【For immediate release】

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

Hengan International Announces 2018 Interim Results

Revenue Increased 16.3% to RMB10.1 Billion
Interim Dividend at RMB1 Per Share

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Robust Growth in E-Commerce Sales
Hengan's Amoeba Business Strategy Successfully Reinvigorated the Sales Network

Financial Highlights

	For the six months ended 30 June		Change
	2018 RMB'000	2017* (Restated) RMB'000	
Revenue	**10,136,897**	8,719,647	**16.3%**
Gross profit margin	**39.6%**	43.7%	**-4.1 p.p.**
Operating profit	**2,681,943**	2,616,808	**2.5%**
Profit attributable to shareholders	**1,946,907**	1,853,935	**5.0%**
Basic earnings per share (RMB)	**1.614**	1.539	**4.9%**
Interim dividend per share (RMB)	**1.00**	0.95	**5.3%**

**Financial statement of 1H 2017 restated according to Hong Kong Financial Reporting Standard 9 and 15*

(22 August 2018 — Hong Kong) — **Hengan International Group Company Limited** ("Hengan International" or the "Company", SEHK stock code: 1044, together with its subsidiaries, the "Group") announces today its interim results for the six months ended 30 June 2018.

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 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 reinvigorated 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 the 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 period, 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 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).

Commenting on the Group's interim results, Mr. Sze Man Bok, Chairman of Hengan International, said, "In the first half of 2018, 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. Leveraging on the positive effects of "small sales team" operating model to capitalise on the growth in mainland market, the Group maintained steady operating performance"

<u>Sanitary Napkin</u>

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. 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 increased 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. With high cost of raw materials and tightened environmental policies during the period, industry consolidation had been speeded up. 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. 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.

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 year 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 fulfil 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 on 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.

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, the 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.

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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. 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 declining 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% with compared to last period. As a result, the revenue of the diapers business 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, enrich 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”.

E-commerce

In the first half of 2018, there was a continued shift of the 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, so that the Group could flexibly allocate the resources used in production, supplies, and sales. As at 30 June 2018, revenue from e-commerce(including Retail Expert (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%).

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. 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 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.

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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. 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. Benefited from the Amoeba strategy, 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 enjoy 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.

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. 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.

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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 RM91.2 million (equivalent to approximately RMB146 million). On 19 July 2017, the Group closed the unconditional mandatory takeover offer (the "**Offer**"). Taking into account the valid acceptances under the Offer, the Group is interested in an aggregate of 80,003,000shares 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: RMB 455,537,000).

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 RMB1 billion (the exact amount will be finalised 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: 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.

Outlook

Looking ahead to the second half of 2018, Mr. Sze said, "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. "

"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."

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Company Background

Hengan Group was established in 1985. It is principally engaged in production, distribution and sales of personal hygiene products in mainland China. The shares of Hengan International have been listed on the Hong Kong Stock Exchange since 1998. The Group has become a Hang Seng Index constituent since June 2011 and the first ten red chips and private enterprises listed on China Enterprises Index since 2018.

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