【For immediate release】

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

Hengan International Announces 2019 Interim Results

Revenue Increased 6.3% to RMB10.7 Billion
Interim Dividend at RMB1 Per Share

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E-Commerce Sustained Robust Growth Momentum
Continuously Increased Market Penetration of Upgraded and High-end Products

Financial Highlights

	For the six months ended 30 June		Change
	2019 RMB'000	2018 RMB'000	
Revenue	**10,776,606**	**10,136,897**	**+6.3%**
Gross profit margin	**37.3%**	**39.6%**	**-2.3 p.p.**
Operating profit	**2,658,154**	**2,681,943**	**-0.9%**
Profit attributable to shareholders	**1,877,782**	**1,946,907**	**-3.6%**
Basic earnings per share (RMB)	**1.578**	**1.614**	**-2.2%**
Interim dividend per share (RMB)	**1.00**	**1.00**	**-**

(22 August 2019 — 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 2019.

During the period under review, Hengan Group continued to enhance the platform rules of "Fair and Transparent" and strove to reinforce the "small sales team" operating model (also known as "Hengan's Amoeba model") in order to improve sales and operational efficiency and promote the long-term sustainable development of the Group. During the period, the Group stepped up its efforts to transform the traditional sales channels and strengthen connection with point-of-sales, to enhance the Group's direct-to-consumer capabilities. As tissue business maintained rapid growth in sales and incomes from other businesses also increased, during the first half of 2019, the Group's revenue increased by approximately 6.3% to approximately RMB10,776,606,000 year-on-year (2018 first half: RMB10,136,897,000).

In the first half of 2019, as the proportion of revenue generated from other businesses increased to approximately 13.8% (2018 first half: 10.1%), and its respective gross profit margin was lower comparing with the three major business segments, therefore, the Group's gross profit margin dropped to approximately 37.3% (2018 second half: 39.6%). During the period, the overall prices of wood pulp gradually declined from the peak level, thus helping to reduce the production cost of tissue business of the Group and mitigating the pressure on gross profit margin. The Group's gross profit margin slightly decreased to approximately 25.0% (2018 first half: 25.8%). It is expected that the overall prices of wood pulp will continue to decline and stay at the low levels, coupled with the Group's continued efforts to optimise its product mix, focus on high margin product and expand its scale advantage in order to mitigate the negative effects of intensified market competition and the potential depreciation of Renminbi, thereby improving the gross profit margin in the second half of 2019. During the period, the Group strengthened brand promotion which resulted in the increase in selling and distribution costs and administrative expenses by approximately 16.4% compared to the same period last year. In terms of the percentage of total revenue, the proportion of distribution costs and administrative expenses increased to approximately 18.8% (2018 first half: 17.2%).

In the first half of 2019, operating profit decreased slightly by approximately 0.9% to approximately RMB2,658,154,000 (2018 first half: RMB2,681,943,000). Profit attributable to shareholders of the Company amounted to approximately RMB1,877,782,000 (2018 first half: RMB1,946,907,000). The Board of Directors declared an interim dividend of RMB1.00 per share for the six months ended 30 June 2019 (2018 first half: RMB1.00).

Commenting on the Group's interim results, Mr. Sze Man Bok, Chairman of Hengan International, said, "In the first half of 2019, China-US trade tensions dragged down growth in the world economy. The country's gross domestic product increased by 6.3% year-on-year, the slowest economic growth rate in 27 years. Against the backdrop of macro uncertainties and complex international relations, the domestic consumption demand continued to grow with the per capita consumption expenditure of national residents in the daily necessities and services category increased by 3.8% compared with the first half of 2018. The growth in household consumption contributed 60.1% to the growth of the gross domestic product in the first half of year, becoming the mainspring of China's economy. During the period, Hengan leveraged on its scale advantages and leading brand strength to keep consolidating its leading position in China's personal and household hygiene products industry."

Sanitary Napkin

China's sanitary napkin market has undergone development over the years with fierce competition among foreign and domestic brands, along with large and small manufacturers. Given the sanitary napkin penetration in China has increased year after year, the market is heading for saturation. Thus, product upgrade will become the key growth driver of the market in the future. During the period, the Group increased its efforts to transform the traditional sales channels, encourage small sales team to sell products directly to retailers and provide upgraded and premium products that cater to the varying needs of customers. As the sales of sanitary napkins through traditional channels accounted for over 60% of the total sales of sanitary napkins business, the sales of sanitary napkins inevitably underwent a period of transition and adjustment under the Group's transformation of traditional channels. During the period, revenue from the sanitary napkins business decreased by approximately 4.6% to approximately RMB3,075,156,000, which accounted for approximately 28.5% of the Group's revenue (2018 first half: 31.8%).

While transforming the traditional channels, the Group also continued to upgrade its products. During the period, the Group upgraded the popular Sweet Sleeping Panty to Ultra-Thin Adorable Sleeping Panty (超薄萌睡褲), offering carefree and comfortable user experience to the consumers. Meanwhile, the premium Space 7 series that launched by the Group in 2017 continued to gain market share. During the first half of 2019, the Group persistently increased the proportion of premium products in the product mix and the costs of petrochemical raw material remained steady. As a result, the Group still managed to increase profitability of the sanitary napkins business in spite of the intensified market competition. During the period, the gross profit margin of the sanitary napkins business increased to approximately 70.3% (2018 first half: 69.3%)

Despite the transitional phase of sales model optimisation will bring adverse impact on the sales of Group's sanitary napkins, the Group believes that in order to achieve long-term sustainable development of the sanitary napkins business, it is crucial to increase the proportion of direct sales and strengthen New Retail sales channel collaborations so as to expand the coverage of retail stores. The Group has to grasp the consumption upgrade trend and leverage on its leading market share to reinforce direct sales and continue to promote the best upgraded products to the market, with a view to maintaining its leading position in the feminine hygiene products market. In terms of product development, the Group will continue to research and develop as well as to upgrade the functions, materials and packaging of high-margin products with production benefits. In addition, the Group will vigorously research and develop feminine hygiene products beyond sanitary napkins in order to expand into the feminine care product market, opening up new growth opportunities.

Tissue Paper

In recent years, China's tissue products have seen constant improvement in diversity and quality in order to satisfy consumers' demand for varying and high-quality tissue products. With product upgrades and innovation, the overall market still has huge untapped potential. During the period, the Group benefitted from good market responses to the key promoted products such as "Tea Classical series" and The Bamboo π series, coupled with strong growth in e-commerce sales, resulting in steady sales growth of tissue products, thus being one of the driving forces for the Group's overall sales growth. During the period, revenue from the Group's tissue paper segment increased by about 7.4% to approximately RMB5,460,742,000, accounting for approximately 50.7% (2018 first half: 50.2%) of the Group's total revenue.

In addition, wood pulp prices decreased in the first half of 2019, the decline in raw material costs began to be reflected gradually in the first half of 2019, resulting in an improvement in gross profit margin. During the period, the gross profit margin of tissue products rebounded from about 19.2% in the second half of last year to about 25.0% in the first half of this year, which was at the level close to the same period of last year (2018 first half: 25.8%). As the Group maintained a stable price level of the products when the price of wood pulp was high, the Group faced no pressure to lower the product prices in large scale during the period. Therefore, the benefits brought by the cost reduction were particularly obvious. The Group expects the price of wood pulp will continue to decline and the gross profit margin of tissue paper will continue to improve notably in the second half of 2019.

During the period, the Group focused on promoting the Bamboo π series which features fast-growing natural bamboo fibers, expanding its product portfolio to include toilet rolls and kitchen paper, and grasping the trend of environmental protection. At the same time, the Group also upgraded the "Tea Classical series", introduced the new packaging in the form of cassette tapes. On the other hand, the Group's wet tissue business unit has been continuously focusing on the promotion of the highly popular "super mini" wet wipes, and it also launched wet toilet paper and baby wipes, to maintain its leading position in the domestic wet tissue market.

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

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Disposable Diapers

The market penetration rate of diapers in China is still lower than that of other developed countries. It is believed that rising level of national education and increasing health awareness will propel the number of baby and adult disposable diapers users, thereby continuing to drive the growth of the overall market. On the other hand, the national pursuit of higher living standards and the trend of consumption upgrade will support the market expansion of high-quality and high-margin products.

During the period, the Group accelerated its sales distribution of disposable diapers through e-commerce channel and it has continued to make good progress with the strategy. The Group gradually increased the market penetration rate of its upgraded high-end products "Q•MO" and "Soft and Thin" which achieved satisfactory sales performance during the period, thus effectively narrowing the decline in sales of disposable diapers. As at 30 June 2019, revenue from the Group's disposable diapers segment was approximately RMB750,666,000, narrowing the decline to about 7.4% which accounted for approximately 7.0% of the Group's revenue (2018 first half : 8.0%). During the period under review, after years of reinforcing investment in e-commerce, the proportion of the Group's disposable diapers sales through e-commerce channel increased to more than 40% of the overall sales of disposable diapers, and the sales of e-commerce channels increased by more than 10% year-on-year, which helped to alleviate the decline in the overall sales of the Group's disposable diapers business.

The Group seized the market opportunities brought by consumption upgrading and consumers' pursuit of premium high-end products. The Group focuses resources and product development on high-quality premium products and constantly upgraded high-end diaper series such as “Q•MO” and “Soft and Thin”, the upgraded product of Anerle. During the period, the sales of “Q•MO” and “Soft and Thin” reported triple-digit growth and double-digit growth respectively, accounting for approximately 8.6% and 20.3% of the overall sales of disposable diapers, proving that the Group's high quality disposable diapers of the Group were widely recognised by the China's market.

On the other hand, the Group's revenue of adult diapers amounted to approximately RMB105,257,000 (2018 first half: RMB87,139,000), which accounted for approximately 14.0% of the total revenue of disposable diapers (2018 first half: 10.7%). Sales increased by approximately 20.8% compared to the same period of previous year. Adult diaper products have entered the Malaysian market successfully, laying a good foundation for the Group's future development in the Malaysian and the Southeast Asian markets. Benefitting from the stable petrochemical raw material costs and the increase in the proportion of high-margin products, the gross profit margin of the disposable diapers segment increased by 0.7 percentage points to approximately 40.6% during the period.

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

Household products

Revenue from the Group's household products segment amounted to approximately RMB154,170,000 (2018 first half: RMB62,591,000), including revenue from Sunway Kordis Holding Limited ("Sunway Kordis") amounted to approximately RMB114,456,000 (2018 April to June: RMB52,296,000). The business accounted for approximately 1.4% (2018 first half: 0.6%) of the Group's revenue. Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB13,313,000 (2018 first half: RMB16,659,000). The business accounted for approximately 0.1% (2018 first half: 0.2%) of the Group's revenue and did not have any significant impact on the Group's overall results.

In recent years, the Group has stepped up its efforts to develop the household products business so as to expand its market coverage. The revenue of the Group's household products segment increased more than double year- on-year. The increase was mainly attributable to the Group's acquisition of the entire issued share capital of the Sunway Kordis and its subsidiaries. The acquisition greatly expanded the product diversification, production technology and sales network of the Group's household products. Sunway Kordis is principally engaged in the manufacturing of food wrap film and plastic bags in the PRC which are sold locally and exported to markets in Europe, Australia, North America and Asia. The acquisition is undertaken as part of its plan to expand its household products offerings and diversify its revenue stream inside and outside the PRC. In 2019, the Group will further utilise the extensive experiences of Sunway Kordis in household product industry to vigorously develop its strategic footholds of household products in China. The Group will also seek to leverage on its overseas sales network to bring Hengan's products to the overseas market.

Other Incomes

For the six months ended 30 June 2019, revenue of Wang-Zheng amounted to approximately RMB207,843,000, increased by about 11.8% year-on-year. The increase was mainly attributable to the efforts made by Hengan Group to actively reinvigorate the sales momentum of Wang-Zheng in Malaysia and expand its e-commerce sales. In addition, the newly launched "super mini" wet wipes series, Banitore disposable diapers and other Hengan Group's products received overwhelming responses from the local market, which also helped boost the sales. For the six months ended 30 June 2019, revenue of Sunway Kordis amounted to approximately RMB114,456,000 (2018 first half: RMB52,296,000), increased by about 118.9% year-on-year. On the other hand, the revenue of the Group's raw materials sales business, increased by more than approximately 50% compared to the six months ended 30 June 2018. Therefore, other income increased by about 46.2% year-on-year.

E-commerce

In the first half of 2019, the national online retail sales of physical goods increased by approximately 21.6% year on year. Its contribution to the total retail sales of social consumer goods amounted to approximately 19.6%, representing an increase of 2.2 percentage points from 17.4% in first half of 2018, indicating that continuous expansion of the domestic online shopping market. Other than a convenient shopping channel, online shopping has become a leisure activity for urbanites. Since the Group has launched its e-commerce business, the e-commerce channel has become one of the Group's high-growth direct sales channels.

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After several years of development, the Group's flagship brands such as Space 7, Hearttex and "Q•MO" have opened official flagship online stores which are operated directly by the Group, enabling the Group to unify its sales strategy and flexibly adjusted its product portfolio. In addition, the Group also collected and analyzed the habits and preferences of consumers' shopping and browsing through strategic cooperation with well-known large-scale e-commerce platforms in China, which helped products planning and development, and improved efficiency of sales. With the Retail Integrated (「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.

In the light of the current economic environment and demand of online market, the Group will launch more online exclusive products including online exclusive packaging and combo packages to attract consumers to make purchases through e-commerce channel and to persistently boost the rapid sales growth of the channel.

For the six months ended 30 June 2019, revenue from e-commerce (including Retail Integrated (零售通) platform and WeChat sales) exceeded approximately RMB2 billion , up by more than 50% year-on-year. E-commerce's contribution to the total sales revenue also rose to approximately 19.4% (2018 first half: 13.3%). The market share in the e-commerce channel has gradually caught up with the average level of the personal and household hygiene products market. Thanks to the gradual maturity of the Group's e-commerce channel which not only drove the growth of the tissue paper business segment, but also effectively narrowed the decline in revenue of disposable diapers.

Looking ahead, leveraging on the interactions between the "small sales team" of e-commerce department and the market, the Group will flexibly and swiftly respond to the changes in market needs and preferences. Taking the seasonal promotions of the e-commerce platform as a promotional opportunity, the Group will continue to launch high-margin and different combinations of exclusive themed products to further garner market share in the e-commerce channel, thereby continuously being the driving force for the overall sales growth.

Hengan's Amoeba Model

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

The "small sales team" operating model has been implemented for more than two years and has extended to all divisions of the Group. The Group will continue to fully authorise the "small sales team" while optimising the operational rules and strengthening the control of operating expenses, to increase the support and supervision of the "small sales team" by the regional operation centers. Meanwhile, the Group will increase direct sales to consumers in order to fulfill their needs.

In July 2019, the Group promulgated the refined rules for the “small sales team” operating model at the mid-year sales review meeting held at the headquarter of the Group, in order to further strengthen the supervision and promote the operating efficiency of the “small sales team”. The Group believes that the operational efficiency and expense ratio will be improved in the second half of 2019 after optimising and emphasising efficient investment. We also believe that the extensive establishment of direct sales model through the “small sales team” will help the Group to swiftly implement decisions, increase the sales proportion of new products and high-margin products, benefiting the Group's long-term development.

International business development

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

In April 2017, the Group acquired an aggregate of 80,003,000 shares of Wang-Zheng Berhad (Stock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The Sale Shares represented approximately 50.45% of the equity interest in Wang-Zheng. Wang-Zheng and its subsidiaries are principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers.

In 2018, Hengan successfully expanded into the Malaysian market by launching the high-end adult diapers and the Banitore brand in order to establish a foothold in the elderly care industry. In the first half of 2019, the innovative “Super mini” wet wipes series launched by Hengan in Malaysia continued to sell like hot cakes, while the disposable adult and baby diapers also achieved good sales and received great word-of-mouth reviews. Besides, Hengan assisted Wang-Zheng to develop the e-commerce business, laying the foundation for expansion into the Malaysian and Southeast Asian markets. The Group will continue to utilise the sales network of Wang-Zheng in Southeast Asia (including supermarkets and personal hygiene products chain stores), in order to promote Hengan products to the Malaysian and Southeast Asian markets.

During the period, the revenue and net profit of Wang-Zheng amounted to approximately RMB207,843,000 and RMB8,074,000 respectively, accounting for approximately 1.9% and 0.4% of the Group’s total revenue and net profit respectively.

In the second half of 2019, Wang-Zheng will vigorously promote Hengan’s products to the Southeast Asian market through various sales channels (such as convenient store and e-commerce channels), comprehensively establish brand image and high-quality product philosophy. The Group will continue to upgrade the existing Wang-Zheng products and develop high-end products. In addition, as part of its strategic plan for the Southeast Asian market, the Group has established a sales office in Indonesia to promote and sell Hengan branded products.

In addition, the Russian plant invested by the Group has started production of diapers in June 2019, thereby expanding its diaper business to the Russian market.

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

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 2019, apart from certain foreign currency 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 2019, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB24,634,136,000 (31 December 2018: RMB25,919,500,000); medium-term notes (panda bonds), domestic corporate bonds and super short-term commercial papers totally amounted to approximately RMB8,990,898,000 (31 December 2018: RMB9,986,824,000), and bank borrowings amounted to approximately RMB15,094,316,000 (31 December 2018: RMB14,275,540,000).

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and RMB5.75 billion domestic corporate bonds. The Group also completed the issue of the first tranche 3-year panda bonds of RMB2 billion and the issue of the first tranche of 5-year domestic corporate bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.3% per annum respectively. The Group finished the second tranche '2+1'-year domestic corporate bonds of RMB3 billion, with a coupon rate of 4.58% per annum respectively on 30 July 2018.

In addition, the Group successfully registered for the proposed issue of RMB5.0 billion super short-term commercial paper on April 2017. The Group issued commercial paper in five batches, with a coupon rate from 3.78% to 4.15% per annum respectively. Apart from one of the tranches having an effective period of 97 days and was fully repaid during the year 2018, the rest of these super short-term commercial paper tranches are 270 days. During the period, the Group has repaid one of the tranches of RMB1.0 billion.

The bank borrowings were subject to floating annual interest rates ranging from approximately 1.5% to 4.9% (2018 first half: from 1.7 % to 7.0%).

As at 30 June 2019, the Group's gross gearing ratio decreased to approximately 141.7% (31 December 2018: 145.1%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 3.2% (31 December 2018: negative 9.9%) as the Group was in a net cash position.

During the period, the Group's capital expenditure amounted to approximately RMB195,858,000. As at 30 June 2019, the Group had no material contingent liabilities.

Outlook

Looking ahead to the second half of 2019, lingering uncertainties over the global economic growth, continuous trade frictions and rising geopolitical risks would weigh on the investment and consumer confidence, aggravating the volatility of the financial market. The Group will closely monitor the impact of external factors on the prices of imported wood pulp and petrochemical products. The ongoing optimisation of China's economic structure and continuous upgrade of the household consumption are set to ceaselessly unleash the growing and increasingly refined consumption demand, thereby promoting the high-quality development of the personal hygiene product market in the long run.

"The Group expects the wood pulp prices to stay at the low levels in the second half of 2019, which will ease the cost pressure on the company and help further improve the gross profit margin. At the same time, the Group will continue to deepen implementation of "small team operation" strategy, strive to achieve benefit maximization and efficiency optimisation, establish the direct connection between consumers and the brand and improve the flexibility of the sales team in order to swiftly respond to changes in market demand. As the leading company of personal and household hygiene products in China, Hengan will consider industrial expansion as the long-term development target, leveraging its brand advantage and production scale to expand its business into high growth potential industries namely feminine care industry, infant child care industry and elderly care industry, while gradually exporting Hengan's brand to the overseas market. The Group will also continue to optimise its product mix and boost its overall profitability in order to generate better returns 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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