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 2020

	Unaudited		
	2020	2019	% of
	RMB'000	*RMB'000*	change
Revenue	**10,927,862**	10,776,606	1.4%
Gross profit margin	**44.1%**	37.3%	
Operating profit	**3,185,111**	2,658,154	19.8%
Profit attributable to shareholders	**2,259,528**	1,877,782	20.3%
Earnings per share			
— Basic	**RMB1.899**	RMB1.578	
— Diluted	**RMB1.899**	RMB1.578	
Finished goods turnover (days)	**53**	45	
Trade and bills receivables turnover (days)	**59**	51	
Rate of return on equity (annualised)	**24.2%**	22.1%	

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 2020, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2020, 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 2020

		Unaudited	
		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Revenue	*6*	**10,927,862**	10,776,606
Cost of goods sold		**(6,112,243)**	(6,757,739)
Gross profit		**4,815,619**	4,018,867
Selling and distribution costs		**(1,471,952)**	(1,408,378)
Administrative expenses		**(652,528)**	(615,262)
Net (accrual)/reversal of impairment losses on financial assets	*7*	**(10,488)**	7,146
Other income and other gains — net		**504,460**	655,781
Operating profit		**3,185,111**	2,658,154
Finance income		**113,332**	98,543
Finance costs		**(392,464)**	(423,681)
Finance costs — net		**(279,132)**	(325,138)
Share of net profits of associates		**16**	–
Profit before income tax	*7*	**2,905,995**	2,333,016
Income tax expense	*8*	**(641,035)**	(450,779)
Profit for the period		**2,264,960**	1,882,237
Profit attributable to:			
Shareholders of the Company		**2,259,528**	1,877,782
Non-controlling interests		**5,432**	4,455
		2,264,960	1,882,237
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*9*	**RMB1.899**	RMB1.578
— Diluted	*9*	**RMB1.899**	RMB1.578

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Profit for the period	**2,264,960**	1,882,237
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(5,478)**	(72,801)
Total comprehensive income for the period	**2,259,482**	1,809,436
Attributable to:		
Shareholders of the Company	**2,261,406**	1,800,514
Non-controlling interests	**(1,924)**	8,922
Total comprehensive income for the period	**2,259,482**	1,809,436

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Note	**Unaudited 30 June 2020** *RMB'000*	Audited 31 December 2019 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**7,666,022**	7,822,457
Construction-in-progress	*11*	**485,967**	543,534
Right-of-use assets	*12*	**1,002,343**	988,245
Investment properties	*11*	**222,800**	226,233
Intangible assets	*11*	**741,593**	724,620
Prepayments for non-current assets		**293,403**	120,293
Deferred income tax assets		**256,312**	213,211
Investments in associates	*18*	**101,686**	101,670
Long-term bank time deposits	*14*	**3,880,056**	2,430,082
		14,650,182	13,170,345
Current assets			
Inventories		**4,728,492**	3,802,496
Trade and bills receivables	*13*	**3,512,556**	3,651,224
Other receivables, prepayments and deposits		**1,487,426**	1,956,862
Current income tax recoverable		**224,424**	97,511
Derivative financial instruments		**1,168**	12,858
Restricted bank deposits	*14*	**2,863**	7,209
Cash and bank balances	*14*	**28,001,918**	20,540,270
		37,958,847	30,068,430
Total assets		**52,609,029**	43,238,775

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

As at 30 June 2020

	Note	**Unaudited 30 June 2020 *RMB'000***	Audited 31 December 2019 *RMB'000*
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	*17*	**125,655**	125,654
Other reserves		**3,278,211**	3,203,594
Retained earnings		**15,247,092**	14,543,693
		18,650,958	17,872,941
Non-controlling interests		**288,197**	278,937
Total equity		**18,939,155**	18,151,878
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**2,485,146**	1,246,992
Lease liabilities	*12*	**6,720**	4,365
Deferred income tax liabilities		**278,200**	171,467
		2,770,066	1,422,824
Current liabilities			
Trade and bills payables	*15*	**2,545,886**	2,223,894
Other payables and accrued charges	*15*	**1,244,985**	907,752
Contract liabilities		**109,947**	145,230
Current income tax liabilities		**903**	–
Borrowings	*16*	**26,952,942**	20,361,449
Derivative financial instruments		**36,177**	19,788
Lease liabilities	*12*	**8,968**	5,960
		30,899,808	23,664,073
Total liabilities		**33,669,874**	25,086,897
Total equity and liabilities		**52,609,029**	43,238,775

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 2020	**125,654**	**3,203,594**	**14,543,693**	**17,872,941**	**278,937**	**18,151,878**
Profit for the period	**–**	**–**	**2,259,528**	**2,259,528**	**5,432**	**2,264,960**
Currency translation differences	**–**	**1,878**	**–**	**1,878**	**(7,356)**	**(5,478)**
Total comprehensive income	**–**	**1,878**	**2,259,528**	**2,261,406**	**(1,924)**	**2,259,482**
Transactions with owners						
2019 final dividends paid *(Note 10(b))*	**–**	**–**	**(1,487,109)**	**(1,487,109)**	**(2,449)**	**(1,489,558)**
Share-based compensation						
— Value of employee services	**–**	**3,100**	**–**	**3,100**	**–**	**3,100**
— Proceeds from shares issued *(Note 17)*	**1**	**619**	**–**	**620**	**–**	**620**
Capital contribution by non-controlling interests	**–**	**–**	**–**	**–**	**13,633**	**13,633**
Total of transactions with owners	**1**	**3,719**	**(1,487,109)**	**(1,483,389)**	**11,184**	**(1,472,205)**
Appropriation to statutory reserves	**–**	**69,020**	**(69,020)**	**–**	**–**	**–**
Balance at 30 June 2020	**125,655**	**3,278,211**	**15,247,092**	**18,650,958**	**288,197**	**18,939,155**
Balance at 1 January 2019	127,092	2,614,789	13,983,279	16,725,160	273,519	16,998,679
Profit for the period	–	–	1,877,782	1,877,782	4,455	1,882,237
Currency translation differences	–	(77,268)	–	(77,268)	4,467	(72,801)
Total comprehensive income	–	(77,268)	1,877,782	1,800,514	8,922	1,809,436
Transactions with owners						
2018 final dividends paid *(Note 10(b))*	–	–	(1,427,613)	(1,427,613)	(9,521)	(1,437,134)
Share-based compensation						
— Value of employee services	–	6,510	–	6,510	–	6,510
— Proceeds from shares issued *(Note 17)*	1	294	–	295	–	295
Buy-back of shares	–	(105,060)	–	(105,060)	–	(105,060)
Cancellation of shares *(Note 17)*	(1,439)	692,958	(691,519)	–	–	–
Total of transactions with owners	(1,438)	594,702	(2,119,132)	(1,525,868)	(9,521)	(1,535,389)
Appropriation to statutory reserves	–	59,119	(59,119)	–	–	–
Balance at 30 June 2019	125,654	3,191,342	13,682,810	16,999,806	272,920	17,272,726

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Cash flows from operating activities		
— Cash generated from operations	**3,618,629**	1,533,022
— Income tax paid	**(703,147)**	(723,282)
Net cash generated from operating activities	**2,915,482**	809,740
Cash flows from investing activities		
— Purchase of property, plant and equipment, intangible assets, construction-in-progress and other non-current assets	**(248,137)**	(261,719)
— Purchase of land use rights	**(94,774)**	(12,572)
— Proceeds on disposal of property, plant and equipment	**5,608**	12,961
— (Increase)/decrease in long-term and short-term bank time deposits	**(4,198,854)**	3,246,980
— Interest received	**427,284**	282,301
Net cash (used in)/generated from investing activities	**(4,108,873)**	3,267,951
Cash flows from financing activities		
— Proceeds from capital contribution by non-controlling interests	**10,505**	–
— Proceeds from borrowings *(Note 16)*	**17,003,409**	11,160,446
— Repayment of borrowings *(Note 16)*	**(9,364,447)**	(11,367,513)
— Decrease/(increase) in restricted bank deposits	**4,346**	(830)
— Buy-back of shares	**–**	(215,571)
— Interest paid	**(293,211)**	(267,498)
— Dividends paid *(Note 10(b))*	**(1,487,109)**	(1,427,613)
— Dividends paid to non-controlling interests	**(1,374)**	(5,568)
— Lease payments	**(5,269)**	(2,778)
— Proceeds from shares issued under the employee share option scheme	**620**	295
Net cash generated from/(used in) financing activities	**5,867,470**	(2,126,630)
Increase in cash and cash equivalents	**4,674,079**	1,951,061
Cash and cash equivalents at 1 January	**9,120,176**	11,068,299
Effect of foreign exchange rate changes	**38,689**	9,725
Ending cash and cash equivalents at 30 June	**13,832,944**	13,029,085

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. General information

Hengan International Group Company Limited (the "Company" or "恒安國際") 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 19 August 2020.

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 2020 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 the annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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 2019, except for the adoption of new and amended standards set out as 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. The Group assessed the adoption of these new and amended standards and concluded that they did not have a significant impact on the Group's interim results and financial position.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 June 2020

(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 2020 and have not been early adopted by the Group.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

4. Estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, 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 2019, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

5. Financial risk management and financial instruments

5.1 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 2019.

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

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

5.2 Liquidity risk

Compared to the last 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. For the corporate bond issued in 2018, the bond holders have the option to demand early redemption from issuer in August 2020. The analysis shows the cash outflow based on the earliest period in which the Group can be required to pay. The maturity analysis for other liabilities is prepared based on the scheduled repayment dates.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 3 years *RMB'000*	Between 3 and 5 years *RMB'000*	Total *RMB'000*
At 30 June 2020 (Unaudited)					
Borrowings	**26,953,175**	**2,002,150**	**424,325**	**60,598**	**29,440,248**
Interest payables of borrowings	**569,597**	**45,370**	**8,562**	**835**	**624,364**
Net settled derivative financial instruments	**36,177**	**–**	**–**	**–**	**36,177**
Lease Liabilities	**9,572**	**5,034**	**1,893**	**–**	**16,499**
Trade, bills and other payables	**2,944,711**	**–**	**–**	**–**	**2,944,711**
Total	**30,513,232**	**2,052,554**	**434,780**	**61,433**	**33,061,999**
At 31 December 2019 (Audited)					
Borrowings	20,364,207	1,190,000	–	59,760	21,613,967
Interest payables of borrowings	476,134	27,078	1,793	1,341	506,346
Net settled derivative financial instruments	19,788	–	–	–	19,788
Lease liabilities	6,375	2,957	1,539	29	10,900
Trade, bills and other payables	2,533,270	–	–	–	2,533,270
Total	23,399,774	1,220,035	3,332	61,130	24,684,271

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

5.3 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.

	Unaudited 30 June 2020 Level 2 *RMB'000*	Audited 31 December 2019 Level 2 *RMB'000*
Financial assets fair value through profit or loss		
— Interest rate swap contracts	**–**	603
— Foreign currency swap contracts	**1,168**	12,255
	1,168	12,858
Financial liabilities fair value through profit or loss		
— Interest rate swap contracts	**(35,081)**	(19,754)
— Foreign currency swap contracts	**(1,096)**	(34)
	(36,177)	(19,788)
Total	**(35,009)**	(6,930)

During the six months ended 30 June 2020, 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 foreign currency swap contracts and interest rate swap contracts. These foreign currency swap contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swap contracts are fair valued with reference to quotations provided by various banks. The effects of discounting are generally insignificant for level 2 derivatives.

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

5.4 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
- Lease liabilities
- Borrowings

6. **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's 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 PRC. The revenue from external customers in PRC 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, right-of-use assets 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.

6. Segment information *(Continued)*

The segment information for the six months ended 30 June 2020 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	**3,239,520**	**755,092**	**5,666,570**	**2,091,335**	**11,752,517**
Inter-segment sales	**(16,836)**	**(32,911)**	**(317,559)**	**(457,349)**	**(824,655)**
Revenue of the Group	**3,222,684**	**722,181**	**5,349,011**	**1,633,986**	**10,927,862**
Segment profit	**1,563,363**	**107,202**	**821,914**	**199,753**	**2,692,232**
Unallocated costs					**(11,581)**
Other income and other gains — net					**504,460**
Operating profit					**3,185,111**
Finance income					**113,332**
Finance costs					**(392,464)**
Share of net profits of associates					**16**
Profit before income tax					**2,905,995**
Income tax expense					**(641,035)**
Profit for the period					**2,264,960**
Non-controlling interests					**(5,432)**
Profit attributable to shareholders of the Company					**2,259,528**
Addition to non-current assets	**51,574**	**25,349**	**136,301**	**34,371**	**247,595**
Depreciation of property, plant and equipment and investment properties	**82,135**	**19,042**	**252,299**	**25,496**	**378,972**
Depreciation of right-of-use assets	**5,368**	**2,077**	**9,075**	**3,713**	**20,233**
Amortisation charge	**7,982**	**–**	**191**	**7,040**	**15,213**
As at 30 June 2020 (Unaudited)					
Segment assets	**8,738,115**	**4,949,501**	**15,625,925**	**4,106,906**	**33,420,447**
Deferred income tax assets					**256,312**
Current income tax recoverable					**224,424**
Investments in associates					**101,686**
Unallocated assets					**18,606,160**
Total assets					**52,609,029**
Segment liabilities	**4,194,302**	**1,676,017**	**6,172,325**	**1,193,986**	**13,236,630**
Deferred income tax liabilities					**278,200**
Current income tax liabilities					**903**
Unallocated liabilities					**20,154,141**
Total liabilities					**33,669,874**

6. **Segment information** *(Continued)*

The segment information for the six months ended 30 June 2019 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	3,104,880	769,878	5,848,357	1,877,780	11,600,895
Inter-segment sales	(29,724)	(19,212)	(387,615)	(387,738)	(824,289)
Revenue of the Group	3,075,156	750,666	5,460,742	1,490,042	10,776,606
Segment profit	1,501,014	138,244	306,356	71,742	2,017,356
Unallocated costs					(14,983)
Other income and other gains — net					655,781
Operating profit					2,658,154
Finance income					98,543
Finance costs					(423,681)
Profit before income tax					2,333,016
Income tax expense					(450,779)
Profit for the period					1,882,237
Non-controlling interests					(4,455)
Profit attributable to shareholders of the Company					1,877,782
Addition to non-current assets	79,204	19,050	80,715	16,889	195,858
Depreciation of property, plant and equipment and investment properties	87,335	19,408	243,788	22,893	373,424
Depreciation of right-of-use assets	4,996	2,106	9,138	2,189	18,429
Amortisation charge	7,932	10	268	3,277	11,487
As at 31 December 2019 (Audited)					
Segment assets	7,371,874	5,009,723	14,576,696	3,641,818	30,600,111
Deferred income tax assets					213,211
Current income tax recoverable					97,511
Investments in associates					101,670
Unallocated assets					12,226,272
Total assets					43,238,775
Segment liabilities	2,392,831	1,457,052	5,235,705	832,438	9,918,026
Deferred income tax liabilities					171,467
Unallocated liabilities					14,997,404
Total liabilities					25,086,897

7. Profit before income tax

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

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Crediting		
Government grant income	**165,127**	171,106
Interests income from long-term and short-term bank time deposits	**432,931**	455,923
Interests income from cash and cash equivalents	**110,633**	82,452
Net gains on derivative financial instruments	**–**	803
Exchange gains from financing activities — net	**2,699**	16,091
Reversal of impairment losses on trade and bills receivables	**–**	7,146
Reversal of provision for decline in value of inventories	**2,316**	–
Gains on disposal of property, plant and equipment	**2,132**	–
Charging		
Depreciation of property, plant and equipment *(Note 11)*	**375,950**	370,568
Depreciation of investment properties *(Note 11)*	**3,022**	2,856
Amortisation of intangible assets *(Note 11)*	**15,213**	11,487
Depreciation of right-of-use assets *(Note 12)*	**20,233**	18,429
Employee benefit expense, including Directors' emoluments	**928,537**	912,710
Losses on disposal of property, plant and equipment	**–**	5,909
Net impairment losses on trade and bills receivables	**10,488**	–
Provision for decline in value of inventories	**–**	3,578
Net losses on derivative financial instruments	**27,732**	–
Exchange losses from operating activities — net	**87,978**	41,594
Interest expenses on borrowings and bank charges after deducting interest expenses of RMB7,392,000 (2019: RMB7,481,000) capitalised in construction-in-progress	**392,144**	423,430
Miscellaneous taxes and levies	**52,178**	54,522

8. Income tax expense

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current tax on profits for the period	**577,137**	465,019
Withholding income tax on profits of the current period	**107,918**	74,834
Deferred income tax on other timing differences, net	**(44,020)**	(89,074)
Income tax expense	**641,035**	450,779

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% (2019: 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 subsidiaries in Mainland China of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to investors in Hong Kong, or at a rate of 10% for other foreign investors. Deferred income tax liabilities of approximately RMB107,918,000 (2019: RMB74,834,000) for the six months ended 30 June 2020 have been provided for in this regard based on the expected dividends to be distributed from the Group's subsidiaries in Mainland China in the foreseeable future.

9. 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	
	2020	2019
Profit attributable to shareholders of the Company (RMB'000)	**2,259,528**	1,877,782
Weighted average number of ordinary shares in issue (thousands)	**1,189,681**	1,189,716
Basic earnings per share (RMB)	**1.899**	1.578

9. Earnings per share *(Continued)*

(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. Share options is the only category of dilutive potential ordinary shares of the Company.

The diluted earnings per share is the same as basic earnings per share for the six months ended 30 June 2020 as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

10. Dividends

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Interim, proposed/paid, RMB1.20 (2019: RMB1.00) per share *(Note (a))*	**1,427,625**	1,189,677

Notes:

(a) An interim dividend of RMB1.20 (equivalent to Hong Kong dollars ("HK$") 1.341562) (2019: RMB1.00, equivalent to HK$1.113474) per share was proposed by the Board of Directors on 19 August 2020. This interim dividend, amounting to RMB1,427,625,000, 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 18 August 2020 is 0.89448.

(b) A final dividend of RMB1,487,109,000, equivalent to HK$1,629,834,000 (2018: RMB1,427,613,000, equivalent to HK$1,670,368,000) related to the period up to 31 December 2019 was paid in May 2020.

11. Capital expenditure — net book value

	Unaudited			
	Property, plant and equipment *RMB'000*	Construction-in-progress *RMB'000*	Investment properties *RMB'000*	Intangible assets *RMB'000*
At 1 January 2020	**7,822,457**	**543,534**	**226,233**	**724,620**
Additions	**61,148**	**149,001**	**–**	**1,557**
Transfer from construction-in-progress	**175,939**	**(206,568)**	**–**	**30,629**
Transfer from property, plant and equipment	**(60)**	**–**	**60**	**–**
Transfer to right-of-use assets	**(13,275)**	**–**	**–**	**–**
Disposals	**(3,476)**	**–**	**–**	**–**
Depreciation/amortisation	**(375,950)**	**–**	**(3,022)**	**(15,213)**
Currency translation differences	**(761)**	**–**	**(471)**	**–**
At 30 June 2020	**7,666,022**	**485,967**	**222,800**	**741,593**
At 1 January 2019	8,095,356	580,790	225,036	686,558
Additions	95,185	86,933	1,947	–
Transfer from construction-in-progress	106,258	(106,258)	–	–
Transfer from property, plant and equipment	(2,071)	–	2,071	–
Transfer to right-of-use assets	(127,689)	–	–	–
Disposals	(18,870)	–	–	–
Depreciation/amortisation	(370,568)	–	(2,856)	(11,487)
Currency translation differences	312	742	124	–
At 30 June 2019	7,777,913	562,207	226,322	675,071

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

12. Leases

(a) Amounts recognised in the consolidated balance sheet

	Unaudited As at 30 June 2020 *RMB'000*	Audited As at 31 December 2019 *RMB'000*
Right-of-use assets		
— Land use rights	**973,903**	977,382
— Buildings	**15,515**	10,725
— Equipment and others	**12,925**	138
Total	**1,002,343**	988,245
Lease liabilities		
— Current	**(8,968)**	(5,960)
— Non-current	**(6,720)**	(4,365)
Total	**(15,688)**	(10,325)

Expenses have been charged to the interim condensed consolidated statement of profit or loss.

(b) Amounts recognised in the consolidated statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Unaudited Six months ended 30 June	
	2020 *RMB'000*	2019 *RMB'000*
Depreciation of right-of-use assets ***(Note 7)***		
— Land use rights	**14,083**	13,658
— Buildings	**5,608**	4,599
— Equipment and others	**542**	172
	20,233	18,429
Interest expense	**320**	252
Short-term and low-value lease expenses	**43,204**	43,048

The total cash payment for leases during the period was RMB143,247,000 (2019: RMB58,398,000).

13. Trade and bills receivables

	Unaudited 30 June 2020 *RMB'000*	Audited 31 December 2019 *RMB'000*
Trade receivables	**3,558,216**	3,710,388
Bills receivables	**29,968**	6,000
	3,588,184	3,716,388
Less: provision for impairment	**(75,628)**	(65,164)
Trade and bills receivables, net	**3,512,556**	3,651,224

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 2020 *RMB'000*	Audited 31 December 2019 *RMB'000*
Within 30 days	**1,180,585**	1,483,539
31 to 180 days	**1,929,236**	2,017,526
181 to 365 days	**353,719**	119,287
Over 365 days	**124,644**	96,036
	3,588,184	3,716,388

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.

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

	Unaudited 30 June 2020 *RMB'000*	Audited 31 December 2019 *RMB'000*
Long-term bank time deposits		
Term deposits with initial term over one year	**3,880,056**	2,430,082
Restricted bank deposits	**2,863**	7,209
Cash and bank balances		
— Term deposits with initial term over three months and within one year	**14,168,974**	11,420,094
— Cash and cash equivalents	**13,832,944**	9,120,176
	28,001,918	20,540,270
Total	**31,884,837**	22,977,561

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.

15. Trade, bills and other payables and accrued charges

	Unaudited 30 June 2020 *RMB'000*	Audited 31 December 2019 *RMB'000*
Trade payables	**2,544,392**	2,219,943
Bills payables	**1,494**	3,951
	2,545,886	2,223,894
Other payables and accrued charges		
— Payables for purchase of property, plant and equipment	**298,871**	255,992
— Accrued expenses and other payables	**694,650**	502,123
— Accrued interest expenses	**232,625**	126,911
— Other taxes payables	**18,839**	22,726
	1,244,985	907,752
Total	**3,790,871**	3,131,646

15. Trade, bills and other payables and accrued charges *(Continued)*

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

	Unaudited 30 June 2020 ***RMB'000***	Audited 31 December 2019 *RMB'000*
Within 30 days	**1,137,237**	1,094,302
31 to 180 days	**1,335,950**	1,073,147
181 to 365 days	**48,801**	19,387
Over 365 days	**23,898**	37,058
	2,545,886	2,223,894

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

16. Borrowings

	Unaudited 30 June 2020 ***RMB'000***	Audited 31 December 2019 *RMB'000*
Non-current		
Long-term bank loans — unsecured	**1,479,887**	249,760
Corporate bonds *(a)*	**998,073**	997,232
Long-term bank loans — secured	**7,186**	–
	2,485,146	1,246,992
Current		
Short-term bank loans — unsecured	**20,107,383**	16,912,788
Super short-term commercial papers(b)	**3,000,000**	–
Corporate bonds *(a)*	**2,999,767**	2,997,242
Trust receipt bank loans	**653,529**	401,419
Current portion of long term bank loan — unsecured	**190,000**	50,000
Current portion of long term bank loan — secured	**2,263**	–
	26,952,942	20,361,449
Total	**29,438,088**	21,608,441

As at 30 June 2020, the effective interest rate of the Group's bank borrowings was approximately 2.81% (31 December 2019: 3.20%) per annum.

16. Borrowings *(Continued)*

(a) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd ("Hengan China Investment"), a wholly-owned subsidiary of the Group issued a corporate bonds at a par value of RMB1,000,000,000, which was dominated in RMB with a fixed interest of 3.30% per annum. The bonds will mature in five years from the issue date. The values of the liability, net of transaction costs of RMB8,000,000, were determined at issuance of the bonds.

In July 2018, Hengan China Investment issued a corporate bond at a par value of RMB3,000,000,000, which was dominated in RMB with a fixed interest of 4.58% per annum in first two years. At the end of the second year, the issuer has the option to adjust the coupon rate, while the bond holders have the option to demand early redemption from issuer. The value of the liability, net transaction cost of RMB9,600,000, were determined at issuance of the bonds. In August 2020, the corporate bond was early redeemed with the amount of RMB3,137,400,000, including the par value of RMB3,000,000,000, accrued and unpaid interest of RMB137,400,000 to the redemption date.

(b) Super short-term commercial papers

As at 30 June 2020, Hengan International had the following super short-term commercial papers:

	Interest rate	**Issue date**	**Expiration term**	**Amount** ***RMB'000***
20 恒安國際 SCP001	2.85%	2020-02-26	270 days	1,000,000
20 恒安國際 SCP002	2.65%	2020-03-12	270 days	1,000,000
20 恒安國際 SCP003	2.60%	2020-03-17	270 days	500,000
20 恒安國際 SCP004	2.60%	2020-03-18	270 days	500,000

Movements in borrowings are analysed as follows:

	Unaudited ***RMB'000***
At 1 January 2020	**21,608,441**
New borrowings	**17,003,409**
Repayments of borrowings	**(9,364,447)**
Bonds payable — interest adjustment	**3,366**
Currency translation differences	**187,319**
At 30 June 2020	**29,438,088**
At 1 January 2019	24,262,364
New borrowings	11,160,446
Repayments of borrowings	(11,367,513)
Bonds payable — interest adjustment	4,075
Currency translation differences	25,842
At 30 June 2019	24,085,214

17. Share capital

Ordinary shares, issued and fully paid

	Number of shares	*RMB'000*
At 1 January 2020	**1,189,677,417**	**125,654**
Employee share option schemes		
— Shares issued upon exercise of share options	**10,000**	**1**
At 30 June 2020 (unaudited)	**1,189,687,417**	**125,655**
At 1 January 2019	1,206,067,917	127,092
Employee share option schemes		
— Shares issued upon exercise of share options	5,000	1
Buy-back and cancellation of shares	(16,395,500)	(1,439)
At 30 June 2019 (unaudited)	1,189,677,417	125,654

18. Investments in associates

The details of investments in associates are as follows:

	Unaudited *RMB'000*
At 1 January 2020	**101,670**
Share of net profits	**16**
At 30 June 2020	**101,686**

The particulars of the associates of the Group as at 30 June 2020, all of which equity method is used to account for, are set out as follows:

Name of entity	Place of business/country of incorporation	% of ownership interest	Paid-up capital	Principal activities
Finnpulp Oy	Kuopio, Finland	36.46%	RMB90,252,000	Manufacturing, distribution and sale of wood pulp
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB11,412,000	Research and development of personal hygiene materials

* *For identification purpose only*

19. Capital commitments

	Unaudited 30 June 2020 *RMB'000*	Audited 31 December 2019 *RMB'000*
Contracted but not provided for in respect of:		
Machinery and equipment	**322,221**	277,310
Leasehold land and buildings	**106,326**	199,331
Total	**428,547**	476,641

20. Contingent liabilities

At 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

21. 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 no significant related party transactions;

(b) For the six months ended 30 June 2020, the key management compensation amounted to approximately RMB5,874,000 (2019: RMB5,686,000).

22. Subsequent event

Details of the interim dividend proposed are given in Note 10.

BUSINESS REVIEW

In the first half of 2020, the worldwide outbreak of coronavirus (COVID-19) epidemic has made a great impact on daily life and the economy, which inevitably affected consumer confidence. In the first quarter, China's gross domestic product decreased by 6.8% year-on-year, the first negative growth in record. However, as the epidemic was gradually brought under control in Mainland China, the recovery trend in the second quarter was remarkable, which partially offset the impact of the first quarter. In the first half of 2020, total retail sales of consumer goods fell 11.4% year-on-year, while retail sales from the daily necessities category grew 5.2% year-on-year, reflecting the notable recovery in the daily necessities category.

During the period under review, national health awareness has increased significantly and demand for personal and household hygiene products was strong. Although the Group's sales in the first quarter was put under pressure due to the inevitable impacts on logistics and resumption of work, thanks to Hengan's brand quality assurance, agile "small sales team" and the Group's effort to maintain production and supply levels to the greatest possible extent, the Group effectively capitalised on the rapid recovery in the second quarter, and coupled with the robust domestic consumer demand for high-quality daily necessities, sales rebounded swiftly in the second quarter, which effectively mitigated the negative effects of the first quarter. For the six months ended 30 June 2020, the Group's revenue increased slightly by approximately 1.4% year-on-year to approximately RMB10,927,862,000 (2019 first half: RMB10,776,606,000).

In the first half of 2020, the overall prices of wood pulp were at a historically low level, which continued to support the gross profit margin of tissue paper business. Revenue of the high-margin sanitary napkin business improved significantly thanks to the effective reformed sales channel, its sales contribution increased to approximately 29.5% of total sales (2019 first half: 28.5%). Gross profit margin of other business with lower gross profit margin in the past also increased notably, benefitting from the Group's higher-margin new medical products (such as surgical mask) and the optimisation of the self-branded household products. Coupled with the satisfactory sales of variety of premium products, the Group's overall gross profit and gross profit margin increased significantly. In the first half of 2020, gross profit grew about 19.8% to approximately RMB4,815,619,000 (2019 first half: RMB4,018,867,000), while gross profit margin greatly increased to approximately 44.1% (2019 first half: 37.3%). It is expected that the gross profit margin will continue to improve in the second half of 2020 as the overall prices of wood pulp are expected to remain steady at a low level and the Group will continue to optimise its product portfolio and focus on high-margin products to mitigate the negative effects of intensified market competition and the softening Renminbi.

During the period, the gross profit of tissue paper and sanitary napkin segments performed well, operating profit increased by approximately 19.8% to approximately RMB3,185,111,000 (2019 first half: RMB2,658,154,000). Profit attributable to shareholders of the Company amounted to approximately RMB2,259,528,000 (2019 first half: RMB1,877,782,000), increased by about 20.3% year-on-year. The Board of Directors declared an interim dividend of RMB1.20 per share for the six months ended 30 June 2020 (2019 first half: RMB1.00).

Sanitary Napkin

The development of China's sanitary napkin market is very mature and the overall market is close to saturation. As a result, the direction of future market growth driver must be towards product upgrades and the launch of premium products to meet the refined needs of consumers. In the past three years, the Group has carried out sales channels reforms to enhance the capabilities of precision marketing, increase direct sales of high-end and high-quality products to customers and speed up response to consumer needs in various channels. Benefits of reforms were effectively reflected in the business performance during the period. In addition, the Group launched the new image of premium Space 7 series at the end of last year, leveraging on its precise direct sales strategy and high-quality product image, market penetration increased rapidly during the period and the series was well-received by the market, thereby driving sales growth of sanitary napkin segment. The remarkable sales growth of sanitary napkin in the traditional channel and satisfactory sales of premium and upgraded products effectively offset the short-term impact caused by clogged logistics in the first quarter. During the period under review, the sales growth of the Group's sanitary napkin business slightly outperformed the industry average with sales increased approximately by 5% to approximately RMB3,222,684,000 (2019 first half: RMB3,075,156,000), which accounted for approximately 29.5% of the Group's revenue (2019 first half: 28.5%).

During the period, benefiting from the precision marketing of the "Space 7" series and high-margin Ultra-Thin Adorable Sleeping Panty (超薄萌睡褲), the proportion of high-end products in its product portfolio gradually increased, which effectively increased the average selling price to maintain the profitability of sanitary napkin in spite of the fierce market competition. During the period under review, the gross profit margin of the sanitary napkins business was approximately 70.4% (2019 first half: 70.3%).

In addition to continuing to develop and upgrade the "Space 7" series for mature white-collar workers, the Group also invested in brand rejuvenation and strove to maintain the popularity and influence of its flagship brand Space 7 (七度空間) among young female consumers. Keeping in step with the trend of national culture, the Group signed Space 7 (七度空間) brand ambassador contract with Ju Jingyi, a core member of "SNH48" in June 2020, to leverage on her influence on young consumers to further strengthen the brand positioning of Space 7 (七度空間) among younger women.

While upgrading the products, the Group will continue to strengthen the collaborations with New Retail (i.e. Retail Integrated (「零售通」), New Channel (「新通路」) etc.) sales models so as to expand the coverage of retail stores. The Group continued to bring the best quality and upgraded products to the market and improve sales efficiency, thereby maintaining its leading position in the market for feminine hygiene products. In terms of product development, Group stepped up efforts to research and upgrade the functions, materials and packaging of high-margin products in order to gain higher market share in a near-saturated market and further strengthen the brand's leading position.

Regarding the development of other feminine care products, products from the female care brand, "Origin and Prime" (若顏初), such as makeup removers, moisturising facial masks received positive feedbacks from the market. The Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily developing the "feminine care industry" to further capture growth opportunities brought by consumption upgrade.

Tissue Paper

China's per capita consumption of tissue paper continues to grow steadily. The epidemic has greatly raised national health awareness and also immensely increased consumer demand for tissue products. The Group believes that this demand will continue for a longer period of time. Coupled with the continuous domestic consumption upgrade trend, it is believed that the overall tissue market will maintain its growth momentum in the short-, medium- and long-term.

In the first half of 2020, benefiting from the increasing demand, the sales of Group's wet wipe products posted robust growth, which drove sales of the overall tissue paper segment and partially offset the logistics disruption in the first quarter and negative impact on B2B sales due to the reduction in business activities caused by the epidemic. During the period under review, the sales of tissue products was approximately RMB5,349,011,000 (2019 first half: RMB5,460,742,000), accounting for approximately 48.9% of the Group's total revenue (2019 first half: 50.7%). In the face of the sudden epidemic, the Group responded swiftly and combined the existing disinfectant wipes and the popular high-margin "Super Mini" series to launch new upgraded "Super Mini" disinfectant wipes to meet consumer needs for portability and disinfection. "Super Mini" disinfectant wipes accurately captured the needs of consumers, and as a result, the sales of wet wipes increased by more than 40% year-on-year, and its contribution to the overall sales of the tissue business increased from approximately 5.7% in the same period last year to approximately 8.3%.

In recent years, the Group has vigorously developed and launched premium high-margin new products or upgraded products, strived to increase the proportion of premium products in the product mix. During the period, high-end wet wipes recorded satisfactory sales performance, becoming the driving force for the sales and profit of tissue paper segment. In addition, wood pulp prices were at historically low level, resulting in a significant improvement in gross profit. During the period, the gross profit margin of tissue product remarkably improved from about 25.0% in the first half of 2019 to about 35.0% in the first half of 2020, representing an increase of approximately 10 percentage points. The Group expects the prices of wood pulp will remain stable in the second half of 2020 and has taken this opportunity to reserve low-cost raw materials. It is expected that the gross profit margin of tissue paper will continue to benefit from the low wood pulp prices in the second half of 2020.

This year, the Group officially launched the new high-end series of "Cloudy Soft Skin" (雲感柔膚) with an aim to provide high-quality consumer experience by using new double-sided stereoscopic embossed high-quality tissue paper with cotton soft skin like. The Group expects to gradually increase the market penetration rate of the "Cloudy Soft Skin" series. On the other hand, the "Bamboo π" series was developed with the concept of environment protection uses bamboo, which has a much shorter growth cycle than wood as raw materials, thus reducing the burden on the forest. The bamboo quinone contained in the raw materials of bamboo pulp has anti-bacterial, anti-mite, anti-pest and anti-odor properties to cater to consumers who pursue healthy life, green life and quality of life. In addition, grasping the current trend of national culture sought after by young consumers, the Group collaborated with Yongle Palace (永樂宮) and launched national culture-themed pure cotton facial towels, soft cotton towels and cleansing towels, packaged with classic Chinese murals to create the style of cultural and creative products, add a taste of national culture and further enhance the grade of the products and brand.

In terms of wet tissue business, the Group continued to leverage on its advantage as a leader in the "Super Mini" series. On one hand, it repackaged the existing wet tissue products by adding "Super Mini" features to launch upgraded products. On the other hand, through the understanding of the market and consumer with "small sales team", it developed more products that can accurately meet consumers' needs to continuously expand its market share in domestic wet tissue market and maintain its leading market position.

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

Disposable Diapers

As the ageing trend of China's population continues, the Chinese government puts more emphasis on the development of the elderly care industry. In addition, national consumption of adult diapers is still lower than that of other countries. Therefore, the adult diaper market still has huge untapped potential. On the other hand, with the rising national economic power, in terms of maternal and child products, consumers are more concerned about quality and safety rather than price factors. Therefore, consumption upgrades and product upgrades will continue to be the growth drivers of the diaper market.

After several years of targeted promotion that emphasizes quality, "Q • MO" has become the Group's benchmark high-end diaper series. The market penetration rate of high-margin products of "Q • MO" and adult diapers "ElderJoy" (安而康) has gradually increased during the period, sales reached double-digit growth and accounted for an increase in the proportion of diaper sales, resulting in a significant improvement in the Group's diaper business when compared to previous years. In addition, the Group's efforts to strengthen sales distribution of disposable diapers in e-commerce and maternity stores channel were gradually reflected, such that the proportion of disposable diapers sold by the Group through e-commerce and maternity stores channel have increased to more than 40.0% and more than 15.0% respectively, continuing to catch up closely with the industry average. For the six months ended 30 June 2020, revenue from the disposable diapers segment was approximately RMB722,181,000 (2019 first half: RMB750,666,000), narrowing the decline to about 3.8%, which accounted for approximately 6.6% of the Group's overall revenue (2019 first half: 7.0%). The Group believes that the sales of the disposable diapers business will soon return to the growth trajectory.

In the past few years, the Group's emphasis on high-quality premium diaper series such as "Q • MO" and "Soft and Thin" (小輕芯), the upgraded product of Anerle (安兒樂) has driven the overall sales of disposable diapers year after year, proving that the Group's investment in the development of the premium product market is in the right direction. "ElderJoy" adult diaper series continue to penetrate the domestic market, and have laid a solid foundation in the Malaysian and Southeast Asian markets. During the period, despite benefiting from the rising proportion of high-margin products, the cost of petrochemical raw materials used in disposable diapers rose due to the tight supply during the period, hence, the gross profit margin of the disposable diapers segment decreased slightly to approximately 38.6% (2019 first half: 40.6%).

Looking ahead, the Group will continue to take premium high-margin products as its core development strategy, focus on developing and upgrading more high-quality products and increase its market share in the high-quality diaper market. The Group will continue to develop the baby care market and the adult care market. On the one hand, it will attract high-spending customers to purchase high-quality and high-margin products through its “Q • MO” online flagship store and offline maternity stores. On the other hand, it will continue to actively cooperate with nursing homes and hospitals and supply adult disposable diapers and mattresses and other care products. While expanding the potential customer base, it will also explore other sales channels apart from traditional channels. The multi-pronged approach of e-commerce, maternity stores, nursing homes, hospitals and traditional channels will bring growth momentum to the disposable diapers business, and help the Group to develop the adult health care business in the long term, and continue to tap the growth potential of the adult health care market.

Household products

Revenue from the Group’s household products segment amounted to approximately RMB192,509,000 (2019 first half: RMB154,170,000), including revenue from Sunway Kordis Holding Limited (“Sunway Kordis”) amounted to approximately RMB131,220,000 (2019 first half: RMB114,456,000). The household products business accounted for approximately 1.8% (2019 first half: 1.4%) of the Group’s revenue.

In recent years, the Group has stepped up its efforts to develop the household products business so as to expand its market coverage. The Group’s household business includes the manufacturing of food wrap film, plastic bags (including garbage bags and disposable gloves) and some household cleaning products. During the period, national health awareness increased significantly, which drove higher demand for household cleaning products, and the revenue of household products business increased notably by 24.9% over the same period last year.

The Group acquired the entire issued share capital of the Sunway Kordis and its subsidiaries in April 2018. Sunway Kordis has sales channels to export products to Europe, Australia, North America and Asia. The Group will seek to leverage on Sunway Kordis’s overseas sales network to bring Hengan’s products to overseas market.

Other Incomes

During the period, the Group officially commenced production and sales of surgical masks as a result of the epidemic, providing domestic consumers with high-quality and reliable surgical mask products to fight the epidemic. Although the supply of non-woven fabrics, one of the main raw materials for surgical masks production, was tight in the market, non-woven fabrics have always been the raw materials for the Group’s production of personal hygiene products (including sanitary napkins and disposable diapers). Hence, the Group had certain inventory of non-woven fabrics. On top of that, the long-term cooperative relationship with raw materials suppliers helps to ensure a stable supply. Therefore, leveraging on the raw materials procurement advantage and its brand reputation, the Group’s surgical masks business achieved remarkable development during the period. For the six months ended 30 June 2020, the revenue of surgical masks and other health care products exceeded RMB200 million, accounting for approximately a low single-digit percentage of the Group's overall revenue. The Group's surgical mask products are primarily sold in the mainland China market, and some are also supplied to Hong Kong area or exported to the European market. In May 2020, the Group obtained a 5-year medical device production license, becoming the first surgical mask manufacturer in Fujian Province to obtain a medical device production license, which means that surgical mask products will become the regularly produced products of the Group, thus expanding the Group's product portfolio in the category of hygiene products. In the future, the Group will appropriately adjust its production capacity in accordance with the epidemic situation and market demand to fulfill the needs of the domestic and overseas markets.

In addition, Group's other incomes mainly included the revenue of Wang-Zheng in Malaysia, the revenue of Sunway Kordis and the revenue of raw materials trading business. For the period ended 30 June 2020, revenue of Wang-Zheng Group amounted to approximately RMB183,287,000 (2019 first half: RMB207,843,000), while revenue of Sunway Kordis was approximately RMB131,220,000 (2019 first half: RMB114,456,000). In addition, the revenue of the Group's raw materials sales business decreased by approximately 4.6% compared to the six months ended 30 June 2019.

During the period under review, the impressive gross profit of the surgical masks produced and sold by the Group, increase in the proportion of revenue from the self-branded products of household business and the improvement in the gross profit margin of the trading of the raw materials, all contributed to the increase in the gross profit of the Group's other incomes. The gross profit margin of other incomes increased year-on-year to approximately 24.2% (2019 first half: 12.6%).

E-commerce

In the first half of 2020, the total retail sales of consumer goods fell 11.4% year-on-year, but online retail sales of physical goods grew 14.3% year-on-year, accounting for 25.2% of the total retail sales of consumer goods, an increase of 5.6 percentage points from the same period last year. Bucking the trend, online shopping grow with the number of online purchase of goods or services made by citizens has generally increased across the country. The normalization of epidemic prevention and control drove more products that have not been sold online to land on e-commerce platforms, which in turn promotes the development of e-commerce platforms and online shopping habits, which is conducive to the expansion of the overall e-commerce market. The Group's core brands, such as Space 7 (七度空間), Hearttex and "Q • MO", have opened official flagship online stores which are operated directly by the Group, enabling the Group to unify its sales strategy and flexibly adjust its product portfolio. In addition to the use of e-commerce platforms, the Group has also strategically collaborated with well-known large-scale e-commerce platforms in China. Through the Retail Integrated and New Channel platforms, the Group expanded its offline sales network, entered small shops in small communities and opened up the boundaries between online and offline channels.

In the first half of 2020, despite the impact of the logistics disruption caused by the epidemic, the Group's e-commerce business achieved stable development. For the six months ended 30 June 2020, the revenue from e-commerce (including Retail Integrated and New Channel platforms) exceeded RMB2.0 billion, accounting for approximately 18.0% of the Group's total sales revenue.

With the rapid development of the overall e-commerce market, it is believed that the system and logistics support of domestic online shopping platform will continue to be optimised, making it more convenient for online shoppers, and further promoting the evolution of the e-commerce market. In the future, the Group will actively collect and analyse end consumer sales data through new retail networks and direct sales stores. Integrating the data from the flagship online store operated by the Group will help the Group to analyse consumer habits and preferences. Moreover, the consumer data can be refined into income and geographical distribution according to the distribution of small shops in different communities. By categorizing consumers, the Group can leverage on the flexibility and market responsiveness of "small sales team" to devise targeted sales strategies that are more suitable for regional markets, and launch products and services for different consumer groups. In addition, it can also rely on the understanding of these fragmented markets by the "small sales team" to give feedback on consumer needs to the production and development team, promoting the Group's precision marketing and precision production to fully meet the needs of consumers.

Targeted at the online shopping market, the Group launched a number of online exclusive products, including online exclusive packaging and combo packages to attract consumers to make purchases through e-commerce channel. The Group leveraged on the frequent online shopping festivals on e-commerce platforms to attract consumers with exclusive products. The Group will continue to increase its market share in e-commerce channel and consider e-commerce channel as the main growth driver for overall sales.

In July 2020, the Group signed a strategic partnership agreement with Alibaba to jointly build a data centralisation platform of Hengan and establish the brand's ability to directly communicate with end customers in the aspect of business and data through the empowerment of digital intelligence technology. The project takes the data centralisation platform as foundation. In the future, Alibaba will assist Hengan group in upgrading its digital intelligence strategy, business, organization, and technology, and form a comprehensive and unified platform operation method for members, products, and channels, laying a foundation in customer service, brand operations, channels empowerment, product innovation and organisation collaboration, enabling the Group to achieve its strategic goal of becoming the "world's top-tier enterprise of daily necessities".

International business development

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

In April 2017, the Group acquired an aggregate of 80,003,000 shares of Wang-Zheng Berhad (Stock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The acquired shares represented approximately 50.45% of the equity interest in Wang-Zheng. Wang-Zheng and its subsidiaries are principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers. During the period, Hengan gradually entered the Malaysian market, star product "Super Mini" wet wipes series and Banitore's disposable adult diapers both received great word-of-mouth reviews in Malaysia. By assisting Wang-Zheng to develop the e-commerce business, Hengan has expanded into Southeast Asian markets, such as Malaysia and Singapore. 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 other Southeast Asian markets.

During the period, the revenue and net profit of Wang-Zheng amounted to approximately RMB183,287,000 and RMB6,394,000 respectively, accounting for approximately 1.7% and 0.3% of the Group's total revenue and net profit respectively.

In 2020, Wang-Zheng continues to vigorously promote Hengan's products to the Southeast Asian market through various sales channels (such as convenient store and e-commerce channels), comprehensively establish brand image and high-quality product philosophy. The Group will continue to upgrade the existing Wang-Zheng products and develop high-end products. In addition, as part of its strategic plan for the Southeast Asian market, the Group has established a sales office in Indonesia to promote and sell Hengan branded products.

In addition, the Russian plant invested by the Group has started production of diapers in June 2019, thereby expanding its diaper business to the Russian market. Since April 2020, the Group has begun to sell surgical masks to the Finnish government and other European governments and enterprises. The quality of the products has received positive reviews from the local markets, which helps the Group to establish its brand reputation in European market, thereby effectively helping the Group to further promote its other hygiene products to European markets.

In the future, the Group will continue to step up efforts to promote sales of surgical masks and other hygiene products to the European market and other overseas markets, and continue to expand the Group's overseas sales network. The Group will establish other international sales networks, devise appropriate marketing strategies according to the needs and characteristics of local markets, and continue to explore new growth points. The Group will also explore opportunities to expand to new markets from time to time to develop its international business at a steady pace.

Foreign currency risks

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in US dollars. During the period, the Group recorded an operating exchange loss of approximately RMB87,978,000 as a result from the purchases of raw materials from oversea suppliers. The Group has not experienced any difficulties in obtaining sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in Mainland China to the overseas holding companies.

As at 30 June 2020, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 30 June 2020, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB31,884,837,000 (31 December 2019: RMB22,977,561,000); Corporate bonds amounted to RMB3,997,840,000 (31 December 2019: RMB3,994,474,000); super short-term commercial papers totally amounted to approximately RMB3,000,000,000 (31 December 2019: Nil), and bank borrowings amounted to approximately RMB22,440,248,000 (31 December 2019: RMB17,613,967,000).

In December 2019, the Group successfully registered for the proposed issue of RMB3.0 billion super short-term commercial papers. In February and March 2020, the Group issued super short-term commercial papers in four batches of RMB3.0 billion, with a coupon rate from 2.60% to 2.85% per annum respectively. The four batches of super short-term commercial papers will mature in 270 days from the respective issue date.

In addition, the Group applied for the registration for the proposed issue of short-term commercial papers of RMB6.0 billion in two tranches in June 2020, each tranche will have a term of not more than one year. In June 2020, the Group applied for the registration of the proposed issue of RMB5.0 billion domestic corporate bonds, each tranche of the domestic bonds will have a term of no more than five years.

The bank borrowings were subject to floating annual interest rates ranging from approximately 0.5% to 4.4% (2019 first half: from 1.5% to 4.9%).

As at 30 June 2020, the Group's gross gearing ratio was approximately 157.8% (31 December 2019: 120.9%), 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 13.1% (31 December 2019: negative 7.6%) as the Group was in a net cash position.

During the period, the Group's capital expenditure amounted to approximately RMB247,595,000. As at 30 June 2020, the Group had no material contingent liabilities.

Latest awards

From 2020 to present, awards and honors won by the Group were as follows:

Awards/Honors	**Organisation**
All-Asia Executive Team 2020 rankings Most Honored Company: Hengan International, Best IR Programs, Best ESG, Best CEO (Mr. Hui Lin Chit) and Best CFO (Mr. Li Wai Leung) in consumer staples sector	Institutional Investor (Magazine)
Ranked 1st on the list of daily necessities listed companies	Shanghai Oriental Century Consumer Goods Development & Promotion Center
Ranked 6th in the light industry	China Brand Evaluation
Junichi was honored at the German Design Award 2020	German Design Council

Product and Raw Material Research and Development

Hengan has stayed committed to its corporate vision of "becoming the top household product enterprise in China through sustainable innovation and provision of high-quality products and services". Adhering to the "consumer-oriented" market principle, the Group will vigorously upgrade its products portfolio, facilitate the long-term and sustainable business development and provide the public with high-quality personal and household hygiene products.

In response to Chinese consumers pursuit of environmental protection, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environment-friendly production technologies.

Human Resources and Management

Benefitting from the "small sales team" operating model strategy, the Group effectively enhanced the efficiency of human resources. Implemented a more scientific and reasonable 'target remuneration' system, link the salary system with the staff job responsibilities and task goals, thus stimulate the staff enthusiasm for work, and improve work efficiency. As at 30 June 2020, the Group employed approximately 26,000 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.

Corporate Social Responsibility

At the beginning of the epidemic, there was a shortage of personal hygiene products in the market. As the leading enterprise of personal and household hygiene products in China, Hengan, is committed to its mission of "Growing with You for a Better Life", caring for the people and the society, upholding corporate social responsibility, thus the Group maintained the level of production and supply to the greatest possible extent with hopes of easing the national urgent demand for hygiene products. Moreover, the Group quickly set up surgical mask production lines and started production in mid-February to help alleviate the shortage of surgical masks.

Facing the challenges of coronavirus, Hengan, as a personal and household hygiene product enterprise rooted in China, fully supports the disease control and prevention works across the nation. During the period under review, the Group has donated over RMB20 million worth of supplies and swiftly arranged the delivery of supplies of personal hygiene products including Hearttex high-quality tissue paper, disinfectant wet wipes, hand sanitizers, adult disposable diapers and female sanitary panties to disease control centers and hospitals at various locations. To further support the female medical staff who devoted themselves to the battle against the epidemic in Hubei province, the Group has committed to making monthly donations of 2.6 million pieces of Space 7 sanitary napkins and 200,000 pieces of Space 7 Adorable Sleeping Panties through Hubei Women's Federation until the end of the epidemic.

Outlook

Looking ahead to the second half of 2020, the global economic environment remains complicated and volatile. In the light of lingering uncertainties over geopolitics, ongoing coronavirus epidemic and softening Chinese Renminbi, the Group will closely monitor the impact of external factors on the prices of imported wood pulp and petrochemicals. As the epidemic in China has been stabilized in the second quarter, the rapidly rising national health awareness after the epidemic will help accelerate domestic consumption upgrades and benefit the refinement and high-quality development of the personal hygiene products market in the long run.

The Group expects the wood pulp prices to remain at the low level in the second half of 2020, which will further improve the Group's gross profit margin. The Group will also seize market opportunities arising from the consumption upgrade after the epidemic, continue to adhere to its consumer-centered business philosophy, satisfy the increasingly sophisticated needs of consumers and drive the sales of high-end products through constant innovation, product upgrade and optimisation of product portfolio. In addition, the Group will continue to implement the strategy of "small sales team" to improve the flexibility and market responsiveness of the small sales team in order to swiftly respond to the ever-evolving market demands, and achieve benefit maximization and efficiency optimization.

Regarding sales channels, the epidemic has accelerated the shift of consumption patterns to online. Relying on the Group's omni-channel retail network, the Group will step up its efforts to increase the coverage of e-commerce and New Retail, while further consolidating traditional channels, and leveraging on big data technology to analyse consumer spending habits and preferences so as to understand consumer needs more precisely. Through integrating the online and offline platforms, the New Retail model will help the Group to satisfy the varying needs of consumers, thereby increasing its product penetration and market share of the Group.

The coronavirus epidemic has driven the Group to develop the business of preventive medical supplies, such as surgical masks. In addition to meeting the national public health needs, the Group believes that the personal hygiene awareness of citizens will continue to rise after the epidemic and the market for anti-epidemic medical supplies such as surgical masks will increase day by day. This year, the Group officially obtained the medical device production license and officially started its business in the medical care segment. The Group will closely monitor the changes in market demand to further increase the production scale of relevant medical products in a timely manner, endeavouring to ensure the production and supply of medical and preventive supplies.

Leveraging on the Group's leadership in the personal and household hygiene products industry in China, Hengan will continue to forge ahead with industrial expansion as the long-term development target, actively expand industries with high growth potential namely feminine care, infant child care, elderly care and epidemic prevention medical care, promote international development of Hengan's brand in the long run, continue to improve its overall competitiveness and profitability in order to maximise values for shareholders, and contribute to society in the provision of personal and household hygiene products.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of RMB1.20 per share (2019: RMB1.00 per share) for the six months ended 30 June 2020 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 16 September 2020. Dividend warrants will be despatched to shareholders on or about 7 October 2020.

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 14 September 2020 to 16 September 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 11 September 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2020. 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 2020.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2020, 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 2020, 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.

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. Theil Paul Marin, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching, Mark and Mr. Zhou Fang Sheng as independent non-executive directors.

Hong Kong, 19 August 2020