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

INTERIM REPORT 2019

CORPORATE MISSION

"GROWING WITH YOU FOR A BETTER LIFE"

Has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of "Integrity, Diligence, Innovation and Dedication". Our goal is "to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team". By building an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market need, Hengan International will become China's leading corporation in manufacturing and distribution of fast moving family consumer products.

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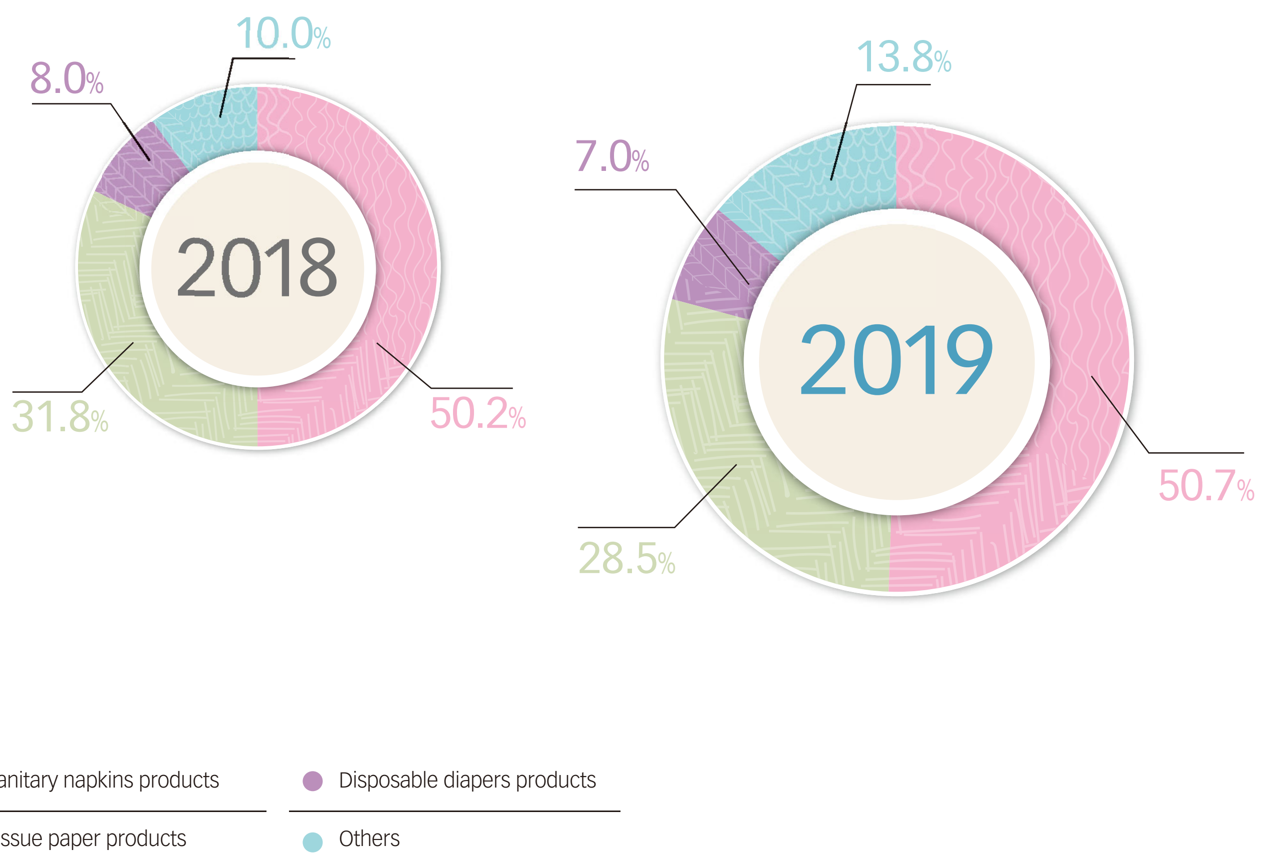
FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2019 RMB'000	2018 RMB'000	% of change
Revenue	**10,776,606**	10,136,897	6.3%
Gross profit margin	**37.3%**	39.6%	
Operating profit	**2,658,154**	2,681,943	-0.9%
Profit attributable to shareholders	**1,877,782**	1,946,907	-3.6%
Earnings per share			
— Basic	**RMB1.578**	RMB1.614	
— Diluted	**RMB1.578**	RMB1.613	
Finished goods turnover	**45 days**	37 days	
Trade and bills receivables turnover	**51 days**	44 days	
Rate of return on equity (annualised)	**22.1%**	23.3%	

ANALYSIS OF REVENUE BY PRODUCT



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

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 2019, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2019, 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.

		Unaudited	
		Six months ended 30 June	
	Note	**2019 RMB'000**	2018 RMB'000
Revenue	*7*	**10,776,606**	10,136,897
Cost of goods sold		**(6,757,739)**	(6,118,320)
Gross profit		**4,018,867**	4,018,577
Selling and distribution costs		**(1,408,378)**	(1,169,529)
Administrative expenses		**(615,262)**	(569,064)
Reversal of impairment losses/(net impairment losses) on financial assets	*8*	**7,146**	(14,685)
Other income and other gains — net		**655,781**	416,644
Operating profit		**2,658,154**	2,681,943
Finance income		**98,543**	28,961
Finance costs		**(423,681)**	(247,073)
Finance costs — net		**(325,138)**	(218,112)
Profit before income tax	*8*	**2,333,016**	2,463,831
Income tax expense	*9*	**(450,779)**	(512,679)
Profit for the period		**1,882,237**	1,951,152
Profit attributable to:			
Shareholders of the Company		**1,877,782**	1,946,907
Non-controlling interests		**4,455**	4,245
		1,882,237	1,951,152
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*10*	**RMB1.578**	RMB1.614
— Diluted	*10*	**RMB1.578**	RMB1.613

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited Six months ended 30 June	
	2019 **RMB'000**	2018 RMB'000
Profit for the period	**1,882,237**	1,951,152
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(72,801)**	34,659
Total comprehensive income for the period	**1,809,436**	1,985,811
Attributable to:		
Shareholders of the Company	**1,800,514**	1,980,185
Non-controlling interests	**8,922**	5,626
Total comprehensive income for the period	**1,809,436**	1,985,811

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	**7,777,913**	8,095,356
Construction-in-progress	*12*	**562,207**	580,790
Investment properties	*12*	**226,322**	225,036
Right-of-use assets	*4*	**979,465**	–
Land use rights		**–**	844,532
Intangible assets	*12*	**675,071**	686,558
Prepayments for non-current assets		**175,346**	124,187
Deferred income tax assets		**220,342**	132,344
Investments in associates	*18*	**101,670**	101,670
Long-term bank time deposits	*14*	**4,298,000**	4,338,000
		15,016,336	15,128,473
Current assets			
Inventories		**4,685,500**	4,285,483
Trade and bills receivables	*13*	**3,206,923**	2,843,532
Other receivables, prepayments and deposits		**1,816,314**	1,701,097
Current income tax recoverable		**264,194**	109,145
Derivative financial instruments		**4,033**	2,922
Restricted bank deposits	*14*	**5,500**	4,670
Cash and bank balances	*14*	**20,330,636**	21,576,830
		30,313,100	30,523,679
Total assets		**45,329,436**	45,652,152

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	*17*	**125,654**	127,092
Other reserves		**3,191,342**	2,614,789
Retained earnings		**13,682,810**	13,983,279
		16,999,806	16,725,160
Non-controlling interests		**272,920**	273,519
Total equity		**17,272,726**	16,998,679
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**4,241,499**	4,240,286
Finance lease payables		**–**	107
Lease liabilities	*4*	**1,762**	–
Deferred income tax liabilities		**130,846**	160,170
		4,374,107	4,400,563
Current liabilities			
Trade and bills payables	*15*	**2,651,916**	2,900,641
Other payables and accrued charges	*15*	**1,070,012**	1,192,264
Contract liabilities		**90,217**	118,276
Current income tax liabilities		**758**	890
Borrowings	*16*	**19,843,715**	20,022,078
Derivative financial instruments		**18,962**	18,603
Lease liabilities	*4*	**7,023**	–
Finance lease payables		**–**	158
		23,682,603	24,252,910
Total liabilities		**28,056,710**	28,653,473
Total equity and liabilities		**45,329,436**	45,652,152

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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 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 11(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**
Balance at 1 January 2018	127,080	3,141,363	12,837,975	16,106,418	237,883	16,344,301
Profit for the period	–	–	1,946,907	1,946,907	4,245	1,951,152
Currency translation differences	–	33,278	–	33,278	1,381	34,659
Total comprehensive income	–	33,278	1,946,907	1,980,185	5,626	1,985,811
Transactions with owners						
2017 final dividends paid *(Note 11(b))*	–	–	(1,387,190)	(1,387,190)	(6,443)	(1,393,633)
Capital contribution by non-controlling interests	–	–	–	–	34,521	34,521
Redemption of convertible bonds	–	(12,966)	12,966	–	–	–
Share-based compensation						
— Value of employee services	–	14,831	–	14,831	–	14,831
— Proceeds from shares issued *(Note 17)*	31	21,851	–	21,882	–	21,882
Total of transactions with owners	31	23,716	(1,374,224)	(1,350,477)	28,078	(1,322,399)
Appropriation to statutory reserves	–	71,228	(71,228)	–	–	–
Balance at 30 June 2018	127,111	3,269,585	13,339,430	16,736,126	271,587	17,007,713

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
— Cash generated from operations	**1,533,022**	2,247,323
— Income tax paid	**(723,282)**	(679,109)
Net cash generated from operating activities	**809,740**	1,568,214
Cash flows from investing activities		
— Acquisition of subsidiaries, net of cash acquired	**–**	(110,504)
— Acquisition of an associate	**–**	(90,252)
— Purchase of property, plant and equipment, intangible assets, non-current assets and construction-in-progress	**(274,291)**	(298,427)
— Proceeds on disposal of property, plant and equipment	**12,961**	32,728
— Decrease/(increase) in long-term and short-term bank time deposits	**3,246,980**	(1,176,201)
— Interest received	**282,301**	302,341
Net cash generated from/(used in) investing activities	**3,267,951**	(1,340,315)
Cash flows from financing activities		
— Proceeds from capital contribution by non-controlling interests	**–**	34,521
— Proceeds from borrowings *(Note 16)*	**11,160,446**	9,396,067
— Repayment of borrowings *(Note 16)*	**(11,367,513)**	(9,989,535)
— Increase in restricted bank deposits	**(830)**	(2,252)
— Redemption of convertible bonds	**–**	(462,309)
— Buy-back of shares	**(215,571)**	–
— Interest paid	**(267,498)**	(219,577)
— Dividends paid *(Note 11(b))*	**(1,427,613)**	(1,387,190)
— Dividends paid to non-controlling interests	**(5,568)**	(6,443)
— Lease payments	**(2,778)**	(176)
— Proceeds from shares issued under the employee share option scheme	**295**	21,882
Net cash used in financing activities	**(2,126,630)**	(2,615,012)
Increase/(decrease) in cash and cash equivalents	**1,951,061**	(2,387,113)
Cash and cash equivalents at 1 January	**11,068,299**	6,784,580
Effect of foreign exchange rate changes	**9,725**	59,540
Ending cash and cash equivalents at 30 June	**13,029,085**	4,457,007

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019

1. GENERAL INFORMATION

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

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

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

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

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 22 August 2019.

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 2019 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), except for the adoption of the new and amended standards as disclosed in Note 4 below.

3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this interim condensed consolidated financial information are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018 and corresponding interim financial period, 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.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. None of them has significant financial impact to the Group except for HKFRS 16 as disclosed in Note 4 below.

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over income tax treatments
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKAS 28 (Amendments)	Long-term interests in associates and joint venture
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement

3. ACCOUNTING POLICIES *(continued)*

(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 2019 and have not been early adopted by the Group.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

4. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 *Leases* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted HKFRS 16 since 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.67%.

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	44,066
Less:	
Short-term leases recognised on a straight-line basis as expense	(40,340)
Low-value leases recognised on a straight-line basis as expense	(91)
	3,635
Discounted using the lessee's weighted average incremental borrowing rate at the date of initial application, right-of-use assets recognised as at 1 January 2019	3,481
Add:	
Rental prepayments recognised as at 31 December 2018	494
Reclassification from land use rights	971,802
Reclassification from property, plant and equipment	419
Right-of-use assets recognised as at 1 January 2019	**976,196**

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Adjustment recognised on adoption of HKFRS 16 *(continued)*

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 RMB'000	1 January 2019 RMB'000
Land use rights	970,172	971,802
Buildings	9,045	3,975
Vehicles	248	419
Total right-of-use assets	979,465	976,196
Current lease liabilities	7,023	2,907
Non-current lease liabilities	1,762	839
Total lease liabilities	8,785	3,746

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – decrease by RMB127,689,000
- Land use rights – decrease by RMB844,532,000
- Other receivables, prepayments and deposits – decrease by RMB494,000
- Right-of-use assets – increase by RMB976,196,000
- Finance lease payables – decrease by RMB265,000
- Lease liabilities – increase by RMB3,746,000

There was no impact on retained earnings on 1 January 2019.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Adjustment recognised on adoption of HKFRS 16 *(continued)*

(i) Impact on segment disclosures

Segment profit for the six months ended 30 June 2019 decreased, while segments assets and segment liabilities as at 30 June 2019 both increased as a result of the changes in accounting policies. The following segments were affected by the changes in policies:

	Segment profits RMB'000	Segment assets RMB'000	Segment liabilities RMB'000
Sanitary napkin products	(624)	3,137	3,852
Disposable diaper products	(157)	598	774
Tissue paper products	(1,144)	4,353	5,627
Others	22	447	438
	(1,903)	8,535	10,691

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and (HK) IFRIC 4 *Determining whether an Arrangement contains a Lease*.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability

- Any lease payments made at or before the commencement date less any lease incentives received

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised in the six months ended 30 June 2019.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date.

5. 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 2018, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

6.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

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

6.2 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.

	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 2019 (Unaudited)					
Borrowings	**19,843,963**	**244,152**	**4,004,152**	**2,049**	**24,094,316**
Interest payables of borrowings	**465,054**	**177,605**	**18,474**	**59**	**661,192**
Net settled derivative financial instruments	**18,962**	**–**	**–**	**–**	**18,962**
Lease Liabilities	**7,243**	**1,487**	**373**	**76**	**9,179**
Trade, bills and other payables	**3,429,606**	**–**	**–**	**–**	**3,429,606**
Total	**23,764,828**	**423,244**	**4,022,999**	**2,184**	**28,213,255**
At 31 December 2018 (Audited)					
Borrowings	20,023,197	4,123	4,244,123	4,097	24,275,540
Interest payables of borrowings	498,588	178,407	106,316	217	783,528
Net settled derivative financial instruments	18,603	–	–	–	18,603
Finance lease payables	158	107	–	–	265
Trade, bills and other payables	3,550,690	–	–	–	3,550,690
Total	24,091,236	182,637	4,350,439	4,314	28,628,626

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

6.3 Fair value estimation

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

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

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2019.

	Unaudited 30 June 2019 Level 2 RMB'000	Audited 31 December 2018 Level 2 RMB'000
Assets:		
Interest rate swap contracts	**4,033**	2,922
Liabilities:		
Interest rate swap contracts	**(13,938)**	(6,948)
Foreign currency swap contract – held for trading	**(5,024)**	(11,655)
	(18,962)	(18,603)
	(14,929)	(15,681)

During the six months ended 30 June 2019, 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 swaps. These foreign currency swap contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued with reference to quotations provided by various banks. The effects of discounting are generally insignificant for level 2 derivatives.

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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

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

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

7. SEGMENT INFORMATION

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

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

The Group'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.

7. 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 and amortisation charge	100,263	21,524	253,194	28,359	403,340
As at 30 June 2019 (Unaudited)					
Segment assets	6,440,918	5,158,188	13,740,525	4,379,795	29,719,426
Deferred income tax assets					220,342
Current income tax recoverable					264,194
Investments in associates					101,670
Unallocated assets					15,023,804
Total assets					45,329,436
Segment liabilities	2,001,477	1,064,070	3,987,441	554,167	7,607,155
Deferred income tax liabilities					130,846
Current income tax liabilities					758
Unallocated liabilities					20,317,951
Total liabilities					28,056,710

7. SEGMENT INFORMATION *(continued)*

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

	Unaudited				
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	3,245,205	816,114	5,313,365	1,372,656	10,747,340
Inter-segment sales	(22,459)	(5,291)	(228,937)	(353,756)	(610,443)
Revenue of the Group	3,222,746	810,823	5,084,428	1,018,900	10,136,897
Segment profit	1,656,816	158,601	404,609	67,892	2,287,918
Unallocated costs					(22,619)
Other income and other gains — net					416,644
Operating profit					2,681,943
Finance income					28,961
Finance costs					(247,073)
Profit before income tax					2,463,831
Income tax expense					(512,679)
Profit for the period					1,951,152
Non-controlling interests					(4,245)
Profit attributable to shareholders of the Company					1,946,907
Addition to non-current assets	84,808	27,583	178,114	152,373	442,878
Depreciation and amortisation charge	88,251	18,373	242,452	26,745	375,821
As at 31 December 2018 (Audited)					
Segment assets	6,818,197	4,694,476	13,572,436	3,474,375	28,559,484
Deferred income tax assets					132,344
Current income tax recoverable					109,145
Investments in associates					101,670
Unallocated assets					16,749,509
Total assets					45,652,152
Segment liabilities	2,019,664	1,123,081	4,198,093	336,828	7,677,666
Deferred income tax liabilities					160,170
Current income tax liabilities					890
Unallocated liabilities					20,814,747
Total liabilities					28,653,473

8. PROFIT BEFORE INCOME TAX

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

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Crediting		
Government grant income	**171,106**	157,427
Interests income from long-term and short-term bank time deposits	**455,923**	278,664
Interests income from cash and cash equivalents	**82,452**	15,470
Net gains on derivative financial instruments	**803**	–
Exchange gains from operating activities — net	**–**	27,246
Exchange gains from financing activities — net	**16,091**	13,491
Reversal of impairment losses on trade and bills receivables	**7,146**	–
Reversal of provision for decline in value of inventories	**–**	2,740
Charging		
Depreciation of property, plant and equipment *(Note 12)*	**370,568**	356,372
Depreciation of investment properties *(Note 12)*	**2,856**	2,452
Amortisation of land use rights	**–**	11,788
Amortisation of intangible assets *(Note 12)*	**11,487**	5,209
Depreciation of right-of-use assets	**18,429**	–
Employee benefit expense, including Directors' emoluments	**912,710**	761,014
Losses on disposal of property, plant and equipment	**5,909**	24,311
Net impairment losses on trade and bills receivables	**–**	14,685
Provision for decline in value of inventories	**3,578**	–
Net losses on derivative financial instruments	**–**	33,556
Exchange losses from operating activities — net	**41,594**	–
Interest expenses on borrowings, after deducting interest expenses of RMB7,481,000 (2018: RMB9,282,000) capitalised in construction-in-progress	**415,059**	232,359
Interest expenses on convertible bonds	**–**	6,875
Miscellaneous taxes and levies	**54,522**	59,091

9. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Current tax on profits for the period	**465,019**	454,713
Withholding income tax on profits of the current period	**74,834**	68,596
Deferred income tax on other timing differences, net	**(89,074)**	(10,630)
Income tax expense	**450,779**	512,679

9. INCOME TAX EXPENSE *(continued)*

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% (2018: 25%).

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

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

The profits of the PRC subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately RMB74,834,000 (2018: RMB68,596,000) for the six months ended 30 June 2019 have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future.

10. 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	
	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**1,877,782**	1,946,907
Weighted average number of ordinary shares in issue (thousands)	**1,189,716**	1,206,215
Basic earnings per share (RMB)	**1.578**	1.614

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options.

The diluted earnings per share is the same as basic earnings per share for the six months ended 30 June 2019 as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

For the six months ended 30 June 2018, the Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the six months ended 30 June 2018) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

10. EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

	Unaudited Six months ended 30 June	
	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**1,877,782**	1,946,907
Weighted average number of ordinary shares in issue (thousands)	**1,189,716**	1,206,215
Adjusted for:		
— Share options (thousands)	**–**	511
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,189,716**	1,206,726
Diluted earnings per share (RMB)	**1.578**	1.613

11. DIVIDENDS

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Interim, proposed/paid, RMB1.00 (2018: RMB1.00) per share *(Note (a))*	**1,189,677**	1,206,068

Notes:

(a) An interim dividend of RMB1.00 (equivalent to Hong Kong dollars ("HK$") 1.113474) (2018: RMB1.00, equivalent to HK$1.148264) per share was proposed by the Board of Directors on 22 August 2019. This interim dividend, amounting to RMB1,189,677,000, has not been recognised as a liability in this interim condensed consolidated financial information.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its dividend payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The exchange rate of HK$ to RMB on 21 August 2019 is 0.89809.

(b) A final dividend of RMB1,427,613,000, equivalent to HK$1,670,368,000 (2018: RMB1,387,190,000, equivalent to HK$1,716,641,000) related to the period up to 31 December 2018 was paid in May 2019.

12. 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 2019, as reported	8,095,356	580,790	225,036	686,558
Transfer to right-of-use assets	(127,689)	–	–	–
At 1 January 2019, as restated	7,967,667	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	–
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

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

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

13. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables	3,225,050	2,881,279
Bills receivables	42,114	29,747
	3,267,164	2,911,026
Less: provision for impairment	(60,241)	(67,494)
Trade and bills receivables, net	3,206,923	2,843,532

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 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 30 days	1,235,180	1,323,082
31 to 180 days	1,861,895	1,396,744
181 to 365 days	73,986	82,109
Over 365 days	96,103	109,091
	3,267,164	2,911,026

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 2019 RMB'000	Audited 31 December 2018 RMB'000
Long-term bank time deposits		
Term deposits with initial term over one year	**4,298,000**	4,338,000
Restricted bank deposits	**5,500**	4,670
Cash and bank balances		
— Term deposits with initial term over three months and within one year	**7,301,551**	10,508,531
— Cash and cash equivalents	**13,029,085**	11,068,299
	20,330,636	21,576,830
Total	**24,634,136**	25,919,500

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 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade payables	**2,644,871**	2,594,760
Bills payables	**7,045**	305,881
	2,651,916	2,900,641
Other payables and accrued charges		
— Payables for purchase of property, plant and equipment	**461,359**	496,114
— Payables for treasury shares	**–**	110,511
— Accrued expenses and other payables	**590,576**	560,994
— Other taxes payables	**18,077**	24,645
	1,070,012	1,192,264
Total payables and accrued charges	**3,721,928**	4,092,905

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 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 30 days	**1,013,120**	1,241,453
31 to 180 days	**1,572,183**	1,599,637
181 to 365 days	**40,088**	29,446
Over 365 days	**26,525**	30,105
	2,651,916	2,900,641

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 2019 RMB'000	Audited 31 December 2018 RMB'000
Non-current		
Long-term bank loans — unsecured	**250,353**	252,343
Corporate bonds (a)	**3,991,146**	3,987,943
	4,241,499	4,240,286
Current		
Trust receipt bank loans	**683,908**	472,743
Current portion of long term bank loan	**4,152**	4,123
Short-term bank loans — unsecured	**14,155,903**	13,534,331
Short-term bank loans — secured	**–**	12,000
Medium-term notes (b)	**1,999,752**	1,998,881
Super short-term commercial papers (c)	**3,000,000**	4,000,000
	19,843,715	20,022,078
Total	**24,085,214**	24,262,364

As at 30 June 2019, the effective interest rate of the Group's bank borrowings was approximately 3.39% (31 December 2018: 2.59%) per annum.

16. BORROWINGS *(continued)*

(a) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd ('Hengan China Investment' or "恒安中投"), 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 coporate 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 bonds will mature in three years from the issue date. The value of the liability, net transaction cost of RMB9,600,000, were determined at issuance of the bonds.

(b) Medium-term notes

In September 2016, the Company issued medium-term notes at a par value of RMB2,000,000,000, which was dominated in RMB with a fixed interest of 3.24% per annum. The notes will mature in three years from the issue date. The values of the liability, net of transaction costs of RMB5,000,000, were determined at issuance of the notes.

(c) Super short-term commercial papers

As at 30 June 2019, Hengan China Investment issued following super short-term commercial papers:

	Interest rate	Issue date	Expiration term	Amount RMB'000
18 恒安中投 SCP003	**4.07%**	**2018-10-29**	**270 days**	**1,000,000**
18 恒安中投 SCP004	**3.99%**	**2018-11-29**	**270 days**	**1,000,000**
18 恒安中投 SCP005	**3.90%**	**2018-12-05**	**270 days**	**1,000,000**

Movements in borrowings are analysed as follows:

	Unaudited RMB'000
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**
At 1 January 2018	18,622,618
Acquisition of subsidiaries	26,000
New borrowings	9,396,067
Repayments of borrowings	(9,989,535)
Bonds payable — interest adjustment	1,621
Currency translation differences	77,308
At 30 June 2018	18,134,079

17. SHARE CAPITAL

Ordinary shares, issued and fully paid

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

18. INVESTMENTS IN ASSOCIATES

The details of investments in associates are as follows:

	Unaudited RMB'000
At 30 June 2019 and 1 January 2019	**101,670**

The particulars of the associates of the Group as at 30 June 2019, 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. CONTINGENT LIABILITIES

At 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

20. 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 2019, the key management compensation amounted to approximately RMB5,686,000 (2018: RMB3,763,000).

21. SUBSEQUENT EVENT

Details of the interim dividend proposed are given in Note 11.

BUSINESS REVIEW

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.

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 service 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 of tissue business 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).

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. In light of the steady economic growth in China and rising national disposal income, female customers in China will be more willing to and able to pay for higher-end sanitary napkin products. 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. On the other hand, 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 19.2% in the second half of last year to 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.

Environmental protection has become the lifestyle of today's generation. 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.

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.

For the six months ended 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 year 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 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 will further enhance the overall growth of the Group and is undertaken as part of its plan to expand its household products offerings and diversify its revenue stream inside and outside the PRC. 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.

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 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 1.4% 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.

Latest awards

During the period, the Group was honoured with the first 'Best Managed Companies' award that jointly launched by Deloitte China, the Business School of Hong Kong University of Science and Technology, '*Harvard Business Review China*' and other organisations. The award is the only one of its kind in China to identify and recognise private companies based on comprehensive assessment of their management systems, serving as a recognition of the Group's achievement of excellence in corporate management over the past 34 years. The Group has been awarded as 'Climate Change Mitigation Corporate': by CDP. The award was another prominent award received by the Group following the 'International Carbon-Value Gold Award' awarded by the World Economic and Environmental Conference in 2016, in recognition of the Group's commitment to the philosophy of 'green, low carbon and sustainment development' in the Group's development over the past 34 years.

The Group's Chief Executive Officer Mr. Hui Lin Chi was granted the 'Outstanding Industry Leadership Award' by the Professional Commission of China National Household Paper Industry Association, commending his contributions to the paper industry. Meanwhile. Mr. Hui was also named the 'Best CEO of Hong Kong Listed Company' by Gelonghui.

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 China's increasingly stringent environmental policies, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environmental 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. The Group has implemented the 'Target Remuneration' system, a more scientific and rationalised remuneration system. The system has linked the remuneration system to the employees' job mandates and objectives so as to motivate the employees and thereby improving efficiencies. As at 30 June 2019, the Group employed approximately 24,000. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

Outlook

Looking ahead to the second half of 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 optimization 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 optimization, 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. The Group will also adhere to its consumer-centered business philosophy, devote to providing consumers with healthy and high-quality products and satisfy the increasingly diversified needs of consumers through constant innovation so as to seize the tremendous market opportunities brought by the accelerating consumption upgrade in China.

In view of the customers' increasingly pursuit of seamless, integrated online and offline experience, the Group will vigorously strengthen the development of the omni-channel and enhance customer stickiness through precision marketing and increasing the e-commerce penetration. 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.

DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2019, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares *(Note (1))*		
Name of Directors	**Personal interests/ Beneficiary**	**Family Interest**	**Personal interests/ Beneficiary**	**Total**	**Approximate percentage of shareholding**
Mr. Sze Man Bok *(Note (2))*	238,990,399	–	20,000	239,010,399	20.09%
Mr. Hui Lin Chit *(Note (3))*	245,030,251	–	148,000	245,178,251	20.61%
Mr. Hung Ching Shan *(Note (4))*	7,150,000	–	–	7,150,000	0.60%
Mr. Xu Shui Shen	–	33,030	110,000	143,030	0.01%
Mr. Xu Da Zuo *(Note (5))*	17,270,000	–	108,000	17,378,000	1.46%
Mr. Xu Chun Man *(Note (6))*	11,540,000	–	20,000	11,560,000	0.97%
Mr. Sze Wong Kim	851,700	–	20,000	871,700	0.07%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 37 to 38.

(2) Out of the 238,990,399 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 238,414,799 ordinary shares while Mr. Sze had personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited ("Credit Suisse") as nominee and being the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

(3) An Ping Holdings Limited held 245,030,251 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Hui Family Trust in the Company.

(4) Out of the 7,150,000 ordinary shares, Wan Li Company Limited ("Wan Li") held 7,100,000 shares in the Company while Mr. Hung had personal interests in 50,000 ordinary shares in the Company. Wan Li is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

(5) Skyful Holdings Limited held 17,270,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company.

(6) Out of the 11,540,000 ordinary shares, Zhong Shen Holdings Limited ("Zhong Shen") holds 11,500,000 shares in the Company while Mr. Xu had personal interests in 40,000 ordinary shares in the Company. Zhong Shen is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company.

(7) Interests in shares and share options were long position.

Apart from the above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 30 June 2018, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Substantial shareholders	*Note*	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	*(1)*	Beneficial owner	238,414,799 (L)	20.04%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	238,414,799 (L)	20.04%
An Ping Holdings Limited	*(2)*	Beneficial owner	245,030,251 (L)	20.60%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	245,030,251 (L)	20.60%
Credit Suisse Trust Limited	*(3)*	Trustee	526,078,254 (L)	44.22%

(L) denotes long position

Notes:

(1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being the trustee of the Sze's Family Trust.

(2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being the trustee of the Hui Family Trust.

(3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust, the Wan Li Trust and others and is deemed to be interested in the shares held by these trusts.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2019, the Company repurchased a total of 2,146,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$121,977,700 (excluding expenses) for enhancing its per share net asset value and earnings. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid HK$	Lowest price paid HK$
2 January 2019	546,500	57.00	55.90
3 January 2019	1,059,000	57.00	56.20
10 January 2019	540,500	56.80	56.15
	2,146,000		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2019.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 26 May 2011 which is valid and effective for a period of 10 years commencing on the respective dates of adoption of the Scheme. The table below sets out movements in the share options granted under the Scheme during the six months ended 30 June 2019:

	Number of share options								
Eligible person	Balance as at 01/01/2019	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 30/6/2019	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Mr. Sze Man Bok	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Hui Lin Chit	74,000	–	–	–	–	74,000	72.75	27/07/2012	28/07/2015–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2016–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Shui Shen	30,000	–	–	–	–	30,000	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Da Zuo	54,000	–	–	–	–	54,000	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Sze Wong Kim	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
Mr. Hui Ching Chi	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021

Eligible person	Number of share options: Balance as at 01/01/2019	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 30/6/2019	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Participants	884,000	–	(2,500)	–	–	881,500	68.30	28/07/2011	28/07/2014–27/07/2021
	465,500	–	(1,250)	–	–	464,250	68.30	28/07/2011	28/07/2015–27/07/2021
	464,500	–	(1,250)	–	–	463,250	68.30	28/07/2011	28/07/2016–27/07/2021
	3,739,000	–	–	–	–	3,739,000	72.75	27/07/2012	28/07/2015–27/07/2022
	1,991,500	–	–	–	–	1,991,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,011,304	–	–	–	–	2,011,304	72.75	27/07/2012	28/07/2017–27/07/2022
	2,666,500	–	–	–	–	2,666,500	79.20	05/10/2015	05/10/2018–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2019–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2020–05/10/2025
	15,334,804	–	(5,000)	–	–	15,329,804			

According to the Binomial Model, the fair value of the option granted, which had been charged to the consolidated statement of profit or loss for the six months ended 30 June 2019, amounted to approximately RMB6,510,000 and the remaining unamortised fair value of approximately RMB9,389,000 will be charged to the consolidated income statement in future years.

It should be noted that the value of an option varies with different variables of certain subjective assumptions, any change in variables so adopted may materially affect the fair value estimate.

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 2019.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2019, the Company has adopted the Model Code as set out in Appendix 10 to 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 2019, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

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

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Ada Ying Kay Wong, independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 17 May 2019 due to other engagements at that time.

ACKNOWLEDGEMENT

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

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

As at the date of this report, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Li Wai Leung as executive directors, and Mr. Chan Henry, Mr. 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, 22 August 2019