

【 For Immediate Release 】



恒安國際集團有限公司*
HENGAN INTERNATIONAL GROUP CO., LTD

Hengan International Announces 2022 Annual Results

Profit Attributable to Shareholders (Excluding Exchange Losses arising from Operating Activities) at RMB2.83 Billion
Sales Achieved Market-defying Growth of about 8.8%
Final Dividend at RMB0.70 Per Share

*Actively implement the three core strategies, including "focus on main businesses",
"brand upgrade" and "long-termism"
Continuously Promoted Product Upgrade and Premiumisation*

(22 March 2023— 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 2022.

Under the New Normal in the post-pandemic era, the popularisation of new consumption patterns is accelerating, and the market penetration of domestic e-commerce platforms and new retail channels continues to increase. Hengan stimulated the consumption potential released by the transformation of consumption patterns. During the year, Hengan greatly expanded the e-commerce platforms and new retail channels through effective price stabilisation strategies and continuous launch of upgraded products. It also promoted sales and created new growth points in traditional channels, and achieved good results in omni-channel development. Therefore, for the year ended 31 December 2022, the Group's revenue increased by 8.8% to approximately RMB22,615,878,000 (2021: RMB20,790,144,000) as compared to last year. Benefitting from the ongoing omni-channel strategy and continuous enhancement of the brand image, the Group's revenue is expected to maintain growth in 2023.

In 2022, the Group continued to step up its efforts in developing its e-commerce business and new retail market. In addition to promoting brands on traditional large-scale e-commerce platforms, it also strengthened penetration into other emerging e-commerce channels (such as Douyin (" 抖音 ")) to actively seize business opportunities and market share. During the year, the Group further increased its proportion of e-commerce sales (including Retail Integrated (" 零售通 ") and New Channel (" 新通路 ")) to close to approximately 26.9% (2021: 23.1%), of which other new retail channels (including online-to-offline (O2O) platform, community group-buying, etc.) have also made good progress with sales accounting for more than 13.0% of the overall sales. The Group is also committed to developing premium products and continuously optimising its product mix, while enhancing its brand image to cater to domestic consumers' pursuit of quality of life and high-quality diversified products. The premium tissue paper series "Cloudy Soft Skin " (雲感柔膚) and the premium disposable diapers series "Q · MO" were well received by consumers during the year and maintained a strong sales momentum. The sales of various upgraded and premium products also achieved good year-on-year growth.

* For identification purposes only

During the year under review, rising raw material prices and operating costs brought huge challenges to the industry, which accelerated market consolidation of eliminating the weak and retaining the strong. Hengan, with its advantage of scale, strong brand, and rapid adaptability, successfully expanded its market share against the sluggish market. However, the price of wood pulp, the main raw material of tissue paper, remained high during the year due to geopolitical upheavals, the epidemic, and inflation, and rose to a record high in the second half of the year. Focusing on the long-term development of the brand, the Group adopted a stable pricing strategy and restrained sales promotions during the year. Although the Group's upgraded products and premium product series both grew significantly during the year, which helped partially offset the impact of the soaring price of raw material for tissue paper production, the gross profit of the tissue paper segment was still under significant pressure. In 2022, the Group's overall gross profit decreased by approximately 1.1% to approximately RMB7,689,499,000 (2021: RMB7,772,318,000), and the overall gross profit margin dropped to approximately 34.0% (2021: 37.4%) due to the price hike in raw material. Although the price of wood pulp is expected to drop from the high level, the extent of the decline is still uncertain. In addition, the Group still needs to consume the existing high-cost inventory in most of the first half of 2023. It is expected that the positive impact of the decrease in wood pulp price will be reflected in the cost of the tissue paper segment in the second half of 2023, and the gross profit margin will improve by then.

During the year, operating profit fell approximately 36.9% to approximately RMB2,869,154,000 (2021: RMB4,543,591,000). Although the Group's sales achieved market-defying growth, the sharp depreciation of the Renminbi against the US dollar and HK dollar during the year resulted in a substantial foreign exchange loss before tax of about RMB912,865,000 in the Group's operations. Therefore, profit attributable to shareholders of the Company was approximately RMB1,925,249,000 (2021: RMB3,273,601,000), representing a year-on-year decrease of approximately 41.2%. If deducting the operating foreign exchange loss (net after tax), profit attributable to shareholders of the Company would only decrease by approximately 10.6% year-on-year. Basic earnings per share was approximately RMB1.657 (2021: RMB2.786).

The Board of Directors declared a final dividend of RMB0.70 per share (2021: RMB0.70 per share) for the year ended 31 December 2022, together with the interim dividend of RMB0.70 per share (2021 first half: RMB1.00 per share) already paid, total dividend for the year amounted to RMB1.40 per share (2021: RMB1.70 per share) or RMB1,626,970,000 (2021: RMB1,988,606,000), accounting for approximately 84.5% (2021: 60.7%) of the profit attributable to shareholders of the Company. This ratio is calculated by dividing total dividend by the 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 once again broke out in many regions, and geopolitical tensions exacerbated inflation and supply chain bottlenecks, impeding global economic recovery. Although the price of wood pulp has shown signs of a slight decline recently, it rose to a historical high in the second half of 2022, which put significant pressure on the Group's gross profit. Despite the fierce competition in the domestic daily necessities market and the fragmentation of sales channels, the Group adhered to a rational pricing strategy, implemented a premiumisation strategy, continued to enhance brand strength, stepped up its efforts in developing e-commerce business and expanding new retail markets, while strengthening the steady growth momentum of traditional channels. In the face of a challenging operating environment, Hengan leveraged its solid comprehensive strength to seize opportunities, further expand market share, and demonstrate strong business resilience, consolidating the Group's leading position in the market."

Sanitary Napkin

China has the world's largest feminine care products market. The growing awareness of feminine care and increasing spending power in China have led to a continuous expansion of the feminine care products market. However, the market competition is very fierce. During the year, many domestic and foreign brands adopted price reductions and aggressive sales promotion strategies to tap into the mid-to-high-end market and young consumers, in an attempt to seize market share in third- and fourth-tier cities. Instead of blindly fighting the price wars, Hengan adhered to a rational and stable pricing strategy to maintain its brand image, and accelerated product upgrades and premiumization, continued to enhance its brand image and strengthen the Group's leading position in the mid-to-high-end market and traditional sales channels. The Group's upgraded sanitary napkin products, such as the "Ultra-thin for Teen Girls" (少女特薄) and "Pants-style" (褲型) series, were well received by consumers due to their excellent quality and brand image, driving the sales growth of the overall sanitary napkin business.

New consumption patterns have accelerated the fragmentation of sales channels. E-commerce platforms and other emerging retail channels (including O2O platforms, community group-buying) continue to flourish. The Group fully captured the opportunities of new consumption trends, actively expanded emerging channels, and maintained its leading edge in traditional channels, which effectively boosted sales of sanitary napkins and maintained market share. During the year, the Group achieved satisfactory sales in new retail channels. Despite the severe epidemic situation and fierce market competition, the Group's sanitary napkin business still saw growth in its revenue. In 2022, the revenue of the Group's sanitary napkin business increased by approximately 0.7% to approximately RMB6,156,060,000 (2021: RMB6,116,530,000), accounting for approximately 27.2% (2021: 29.4%) of the Group's overall revenue. Driven by the higher proportion of upgraded and premium products and the continuous growth of traditional sales channels, it is expected that the Group's sanitary napkin business in 2023 will maintain a steady growth in its revenue.

As the Group adhered to a stable pricing strategy and the price of petrochemical raw materials, the main raw material for sanitary napkins, dropped due to the decline in petroleum and commodity prices in the second half of the year, the gross profit margin of the sanitary napkin business improved in the second half of the year compared to the first half of the year. The overall gross profit margin in 2022 dropped by approximately 3.7 percentage points to approximately 66.8% (2021: 70.5%), which slightly improved from 65.3% in the first half of 2022. Benefiting from the steady increase in the proportion of premium and upgraded products which offset the temporary rising cost pressure, the gross profit margin is expected to remain stable in 2023.

The Group's sanitary napkin brand, 七度空間 has always been a leader in the domestic market, and has long secured a leading position in terms of sales volume and market share. The Group continued to launch upgraded and premium products to enhance the brand image, cater to the premiumization trend of the feminine care products market and meet consumer needs. In recent years, the upgraded products such as the "Ultra-thin" (特薄), "Extra-long — Night Use" (加長夜用) and "Pants-style" series, were well received by the market. Among them, the newly launched "Fruit Moisturizing series" (果滋潤系列) received an overwhelming response, resulting in a continuous rise in the market share of this product. During the year, the Group "Space 7" signed female artists with bright and positive image, including actress Zhao Jinmai, as brand ambassadors to inject youthful vitality into the brand. With the theme of "Freedom Without Limits", the Group launched a variety of promotional activities, such as brand ambassadors live streaming and lucky draws, to further enhance the brand image and tap into young consumers.

In addition, the "Pants-style" series has immense growth potential. The Group will continue to vigorously promote the "Pants-style" series of products to consumers, and plans to launch an upgraded version of "Sweet Dream Pants" (萌睡褲) to attract more consumers and further increase market penetration. The Group believes that the upgraded version of the 七度空間 series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group expand its market share and increase the revenue contribution of premium products. Meanwhile, the Group will continue to expand new retail channels and increase the sales proportion of new retail channels, strive to develop higher quality products for new retail channels, adhere to a stable price strategy, and maintain stable growth in traditional channels, promoting the Group's long-term development and consolidating the Group's leading position.

The Group will also continue to actively develop and launch other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, and capture growth opportunities brought about by domestic consumption upgrade.

Tissue Paper

In 2022, the epidemic repeatedly impacted the Chinese economy and the overall retail market, but the Group turned the crisis into an opportunity with a flexible and pragmatic strategy, and the sales of tissue paper bucked the market downturn and achieved a substantial growth. The epidemic resurgence further raised the national health awareness, and the demand for tissue paper remained robust. In the face of rising costs and fierce market competition, some small and medium-sized tissue paper companies have withdrawn from the market. The Group gained more market share by virtue of its strong capital and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group adhered to a stable price strategy and effectively control sales promotions. During the year under review, the revenue of the Group's tissue paper business increased remarkably by approximately 24.4% to approximately 12,248,011,000 (2021: RMB9,842,429,000), accounting for approximately 54.2% of the Group's overall revenue (2021: 47.3%). The Group will continue to upgrade its products and increase the penetration rate of premium products. It is expected that the revenue of the Group's tissue paper business will maintain rapid growth in 2023.

During the year, the Group was affected by the sharp rise in the price of wood pulp due to factors such as the tight supply of wood pulp and logistics disruption. The wood pulp price surge exerted significant pressure on the Group's gross profit, which dropped to approximately 20.7% in 2022 (2021: 26.4%). Although the price of wood pulp has shown signs of a slight decline recently, it is expected that the positive impact of the drop in wood pulp price will be reflected in the cost of sales in the second half of 2023 after the Group consumes the existing high-cost wood pulp inventory. Therefore, the gross profit margin of the Group's tissue paper business is expected to improve in the second half of the year.

Amid the epidemic, the demand for tissue paper products remained at a high level. The Group's premium tissue paper products garnered very encouraging sales results. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of close to 80.0% and accounted for more than 10.0% of the overall tissue paper sales. In terms of the Group's wet wipes business, the sales for the year amounted to approximately RMB841,993,000 (2021: RMB735,612,000), recording a sales growth of nearly 14.5%, accounting for approximately 6.9% of the overall sales of the tissue paper business (2021: 7.5%). The wet wipes business has maintained a good growth momentum in recent years, the Group will continue to expand its market share in the domestic wet wipes market and maintain its leading position in the wet wipes market. The Group actively responded to the fragmentation of sales channels and the efforts and resources invested in implementing an omni-channel strategy in the early years has entered the harvest period. The sales of tissue paper business in e-commerce channels increased by more than 46.0%, accounting for more than 34.0% of

the overall sales of tissue paper. Meanwhile, emerging channels such as O2O platforms and community group-buying also saw an increase of more than 17.0%, delivering stellar performance. In the future, the Group will continue its endeavors in expanding different sales channels, striving for the largest market share.

Against the background of the improving living standards of people and the continuous high level of health awareness, there are lots of opportunities in the overall tissue paper market. In the face of fierce market competition, the Group will continue to strive to meet the diversified needs of consumers, develop more high-quality products, improve the cost-effectiveness of tissue paper production, increase the production capacity of production bases and build new production capacity to seize business opportunities in domestic tissue paper and expand market share, consolidating the leading position in the tissue paper market. During the year, the Group maintained its production capacity at approximately 1.42 million tons and increased production capacity in Hunan, Hubei, Guangdong and other regions. The Group expects the production capacity will increase further in the coming year to actively cope with future market conditions and to support sales growth.

Disposable Diapers

The improvement of people's living standards and the ageing population continue to promote the growth of China's adult disposable diaper market. The change in parenting concept and the trend of consumption upgrade have also promoted the continuous increase in the penetration rate of baby disposable diapers, and there is enormous room for development in China's disposable diaper market.

In order to meet consumers' growing demand for product quality, the Group continued to develop high-quality baby and adult care products. During the year, sales of the flagship premium product "Q • MO" maintained growth momentum and saw a year-on-year growth of nearly 17.4%, and its proportion further increased to more than 30.0%. Meanwhile, benefiting from the growing domestic adult incontinence products market and the higher penetration rate of the Group's adult disposable diapers, sales of the Group's adult disposable diaper business grew approximately 12.9% during the year, accounting for approximately 23.7% of the overall diaper sales. In 2022, the Group strived to strengthen the development of e-commerce and maternity sales channels. The proportion of sales of e-commerce and maternity sales channels increased to more than 60.2% and approximately 18.5%, respectively. However, due to fierce market competition, the sales growth of the Group's premium products only partly offset the decline in the sales of mid-to-low-end products and products in traditional channels. As a result, the sales of the Group's disposable diaper business still fell approximately 1.4% to approximately RMB1,202,347,000 (2021: RMB1,219,445,000), accounting for approximately 5.3% (2021: 5.9%) of the Group's overall revenue. The Group believes that the adult disposable diaper market has considerable development potential. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business is expected to resume sales growth in 2023.

In terms of gross profit margin, the gross profit margin of the disposable diaper business saw a decline in the light of the rise in the cost of sales caused by the price increase in petrochemical raw materials for disposable diapers during the year. However, since the increase in the proportion of sales of the higher-margin "Q • MO" products and adult disposable diapers offset part of the impact of rising costs on the overall business profitability, the gross profit margin for the full year slightly dropped to about 36.9% (2021: 37.7%), while the gross profit margin of the disposable diaper business improved in the second half of 2022 as compared with 35.3% in the first half of the year.

During the year, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding the baby diaper business, the Group reshaped the "Anerle"

brand, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today's consumers. On the other hand, "Q • MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very popular in the market. The Group will continue to optimise "Q • MO" products to instill growth momentum into the Group's future development. Through the dual-brand strategy, after a year of sorting out, the Group expects the sales of the entire baby diaper business to resume stable growth in 2023.

In addition, as the country pays more and more attention to the development of the elderly care industry, there will be huge room for development in the field of domestic adult care products. The Group will invest more resources in the development of adult care products, so that the "ElderJoy" (安而康) brand and its products can fully penetrate the domestic market and at the same time expand the market share in Southeast Asia.

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 maternity stores, nursing homes and hospitals. On the one hand, it will seize new business opportunities brought by new retail. On the other hand, through the cooperation with maternity stores, nursing homes and hospitals, it will expand the Group's potential 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 care business and continue to tap the growth potential of the adult care market.

Other Incomes and Household Products

Regarding other income and household products, the Group's revenue for the year, which mainly includes revenues from raw material trading business, household products business, Wang-Zheng Group in Malaysia, and medical related products business, decreased by approximately 16.7% year-on-year to approximately RMB3,009,460,000 (2021: RMB3,611,740,000). The decline was mainly due to the tight supply of raw materials and the higher demand for tissue paper products during the year, resulting in an increase in the demand for raw materials. Therefore, the Group's preferred to keep raw materials in reserve for production, which caused the revenue from raw material trading business to drop significantly to approximately RMB1.6 billion (2021: approximately RMB2.5 billion).

Revenue from the household products business was approximately RMB325,962,000 (2021: RMB314,614,000), representing a year-on-year increase of approximately 3.6%, accounting for approximately 1.4% (2021: 1.5%) of the Group's revenue, which was mainly because the export business of household products gradually picked up as the epidemic situation began to improve in other regions.

In 2022, 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 continue to take advantage of these overseas sales network to bring Hengan's products to overseas markets.

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. In addition to the revenue from the household products segment, the Group's other income also includes revenue from Wang-Zheng Group in Malaysia and other

medical related products. As for the business of other medical products, the demand for medical products rose significantly due to the resurgence of the epidemic. Thus, the sales of medical products increased notably and recorded a revenue contribution of approximately RMB272,922,000 (2021: RMB108,065,000). As medical products have higher profit margin, it therefore effectively boosted the overall gross profit margin of other businesses to approximately 19.7% (2021: 11.0%).

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 37 countries and regions, with 54 direct partnerships with major clients or distributors. In 2022, turnover of overseas channel (including Wang-Zheng Group business) was approximately RMB2,086,791,000 (2021: RMB1,709,260,000), accounting for approximately 9.2% of the Group's overall sales (2021: 8.2%).

During the year, with the easing of the epidemic and the reopening of the region, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approximately 17.1% year-on-year to approximately RMB411,704,000 (2021: RMB351,553,000), accounting for approximately 1.8% of the Group's overall sales (2021: 1.7%). 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

New consumption patterns and new forms of business that integrate online and offline channels are developing at an accelerated pace, and the online shopping market is expanding, thereby continuously unleashing consumption potential. In 2022, the national online retail sales of physical goods reached RMB12 trillion, an increase of 6.2%, of which the online retail sales of consumer goods increased by 5.7%. In order to meet the ever-upgrading needs of consumers, the Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities. During the year, the Group carried out higher quality products promotions for various brands in new channels, which received positive responses from the market and further enhanced the Group's brand awareness and market share in online and other new retail channels.

In 2022, the Group's e-commerce channels (including Retail Integrated and New Channel) maintained a strong development momentum and sales for the year soared over 26.8% to approximately RMB6.1 billion (2021: RMB4.8 billion), bringing the proportion of e-commerce sales up to approximately 26.9% (2021: 23.1%) of the Group's overall sales.

In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin), improve data analysis capabilities for end customers, and conduct precision marketing to boost conversion rates, and strive to achieve the strategic goal of becoming a global top-tier supplier of daily products. 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 differentiated products that suit the characteristics and preferences of consumers in each

channel, and continuously improve the seamless omni-channel consumer experience in both online and offline channels.

The Group will consistently introduce products into the new retail market with higher quality products and stable prices to reduce the impact on other channels, while maintaining its competitiveness. In view of the new consumer trends, the Group will also actively build a brand community, interact with consumers through livestream sales and other community activities, and strengthen the connection with young consumers. The Group also appointed Xiao Zhan, a popular artist, as the brand ambassador of "Hearttex" to further enhance the brand influence, and continue to leverage new consumption models such as limited-edition products, community group-buying and livestream sales to attract consumers and increase 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. During the year, the Group faced the challenge of an approximately over 15.4% increase in transportation costs due to geopolitical tension and the epidemic. In addition, as the Group granted share options to certain directors and employees of the Group in January 2022, the share option expenses apportioned during the year were approximately RMB66,189,000. As a result, the Group's selling and administrative expenses during the year amounted to approximately RMB4,888,813,000, representing a year-on-year increase of approximately 8.0%. However, as the increase in the Group's total revenue was greater than the increase in expenses, the proportion of the Group's selling and administrative expenses to the total revenue for the year slightly dropped to approximately 21.6% (2021: 21.8%). The Group believes that the total revenue is expected to continue to increase in the coming year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve continuously.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi. During the year, due to the sharp depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group's operating exchange gain turned to a loss of approximately RMB912,865,000 (2021: exchange gain of approximately RMB109,152,000), which was mainly attributed to the sharp depreciation of Renminbi against the H.K. dollar during 2022, resulting in an exchange loss of approximately RMB721.0 million in respect of Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company.

As at 31 December 2022, 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 2022, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB21,563,284,000 (31 December 2021: RMB22,282,950,000); and bank borrowings and other borrowings amounted to approximately RMB17,029,952,000 (31 December 2021: RMB18,227,095,000).

In December 2021, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion. From March to June 2022, the Group issued short-term commercial

papers in four batches of RMB4.5 billion in total with the coupon rates ranging from 2.1% to 2.5% per annum and a tenor of 180 days, which were fully repaid during the year.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 5.2% (2021: from 0.4% to 3.7%)

As at 31 December 2022, the Company moderately utilised internal cash to repay all short-term commercial papers, so 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) further improved to approximately 87.2% (31 December 2021: 95.7%), 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 23.2% (31 December 2021: negative 21.3%) 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 RMB1,327,206,000 (2021: RMB640,396,000). As at 31 December 2022, the Group had no material contingent liabilities.

In February 2023, the Group completed the issuance of the first tranche of super short-term commercial papers on the National Association of Financial Market Institutional Investors, with an aggregate principal amount of RMB1,500,000,000, with a coupon rate 2.40% per annum. The super short-term commercial papers will mature in 180 days from the respective issue date.

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.

On 21 December 2022, the Group granted 1,526,000 share options ("Share Options") to certain employees of the Group to subscribe for a total of 1,526,000 ordinary shares in the share capital of the Company. The exercise price of the share options granted is HK\$40.30 per share.

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 2023, **Mr. Sze Man Bok, Chairman of Hengan International**, said, "with the further relaxation of China's epidemic control policies, the orderly implementation of various policies and measures for stabilising the economy and expanding domestic demand is expected to support the gradual recovery of the economy and consumer market. However, the Russo-Ukrainian War continues to impact global trade, and inflation remains at a high level despite signs of slowing. In addition, the monetary policies of central

banks led by the U.S. Federal Reserve are expected to remain tight, posing challenges to global economic development and China's economic growth. The Group will continue to pay close attention to the development of the epidemic at home and abroad and changes in market trends, respond flexibly and make prudent decisions.”

“Against the backdrop of resumption of production and the release of new production capacity in wood pulp mills around the world, the supply of wood pulp is expected to gradually increase this year. Although the price of wood pulp has recently dropped, the downward trend is still not obvious. Since the Group needs to consume the existing high-cost wood pulp inventory first, the positive impact of the decrease in wood pulp price is expected to reflect in the cost of the tissue paper business in the second half of the year, and the gross profit margin will improve by then. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other materials.”

“As a leader in the industry, Hengan centres around long-term development to formulate business strategies and allocate resources. The Group will actively implement the three core strategies, including "focus on main businesses", "brand upgrade" and "long-termism", so as to lay a solid foundation for the sustainable development of the Group. The Group will focus on the development of the three core businesses of tissue paper, sanitary napkin and disposable diapers, actively develop higher quality new products and expand into new markets, accelerate penetration into rural markets and other markets in the mainland China, and seize the huge development opportunities in the domestic daily necessities market.”

“In the future, the Group will further enhance the brand image of its products, including brand upgrades through strategies such as product premiumisation, new packaging, and accurate allocation of marketing resources, as well as the establishment of a marketing department to comprehensively optimise the brand image. The Group will continue to enhance its product mix and accelerate product premiumisation, such as the hot-selling series “Q • MO” and “Cloudy Soft Skin”, so as to improve the Group’s profitability, further develop online and offline sales channels and promote the joint development of multi-channels to expand its customer base.”

“In order to continue to consolidate the Group’s market leadership in tissue paper and hygiene products and meet domestic consumers’ demand for high-quality products, the Group plans to carry out production capacity expansion and technological upgrades in the future, including the establishment of a new upgraded sanitary napkin, disposable diapers, wet wipes plant in Neikeng, Fujian, and the expansion of tissue paper production capacity in Xiaogan, Hunan, and Yunfu, Guangdong. It is expected that the new production capacity will be put into operation successively in 2024.”

“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 become a supplier of high-quality, reliable and sustainable personal and household hygiene products. The Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), enhance its brand image, seize the opportunities in the “new retail” era, take long-termism as the general direction for future development to further scale its business. At the same time, the Group will continue to take industry extension as the long-term development goal, actively expand and extend to feminine care, infant and child care, and elderly care business to continue to maintain its overall competitiveness, and gradually promote international development of Hengan’s brand, striving to become a “global top-tier supplier of daily products.”

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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