

【For Immediate Release】



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Hengan International Announces 2021 Annual Results

Profit Attributable to Shareholders at RMB3.27 Billion

Final Dividend at RMB0.7 Per Share

Return to Shareholders Reached 89.4%

Focus on the Three Main Businesses

Continuously Promoted Product Premiumisation and Enhanced Brand Strength

(22 March 2022 — Hong Kong) — Hengan International Group Company Limited (“Hengan International” or the “Company”, SEHK stock code: 1044, together with its subsidiaries, the “Group”) announces today its annual results for the year ended 31 December 2021.

The pandemic has accelerated the development of new consumption patterns, market penetration of domestic e-commerce and new retail channels has continued to increase. However, the fragmentation of sales channels has dealt a huge blow to sales through traditional channels. Coupled with the intensified competition in the industry during the year, different brands and new retail channels operators in the industry actively seized market share through sales promotion. Therefore, for the year ended 31 December 2021, the Group's revenue fell 7.1% to approximately RMB20,790,144,000 (2020: RMB22,374,001,000) as compared to last year.

The Group actively seized development opportunities arising from the new consumption patterns, vigorously developed its e-commerce business and expanded into the new retail markets. During the year, the Group further increased its proportion in e-commerce sales (including Retail Integrated (“零售通”) and New Channel (“新通路”)) to approximately 23.1% (2020: 19.1%), and made good progress in the development of new retail sales channels (including online-to-offline (O2O) platform, community group-buying etc.) with sales accounted for more than 10% of the overall sales. In addition, the Group grasped the domestic consumer demand for consumption upgrade, and continued to develop premium products and optimize product mix. Among them, the premium sanitary napkin series “Space 7” was well-received by the market, and the premium tissue paper series “Cloudy Soft Skin” (雲感柔膚) achieved strong sales momentum during the year, resulting in a significant increase in its sales contribution, and the sales of premium disposable diapers “Q • MO” also achieved robust growth.

During the year under review, tissue paper companies increased promotional efforts, which further intensified industry competition. Despite the negative impact of the wood pulp price surge was evident in the second half of the year, in order to stay competitive in the market, the Group has not passed on the cost pressure to consumers, which hampered the profit of the Group's tissue paper business. In 2021, the Group's overall gross profit fell about 17.8% to approximately RMB7,772,318,000 (2020: RMB9,455,855,000), while the overall gross profit margin dropped to 37.4% (2020: 42.3%). Given that the price of wood pulp is still at a high level, together with the Group's relatively low cost of wood pulp in the first half of 2021, it is expected that the gross profit margin will remain under pressure in 2022.

During the year, operating profit fell 28.9% to RMB4,543,591,000 (2020: RMB6,392,388,000) as the high cost of wood pulp weighed on the profitability of tissue paper business. In addition, the pressure on the Group's profits led to a reduction in the Group's government grants calculated by

tax paid (nearly RMB128 million) during the year, coupled with the relatively stable exchange rate of Renminbi against the US dollar during the year resulted in a significant decrease in foreign exchange gains compared to last year. Profit attributable to shareholders of the Company was approximately RMB3,273,601,000 (2020: RMB4,594,815,000), representing a year-on-year decrease of approximately 28.8%. Basic earnings per share was approximately RMB2.786 (2020: RMB3.864).

The Board of Directors declared a final dividend of RMB0.70 per share for the year ended 31 December 2021 (2020: RMB1.30), together with the interim dividend of RMB1.00 per share (2020 first half: RMB1.20) already paid, total dividend for the year amounted to RMB1.70 per share (2020: RMB2.50 per share), amounted to RMB1,988,606,000 (2020: RMB2,958,424,000). Together with the Group's repurchase of a total of 24.22 million shares (2020: 3.4 million shares) at a total consideration of approximately RMB937.0 million (2020: RMB154.0 million) during the year, the Group returned a total of approximately RMB2.93 billion to shareholders during the year, accounting for the Company's profit attributable to shareholders of approximately 89.4% (2020: 67.7%), which was calculated on the basis of the total amounts of proposed dividends and repurchase of shares as a percentage of profit attributable to shareholders of the Company.

Commenting on the Group's annual results, Mr. Sze Man Bok, Chairman of Hengan International, said, "During the year under review, the coronavirus epidemic situation was volatile, yet China's economy was steadily improving, the rising level of national income became a growth driver in the consumer market, and the inelastic demand for personal and household hygiene products remained strong. However, the negative impact of rising wood pulp prices was fully reflected in the second half of the year, coupled with intensified market competition and fragmented sales channels, the Group's operating performance was under pressure. In response to the challenging operating environment, the Group adhered to a rational pricing strategy, enhanced brand strength, promoted the premium products strategy, vigorously developed e-commerce business and expanded into the new retail markets, actively seized business opportunities brought about by the consolidation of the domestic tissue paper industry and new retail, and successfully increased its market share in the second half of the year, further consolidating its industry leadership."

Sanitary Napkin

China's feminine care products market is immense, ranking the first in the world. However, the market is highly saturated, and competition is fierce. During the year, many domestic and foreign brands adopted very aggressive promotion strategies in an attempt to seize the market share of mid-to-high-end cities and the youth consumption. In response to the intensifying competition, Hengan adhered to a rational stable pricing strategy to maintain its brand image and developed its sanitary napkin business with product upgrades and premium products to consolidate its market leadership in the mid to high end segment. Leveraged on the high-quality and vibrant image of the Group's premium product "Space 7", it has been well-received by consumers, thereby driving the sales of the overall sanitary napkin business.

The pandemic has spawned new consumption patterns and accelerated the fragmentation of sales channels. E-commerce platforms and other emerging retail channels (including O2O platform and community group-buying) are burgeoning. To align with new consumption trends, the Group actively expanded emerging channels to increase the sales and market share of the sanitary napkin business. While developing new retail channels during the year, the Group inevitably adopted concessionary measures, which exerted pressure on the sales of sanitary napkins in traditional channels in the short term. However, the Group believes that the overall

revenue of the sanitary napkin business will be significantly improved in the long run due to the successful reform of sales channels, and the market share will be further increased.

During the year, as sales channels became more fragmented and competitors adopted aggressive pricing strategies to seize market share, sales of the Group's sanitary napkin business recorded a decline of approximately 8.1% to approximately RMB6,116,531,000 (2020: RMB6,654,711,000) in 2021, accounting for nearly 29.4% (2020: 29.7%). Notwithstanding the market competition pressure, the Group stayed committed to a rational and stable pricing strategy, and the gross profit margin of the sanitary napkin business remained generally stable at approximately 70.5%.

The Group's sanitary napkin brand, 七度空間 has always been a hot-selling product in Mainland China and has long been a market leader by means of sales volume and market share in the domestic market. Launched in 2020, the premium product "Space 7" which aimed at the mature white-collar market continued to achieve positive sales development during the year. The well-loved "Space 7" continued to help the Group to steadily develop the premium market and gradually increase the proportion of the premium products. The Group's "Space 7" has signed young female artists with positive image as brand ambassadors, thereby injecting girlishness and vitality into the brand. With the brand new theme of "seven degrees of great power captured in a pure girlish heart" (大國七度，存淨少女心), brand ambassador including actress Liu Haocun further rejuvenated the brand and attracted young consumers. The Group believes that the sales of "Space 7" will continue to grow steadily in the future and become a major business growth point, helping the Group expand its share in the sanitary napkin market and gradually increase the proportion of the premium products. In addition, the Group will continue to actively expand new retail channels and increase the sales proportion of new retail channels; the Group will also develop exclusive products for new retail channels and adopt a stable pricing strategy, so as to support the Group's long-term development and consolidate the Group's leading position in the market.

Regarding other feminine care products, the Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, capture growth opportunities brought by consumption upgrade and actively explore opportunities to introduce the Group's sanitary napkin products to overseas markets.

Tissue Paper

The pandemic situation was volatile and national health awareness remained at a high level. However, as consumers were no longer worried about the shortage of tissue paper, consumer sentiment turned more cautious and consumers were more sensitive to prices. During the year, despite the increase in the cost of wood pulp, many tissue paper companies increased promotional efforts and even reduced prices in order to seize market share, resulting in more intense price competition during the peak season in the fourth quarter. Nonetheless, the tissue paper industry is undergoing a consolidation phase in which the weak will be eliminated and the strong will remain. Since small and medium-sized tissue companies are not be able to pass on the rising costs to consumers, it will be very difficult to maintain long-term price reductions and promotions under the pressure of high costs. In this challenging market environment, Hengan leveraged its scale advantage, strong brand competitiveness and diversified product portfolio to capture development opportunities and successfully seized market share in the second half of the year. Underpinned by the robust sales of the premium "Cloudy Soft Skin" series and wet wipes tissue products, the Group's overall tissue paper sales achieved a contrarian growth in the second half of the year, effectively narrowing the decline in the sales of the tissue paper business for the

full year. In 2021, the revenue of the Group's tissue paper business decreased by approximately 5.2% to RMB9,842,429,000 (2020: RMB10,382,758,000), accounting for approximately 47.3% (2020: 46.4%) of the Group's overall revenue. If excluding the factor relating to the significant decline in the sales of the jumbo roll (raw paper) business during the year, the sales of the Group's core tissue brand "Hearttex" in 2021 was recorded at a similar level as compared to 2020 and its sales volume increased by close to the mid-single digit year-on-year.

In the first half of the year, the price hike in wood pulp did not have a significant impact on the Group as the Group still held low-cost wood pulp inventory for most of the time. However, as the Group's low-cost wood pulp inventory was exhausted, the cost pressure of soaring wood pulp prices was fully reflected in the cost of sales in the second half of the year, coupled with the Group's promotional expenses during the year to maintain market competitiveness, the gross profit margin in 2021 dropped to 26.4% (2020: 33.5%)

Against the backdrop of the pandemic, the demand for tissue paper products continued to be strong, and the Group's premium tissue paper products were well-received by consumers. Among them, the sales of the "Cloudy Soft Skin" series performed well. It is made with the Group's original cloud-like three-dimensional embossing technology to form air cushions, providing enjoyable user experience to its customers with cotton soft skin-like tissue paper. The Group has also obtained a national design patent on its unique embossing technology. The product is safe and does not contain any chemical adhesives. It was selected as the recommended tissue product at the World Environmental Conference. In terms of wet wipes business, although it recorded a revenue decline in the first half of the year due to a high comparison base, thanks to the popular upgraded wet wipes, the Group continued to expand its market share in domestic wet wipes market and returned to double-digit growth in the second half of the year, maintaining its leading position in the wet wipes market. As a result, the sales of wet wipes business for the full year was approximately RMB735,612,000 (2020: RMB733,192,000), accounting for approximately 7.5% of the sales in the tissue paper business (2020: 7.1%).

As the living standards of people continues to improve and health awareness remains at a high level, the penetration rate of tissue paper in Mainland China is still far lower than that of other developed countries, there is still great potential for growth in the overall tissue paper market. In the face of the increasingly fierce market competition, the Group will continue to develop more high-quality products in accordance with market demand, seize the business opportunities of domestic tissue paper market, strive to expand its market share and strengthen the Group's leading position in the tissue paper market. The Group maintained its production capacity at approximately 1.42 million tons during the year. The Group will increase capital expenditure to purchase new production lines and improve production efficiency in the coming year to actively respond to the future market growth potential and the market demand for high-quality products.

Disposable Diapers

Against the background of consumption upgrading and ageing population, there is still some room for growth in the domestic disposable diaper market. With the rising national purchasing power and the change of parenting concept, the baby disposable diaper market has sustained a growth momentum in recent years. It is predicted that the market size of the domestic baby disposable diaper will grow to about RMB63 billion in 2023, an increase of 13.10% over 2022. Underpinned by the domestic ageing population and the improvement of citizens' living standards, the Group believes that there are ample opportunities in the overall diaper market.

In an effort to meet consumers' growing demand for product quality and safety, the Group actively developed and upgraded a series of quality baby and adult care products. During the year, the Group's upgraded premium "Q • MO" baby disposable diapers performed remarkably, with sales jumped approximately 18.6% year-on-year, and its proportion further increased to about 26.2%. In

addition, the Group effectively seized the growth opportunities of the adult incontinence products market in China. Benefiting from the increase in the penetration rate of domestic adult disposable diapers and the satisfactory export sales of the products, the market penetration rate of “ElderJoy” (安而康) continued to increase, and the sales of the Group’s adult disposable diapers business maintained positive growth during the year, accounting for approximately 20.8% of the overall sales of the disposable diaper business.

In 2021, the Group strengthened the development of e-commerce and maternal sales channels, and achieved satisfactory sales performance. The proportion of sales of disposable diapers through e-commerce and maternal channels increased to approximately 50% and over 14.5%, respectively. However, as the sales channels of the Group’s disposable diaper market have become more diverse, the sales in traditional channel have accelerated decline by more than about 20% and offset the sales growth of the Group’s disposable diaper premium. On top of that, other brands adopted more aggressive promotion strategies to seize market share, market competition has become more intense, which resulted in a drop in the sales of the Group’s disposable diaper business by about 14.5% to approximately RMB1,219,445,000 (2020: RMB1,425,567,000), accounting for approximately 5.9% of the Group’s overall revenue (2020: 6.4%).

In terms of gross profit margin, despite the increase in the sales and proportion of premium products, the tight supply of superabsorbent polymer, a raw material used in the manufacturing of disposable diapers during the year has led to cost escalation and the additional promotional cost incurred relating to the clearance of the mid-end diaper products, thus, the gross profit margin of the disposable diaper segment dropped to approximately 37.7% (2020: 39.6%).

During the year, the Group continued to seize opportunities brought by consumption upgrade to further develop the premium product market and improve product quality. The “Q • MO” magic breathing diapers have 3.6 times more vents than traditional diapers and are very well-loved by the market. The Group will continue to optimise “Q • MO” products to instil growth momentum into the Group’s future development. In addition, as the nation puts more emphasis on the development of the elderly care industry, there will be ample room for development in the field of domestic adult care. The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the “ElderJoy” and “Banitore” (便利妥) brands and increasing its market share in Southeast Asia at the same time.

In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternal stores, nursing homes and hospitals. On the one hand, it will seize new business opportunities brought by the new retail. On the other hand, through the cooperation with maternal stores, nursing homes and hospitals, it will expand the Group’s customer base and provide a one-stop product sales chain, bringing sustainable growth momentum to the disposable diaper business, supporting the long-term development of the adult health care business and continue to tap the growth potential of the adult health care market.

Other Incomes and Household Products

Regarding other income and household products, it mainly includes revenues from the raw material trading business, household products business, Wang-Zheng Group in Malaysia and medical related products and its revenue decreased by approximately 7.7% year-on-year to approximately RMB3,611,740,000 (2020: RMB3,910,965,000), which was mainly attributed to the decline in demand for surgical masks in view of the stabilisation of the pandemic and the decline in

sales of overseas business, including household business and Wang-Zheng Group business, affected by the cities' lockdown due to the pandemic.

During the year, the revenue from the raw material trading business remained stable at approximately RMB2.5 billion, while the sales of surgical masks fell on lower demand amid stabilising pandemic and pharmacare products recorded a revenue contribution of about RMB108,065,000 (2020: RMB326,141,000). Affected by the pandemic leading to cities' lockdown, the revenue from Wang-Zheng Group during the year decreased by approximately 11.8% year-on-year to approximately RMB351,553,000 (2020: RMB398,384,000).

Revenue from the Group's household products segment was approximately RMB314,614,000 (2020: RMB400,232,000), representing a year-on-year decrease of approximately 21.4%, accounting for 1.5% of the Group's revenue (2020: 1.8%), which was mainly attributed to the decline in exports of household products due to the pandemic. Included in the household products revenue, the revenue from Sunway Kordis was approximately RMB205,510,000 (2020: RMB227,265,000).

In 2021, the Group greatly expanded the product range of its brand, "Hearttex" (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will seek to leverage these overseas sales network to bring Hengan's products to overseas market.

Looking ahead, the Group believes that the growth potential in the business of household products is immense. The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness.

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 37 countries and regions, with 60 direct partnerships with major clients or distributors. Turnover of overseas channel (including Wang-Zhang Group business) for the full year was approximately RMB1,709,260,000 (2020: RMB2,166,847,000), accounting for approximately 8.2% of the Group's overall sales (2020: 9.7%).

The Group's Wang-Zhang Group business in Malaysia was affected by the pandemic and recorded a turnover of approximately RMB351,553,000 (2020: RMB398,384,000) for the full year, accounting for approximately 1.7% of the Group's overall sales (2020: 1.8%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include "Dry Pro" disposable diapers and "Carina" personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult disposable diapers into the Southeast Asian market.

In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch more premium products under the Hengan brand and further increase its market share in Malaysia and Southeast Asia.

E-commerce and New Retail Channel Strategies

Online shopping has been growing rapidly under the pandemic and has become the key growth driver in the domestic consumption market. In 2021, the online retail sales of physical goods reached RMB10 trillion with an increase of 12.0%, demonstrating a huge potential in the online market. New shopping channels (including O2O platform and community group-buying) and mainstream e-commerce platforms which complement each other are thriving together. Online shopping has become part of the daily life of domestic consumers. The Group seized the business opportunities brought by new trends and strived to expand e-commerce and other new retail channels. Its products have been launched on various e-commerce platforms and new shopping channels. At the same time, it actively integrated online and offline channels to provide consumers with a seamless omni-channel consumer experience.

In 2021, e-commerce development maintained a strong momentum and the sales of the Group's e-commerce channels (including Retail Integrated and New Channel) soared over 10% to approximately RMB4.8 billion (2020: RMB4.3 billion), accounting for about 23.1% of the Group's overall sales (2020: 19.1%).

During the year, the Group stepped up its efforts to develop other new channels (including O2O platforms, community group-buying, etc.) and achieved remarkable results, with sales revenue exceeding RMB2 billion, accounting for approximately 10% of the Group's overall sales. During the year, the Group participated in a number of live streaming sales activities on e-commerce platform, TikTok, which effectively enhanced its brand influence. The Group leveraged live streaming sales to directly interact with consumers to strengthen the emotional connection between the Group's brands and consumers. The Group set up live streaming rooms for its tissue paper brand "Hearttex" and sanitary napkin brand "七度空間" in factories to carry out live streaming, which not only effectively enhanced consumers' confidence in the brand, but also drove sales growth through in-depth expansion of online consumer groups. In addition, the live streaming of "Hearttex" brand ambassador Wang Linkai and TikTok influencer Rainbow Couple (彩虹夫婦) also brought robust sales performance. During the year, the Group's "Hearttex" brand and "七度空間" brand achieved leading market shares in several major new retail channels, including TikTok.

In the future, the Group will actively analyse the data of end customers and use such data to precisely allocate cost in devising relevant sales strategies, so that the Group will achieve its strategic goal of becoming the "International Top Household Daily Necessities Corporation". In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide consumers with different customized products on each channel, and strive to develop new retail channels and consolidate sales through traditional channels.

The Group launched a differentiated product portfolio based on the consumption characteristics of customers on e-commerce platforms and new retail channels, hoping to bring speciality products and stable pricing into the new retail market so as to minimise impact on sales and profits, and reduce the impact on other channels, while maintaining its competitiveness. In view of catering the new consumer trends, the Group will continue to focus on the needs of consumers. Capitalising on the new technologies and big data, the Group will increase resources in developing e-commerce and new retail channels. By leveraging on the shopping festivals launched on the online platforms, the Group would attract the consumers with the new consumption models such as limited-edition merchandise, community group-buying, and livestream sales, thus increasing the Group's market share in the e-commerce and new retail channels sector while grasping the opportunities brought by the digital economy to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize the opportunities arising from the post-epidemic economic recovery, put forward effective sales strategies and conduct end-consumer data analysis, continue precise positioning and optimise the product portfolio to bring satisfactory return for shareholders. Due to the Group's increased investment in brand promotion in the second half of the year, the Group's selling and administrative expenses for the year only slightly decreased by 6.3% year-on-year to approximately RMB4,526,293,000. Since the decline in overall revenue was greater than the decrease in expenses, the proportion of the Group's selling and administrative expenses to total revenue for the year slightly increased to approximately 21.8% (2020: 21.6%). The Group believes that the overall revenue is expected to resume growth in the coming year, together with the effective sales and promotion strategies, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in U.S. dollars. Due to the appreciation of Renminbi in 2020, the Group recorded a huge operating exchange gain. However, the exchange rate of Renminbi against the U.S. dollar recorded only a slight increase in 2021. Therefore, the Group's operating exchange gain fell significantly to approximately RMB 109,152,000 (2020: RMB 249,214,000).

As at 31 December 2021, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2021, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB22,282,950,000 (31 December 2020: RMB23,970,698,000); domestic corporate bonds amounted to zero (31 December 2020: RMB998,938,000); and bank borrowings and other borrowings amounted to approximately RMB18,227,095,000 (31 December 2020: RMB19,837,362,000).

In December 2019, the Group successfully registered for the proposed issue of RMB3.0 billion super short-term commercial papers. From March to April 2021, the Group issued super short-term commercial papers in three batches of RMB3.0 billion in total, the coupon rates are between 2.90% to 3.08% per annum. The three batches of super short-term commercial papers mature in 180 to 181 days from the respective issue date.

In June 2020, the Group also successfully registered for the proposed issue of short-term commercial papers of RMB3.0 billion. In May 2021, the Group has finished the issue of RMB1.0 billion first-term commercial papers, the coupon rate is 2.90% and the commercial papers will mature in 182 days from the issue date. During the year, the Group has completed the repayment of the above super-short-term and short-term commercial papers with a total value of RMB4.0 billion.

In addition, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion in December 2021.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 3.70% (2020: from 0.54% to 4.30%).

As at 31 December 2021, the Company made appropriate use of internal cash to repay all super short-term and short-term commercial papers, therefore the Group's gearing ratio, 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) significantly lowered to approximately 95.7% (31 December 2020: 107.3%), while 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 21.3% (31 December 2020: negative 16.1%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position.

During the year, the Group's capital expenditure was approximately RMB640,396,000 (2020: RMB586,651,000). As at 31 December 2021, the Group had no material contingent liabilities.

Share Option Scheme

Employees have always been the most important assets of Hengan Group. The Group has always attached great importance to cultivating and enhancing employees' sense of belonging to the Group, and insisted on aligning employees' interests with Hengan's interests, thereby realising a win-win situation between employees and Hengan.

On 18 January 2022, the Group granted 44,747,000 share options to certain directors and employees of the Group to subscribe for a total of 44,747,000 ordinary shares of HK\$0.10 each in the share capital of the Company. The exercise price of the share options granted is HK\$41.48 per share. The grantees include Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Hui Ching Lau, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Hui Ching Chi, Mr. Sze Wong Kim and Mr. Li Wai Leung, Executive Directors of the Company.

The share option scheme aims to motivate employees, attract and retain high-quality and experienced personnel who work for the Group or contribute to the Group, and encourage employees to work together for the overall interests of Hengan and shareholders, promoting the sustainable development of the Group so as to enhance the value of the Group and shareholder value.

Outlook

Looking ahead to 2022, Mr. Sze Man Bok, Chairman of Hengan International, said, "the coronavirus pandemic continues to ravage the world, supply chain disruption and rising inflationary pressures will hinder global economic growth. Despite the strong vitality and resilience of China's economy, consumption has become the key growth driver of China's economy, external uncertainties such as the spread of the epidemic still bring variability to China's economic growth. The Group will continue to closely monitor the epidemic situation at home and abroad and changes in market trends in order to respond agilely and take appropriate actions."

"Due to the price trend of wood pulp remain uncertain and as the Group had relatively low-cost wood pulp inventory in the first half of 2021, the Group expects that the high cost of wood pulp will continue to exert pressure on the profitability of the Group in most of the time in 2022. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, polymers, and other raw materials."

"Against the backdrop of the fierce competition in the tissue paper market, strict energy consumption requirements will accelerate the upgrading of the industry. It is expected that the domestic tissue paper industry will be further consolidated, the weak will be eliminated and the strong will remain. As an industry leader, Hengan, leveraging on its strong research and development capability, production capacity and positive brand image, the Group is expected to

fully grasp the growth opportunities arising from the rapid recovery of the market after the industry consolidation, continue to develop healthily and further increase its market share.”

“Under the new normal, national health awareness remains at a high level, high-quality personal hygiene products have become essential products, and domestic consumption upgrades will continue to promote the refinement and high-quality development of the personal hygiene products market. The Group will continue to focus on the implementation of premium products strategy, strive to increase the proportion of premium products, increase the revenue contribution of premium products to the Group, and promote the continuous improvement of the Group's overall profitability.”

“Regarding sales channels, the digitalization of the global retail industry has become an irreversible trend. New retail platforms have become an important sales channel. The Group will keep abreast of changes in consumers' consumption patterns and preferences, step up its investment in the new retail markets so as to increase the Group's coverage in new sales channels to reach a broader customer base, thereby increasing the sales proportion of tissue paper, sanitary napkins, and disposable diapers in e-commerce and new retail channels. At the same time, the Group will comprehensively improve online and offline retail to create an omni-channel, enhance brand competitiveness by providing customers with a more convenient and seamless consumption experience, and inject impetus into the long-term development of the Group. Moreover, the Group will fully exploit the digital technology to accurately grasp consumer preferences and market trends so as to put forward effective strategies in product development and manufacturing, market distribution and sales channels.”

“As a leading enterprise in the personal and household hygiene products industry in China, Hengan will continue to adhere to the mission of “Growing with You for a Better Life”, and strive to build a high-quality, reliable and sustainable personal and household hygiene products enterprise. In 2022, the Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), seize the opportunities in the “new retail” era, vigorously expand new sales channels, and enhance the omni-channel sales capabilities of the three main businesses. Furthermore, the Group will continue to enhance its brand, appropriately allocate resources to brand building, consolidate its outstanding brand advantages, and take premium products strategy as its long-term development goal. At the same time, the Group will continue to take business expansion as the long-term development target, actively expand and extend to feminine care, infant and child care, and elderly care business to continue to maintain its overall competitiveness, and promote international development of Hengan's brand, striving to become the “International Top Household Daily Necessities Corporation”.

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Company Background

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

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