to the overseas market.

Latest Updates for Wang-Zheng

On 5 June 2017, the Group announced that it acquired an aggregate of 80 million shares of WangZheng 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 RMB91.2 million (equivalent to approximately RMB146 million). On 19 July 2017, the Group closed the unconditional mandatory takeover offer (the "Offer"). Taking into account the valid acceptances under the Offer, the Group is interested in an aggregate of 80,003,000 shares in Wang-Zheng, representing approximately 50.45% of the equity interest in Wang-Zheng.

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 acquisition was undertaken as part of the Group's plan to expand its business operations and diversify its revenue stream outside the PRC. 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, Wang-Zheng's sales network covers the major sales channels in Southeast Asia, such as large-scale supermarkets and personal hygiene product stores. The Group will make good use of Wang-Zheng's current sales network to launch Hengan's products in the Malaysian market this year, gradually entering into the Malaysian and other Southeast Asian markets with the help of Wang-Zheng.

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 2018, apart from certain foreign exchange forward 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 2018, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB19,783,336,000 (31 December 2017: RMB20,932,456,000); medium-term notes (panda bonds) and domestic bonds of approximately RMB2,992,796,000 (31 December 2017: RMB2,991,175,000), and bank borrowings amounted to approximately RMB15,141,283,000 (31 December 2017: RMB15,631,443,000). 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 fully redeemed on 27 June 2018 (31 December 2017: RMB455,537,000). Please refer to note 18 above for details.

In the second half of 2016, the Group successfully registered for the proposed issue of RMB50 billion medium-term notes (panda bonds) and RMB57.5 billion domestic corporate bonds. The Group also completed the issue of the first tranche 3-year panda bonds of RMB2 billion and the issue of the first tranche of 5-year domestic bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.3% per annum respectively. Subsequent to period end, the Group completed the issue of the second branch of 3-year domestic corporate bonds of RMB3 billion on 2 August 2018 with a coupon rate of 4.58% per annum.

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 notice. The suggested amount of the first issuance of super & short-term commercial paper is expected to be approximately 1 billion (the exact amount will be finalized by the Group at the time of issuance).

The bank borrowings were subject to floating annual interest rates ranging from approximately 1.4%to 7.0% (first half of 2017 (Restated): from 1.0% to 4.4%).

As at 30 June 2018, the Group's gross gearing ratio was approximately 108.4% (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 bank 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 this period, the Group's capital expenditure amounted to approximately RMB442,878,000. As at 30 June 2018, the Group had no material contingent liabilities.

Change of Accounting Rule

Starting from 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 interim financial information during the six months ended 30 June 2018. According to Hong Kong Financial Reporting Standard 15, the reporting of 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. The financial statement for the Last Period has been restated. For the six-month period ended 30 June 2018 and 2017, the expense offset against revenue was RMB897,699,000 and RMB843,099,000 respectively. Please refer to note 4 for totals.

Latest awards

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 World's Largest Public Companies 2000	Forbes

In November 2017, the Group was included in the "National Brand Campaign" of CCTV, which was the only company of the household products industry in China to receive this honour. As a leading enterprise of household product brand in China, the Group will launch new products with Chinese characteristics, Hearttex Joyful Red series, to promote China's high quality household products and the brand of Hengan internationally in 2018.

Product and Raw Material Research and Development

Hengan Group stays committed to the systematic management direction of "bearing a responsibility of pursuing the health and happiness of human beings, producing hygienic, comfortable and quality household products", adheres to the "consumer-orientated" marketing concept, constantly enhancing the research and development of the products. We co-operate with the domestic and international research institutions and professional schools, so as to increase the competitiveness of the new products by using technology and new processes.

The Group has been leading in environmental protection in China. Green operation has long been the foundation of the Group. Under the current trend of environmental protection, the Group constantly develops green and sustainable environmental-friendly production technologies and will research and develop more high-quality and cost-efficient raw materials.

Human Resources and Management

Benefitting from the "small sales team" operation strategy, the Group effectively enhanced the efficiency of human resources. As at 30 June 2018, the Group employed approximately 22,000 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 the second half of 2018, uncertainties over Sino-US trade friction and volatile Chinese yuan exchange rates linger. The Group will closely monitor the impact of macro factors on the prices of imported wood pulp and petrochemical products. In China, under the guiding principle of "shifting from quantity to quality", it is expected that the economy will maintain a healthy and steady growth. At the same time, high-quality growth also means that Chinese's pursuit of quality of life will continue. It is expected the personal and household hygiene products market will continue to grow.

It is expected that China's increasingly stringent environmental policies and pressure of rising raw material prices will continue to drive the industry consolidation. Leveraging on Hengan Group's economies of scale and the adherence to green production, the Group will seize the opportunity arising from industry consolidation to further increase its market share. As for "small team operation" strategy, it is believed that after the adjustment period of the "Amoebaisation" of various business units, the efficiency of the entire supply chain will continue to be enhanced in the second half of the year and in the future. The Group will continue to study the possibility of "Amoebaise" all operation units, in order to maximise the effectiveness of the "small team operation" strategy. Concerning the product sales, the Group will continue to implement the "omni-channel strategy", to increase the proportion of e-commerce and maternity stores in the sales channels, focus on selling high-end premium goods, and continue to monitor the possibility of opening up new channels.

Leveraging its production scale, brand influences, perseverance in product quality and strength in constant progression, the Group will consider industrial expansion as the long-term development target, continuing to maintain its leading position in China's personal hygiene product market. The Group will also expand and extend the portfolio of personal and household hygiene products, export Hengan's brand to the overseas market, in order to create sustainable return for shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of RMB1.00 per share (2017: RMB0.95 per share) for the six months ended 30 June 2018 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 21 September 2018. Dividend warrants will be despatched to shareholders on or about 5 October 2018.

Dividends payable to shareholders will be paid in Hong Kong dollars ("HK$"). The exchange rate adopted by the Company for its dividend payable is the middle exchange rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration.

The Register of Members of the Company will be closed from 19 September 2018 to 21 September 2018 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 18 September 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2018. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises five independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2018.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2018, the Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2018, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules of the Stock Exchange during the period, except the following:

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Ada Ying Kay Wong, Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 17 May 2018 due to other engagements at that time.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board
Hengan International Group Company Limited
Sze Man Bok
Chairman

As at the date of this report, 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.

Hong Kong, 22 August 2018