



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

2023

INTERIM RESULTS

Corporate Presentation



August 2023

AGENDA



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



Financial
Highlights



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Open
Forum



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

Financial Highlights



	2023	2022	Change
(RMB '000)	<i>For the six months ended 30 June</i>		
Revenue	12,204,605	11,200,021	↑ 9.0%
*Revenue of core business segments (tissue, sanitary napkins and disposable diapers)	11,054,709	9,604,649	↑ 15.1%
Gross profit	3,788,550	3,942,191	↓ 3.9%
Operating Profit	1,701,681	1,885,753	↓ 9.8%
Profit attributable to shareholders	1,225,768	1,276,191	↓ 4.0%
Earnings per share (RMB)			
– Basic	1.055	1.098	↓ 3.9%
– Diluted	1.055	1.098	↓ 3.9%
Dividend per share (RMB)			
– Interim	0.70	0.70	unchanged



By Business Segment

(RMB '000)

	2023	2022	Change
	<i>For the six months ended 30 June</i>		
Tissue paper	7,170,110	5,842,612	⬆️ 22.7%
Sanitary napkins (incl. pantliners)	3,219,295	3,128,524	⬆️ 2.9%
Disposable diapers	665,304	633,513	⬆️ 5.0%
Others	1,149,896	1,595,372	⬆️ 27.9%

By Business Segment	2023	2022
(%)		<i>For the six months ended 30 June</i>
Tissue paper	17.7%	23.1%
Sanitary napkins (incl. pantliners)	61.8%	65.3%
Disposable diapers	36.0%	35.3%
Others	25.4%	20.4%
Overall	31.0%	35.2%

Major factors affecting overall gross profit margin

Margin decreased in 1H2023 due to:

- The cost of sales of the tissue paper business, particularly wood pulp prices increased by more than 30% compared to last period which caused the drop in GP margin of tissue paper business.
- The significant increase in costs of petrochemical raw materials (e.g. fluff pulp) caused the drop in GP margin of sanitary napkins business.



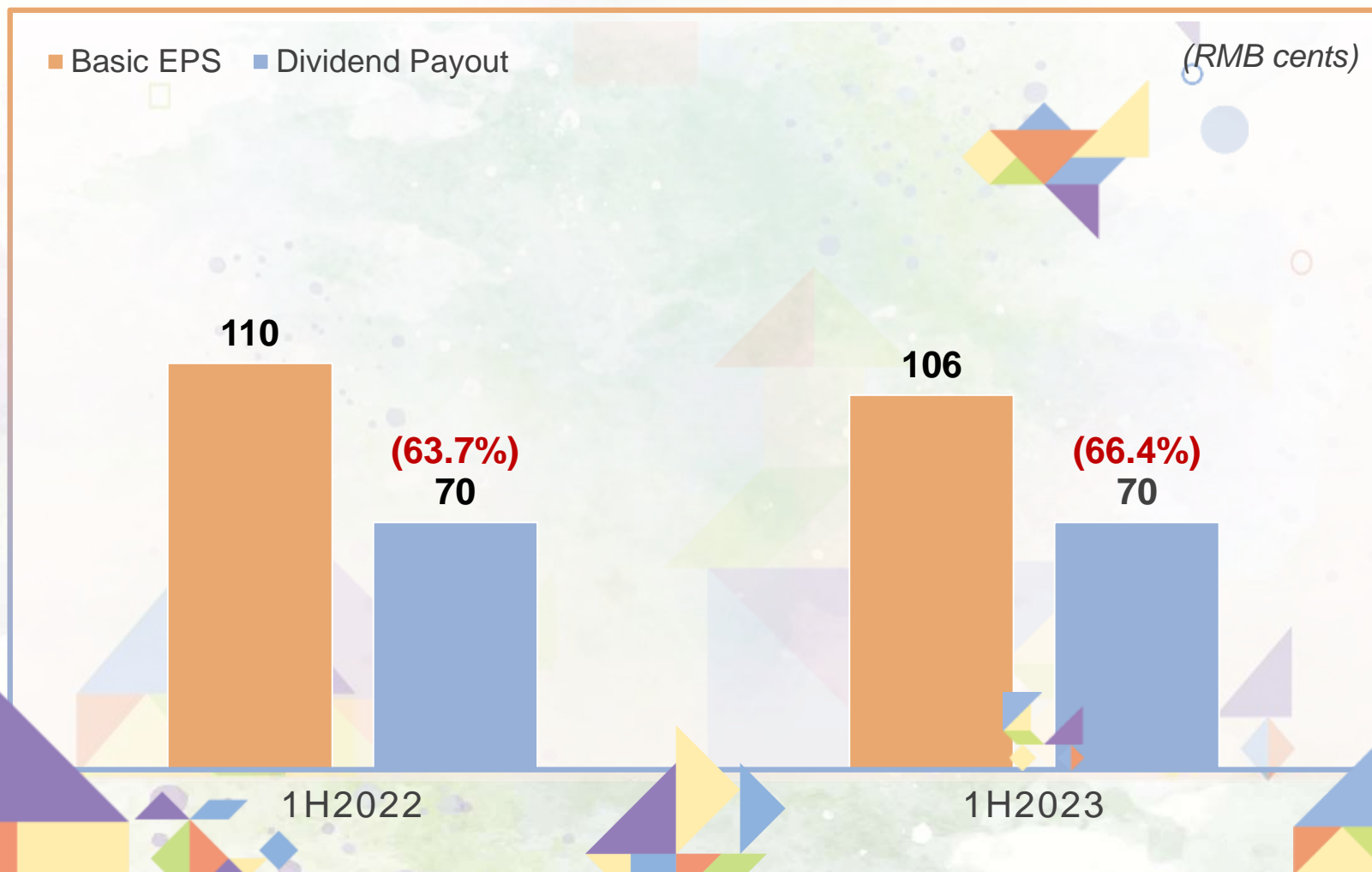
- Increase in premium & upgraded product mix with high GP margin

Selling & distribution costs and administrative expenses

- Selling & distribution costs and administrative expenses accounted for approx. 21.0% of total revenue (1H2022: 19.1%)
- Major expenses are as follows:

By Business Segment	2023	2022
(As % of revenue)		<i>For the six months ended 30 June</i>
Marketing & advertising expenses	5.1%	2.6%
Staff costs (excluding labour costs)	4.1%	4.3%
Transportation expenses	4.7%	4.6%
Research & development	1.3%	1.3%

Stable Dividend Payment to Shareholders:
1H2023 dividend per share of RMB0.7 per share (1H2022: RMB0.7 per share)



By Business Segment	2023	2022
	30 June 2023	31 December 2022
Cash on hand (RMB '000)	28,645,649	21,563,284
Super short-term commercial paper (RMB '000)	5,000.000	nil
Bank borrowings and other borrowings (RMB '000)	18,859,992	17,029,952
Current ratio	1.26 times	1.4 times
Gross gearing ratio	119.1%	87.20%
Net gearing ratio (net cash)	(23.90%)	(23.20%)
Finished goods turnover	33 days	43 days
Trade and bills receivable turnover	43 days	48 days
Trade and bills payable turnover	55 days	67 days

Interest income: around RMB487.2 mn (1H2022: RMB432.2 mn)

- Partly included in other gains:
about RMB377.6 mn (1H2022: RMB268.1 mn) interest income on bank deposits >3 months (short-term investments)
- Partly included in finance income:
about RMB109.6 mn
(1H2022: RMB164.1 mn)

Interest expense:

- About RMB324.2 mn
(1H2022: RMB199.8 mn)

Net Interest Income:

- Around RMB163.0 mn
(1H2022: RMB232.4 mn)

Exchange losses due to the depreciation of RMB against US\$ and HK\$: around RMB134.4 mn (1H2022: Loss of RMB412.1 mn)

**Included in other gains: loss of about RMB182.4 mn
(1H2022: loss of RMB367.8 mn)**

- Arising mainly from:
 - Purchase of raw materials from overseas suppliers
 - Decrease in operating exchange loss mainly due to significant reduction of RMB dividend receivable balances from the PRC companies

- Included in finance costs:
a gain of about RMB48.0 mn
(1H2022: Loss of RMB44.3 mn)

Government grants:

- About RMB200.4 mn (1H2022: RMB250.7 mn), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 20.4% (1H2022: 28.1%), decrease mainly due to the decrease in exchange loss during the period

Capex incurred:

- Around RMB989.3 mn (1H2022: RMB523.6 mn), mainly incurred for the new production lines



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Business Review



Market overview

- China has the world's largest feminine care products market, but the market competition is very fierce.
- Many domestic and foreign brands adopted aggressive sales strategies to tap into the mid-to-high-end market and attract more young customers.



Business performance in 1H2023 and 2H2023 outlook

- In 1H2023, despite fierce market competition, sales of the Group's sanitary napkin business still recorded an increase of approx. 2.9% to approx. RM3,219 mn (1H2022: RMB3,129 mn).
- 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 the second half of 2023 will maintain a steady growth in its revenue.
- The Group adhered to a stable pricing strategy but the price of petrochemical raw materials such as fluff pulp increased, the GP margin of the sanitary napkin business dropped by approx. 3.5 pts to approx. 61.8% (1H2022: 65.3%). Benefiting from the steady increase in the proportion of premium and upgraded products and the decline in the cost of some petrochemical raw materials in the second quarter, the GP margin is expected to improve in 2H2023.
- The Group's sanitary napkin brand, “七度空间” continued to launch upgraded products such as the “Ultra-thin” (特薄), “Extra-long - Night Use” (加長夜用), “Pants-style”(裤型). The sales of “Pants-style” series increased over 80.0% year-on-year during the period.
- The "Fruit Moisturising Series" (果滋潤系列) launched last year and the key new series of this year "Heavenly Mountain Cotton Series" (天山絨棉系列) which uses rare and pure long staple cotton from snowy mountains, aim to meet the demand of today's customers for high-quality products, and their sales are expected to gradually increase.
- The Group believes that the upgraded version of the “七度空间” series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group to expand its market share and increase the revenue contribution of premium products.
- The Group will continue to expand new retail channels and increase the sales proportion of new retail channels, strive to develop higher quality products to meet today's consumers' needs, 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.

Market overview

- The national economy and consumer market gradually recovered, but the external environment was still full of challenges.
- The Group responded to the fierce price competition with stable prices and an omni-channel strategy, driving the continuous growth of tissue paper sales..



Business performance in 1H2023 and 2H2023 outlook

- The Group seized 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 pricing strategy and effective control of sales promotions. During the period the revenue of the Group's tissue paper business surge approx. 22.7% to approx. RMB7.17bn (1H2022: RMB5.84bn). 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 steady growth in the second half of 2023.
- During the period, the Group was still affected by the elevated price of wood pulp. In 2Q2023, the price of wood pulp started to come down. But it takes time to consume high-cost wood pulp inventory, the positive impact of the sharp decline in the cost of wood pulp did not fully reflect in the results in 1H2023. Therefore, the GP margin dropped to approx. 17.7% (1H2022: 23.1%). The benefit of the reduction in wood pulp costs has been gradually reflected in the GP margin in 2Q2023. The Group's GP margin in 2Q2023 improved significantly compared with 2H2022. Therefore, the Group expects that the GP margin of the tissue paper business will continue to improve in 2H2023.
- Driven by the improvement of national health awareness and the growing demand for consumption upgrades, the Group's premium tissue paper products achieved outstanding sales. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of over 40.0% and accounted for >12.0% of the overall tissue paper sales. Wet wipes business has maintained a good growth momentum. The sales of the Group's wet wipes business grew nearly 18.9% to approx. RMB491.5mn (1H2022: RMB413.3mn), accounting for approx. 6.9% of the sales of the tissue paper business (1H2022: 7.1%).
- The Group actively responded to the fragmentation of channels, and the efforts and resources invested in the early years gradually has entered the harvest period. The tissue paper sales in e-commerce and new retail channel increased by more than 40.0%, accounting for close to 33.3% of the overall sales of tissue paper, in which tissue paper sales in emerging channels such as community group-buying recorded a stellar growth of more than 40.0%.

Market overview

- The ageing population and improvement of people's living standards continue to drive the expansion of China's disposable diaper market.
- The trend of consumption upgrade and the change in parenting concept have also promoted the continuous increase in the penetration rate of baby disposable diapers. There is considerable growth potential in China's disposable diaper market.



Business performance in 1H2023 and 2H2023 outlook

- In 1H2023, sales of the flagship premium product "Q•MO" maintained satisfactory growth and saw a y-o-y growth of nearly 19.1%, and its proportion further increased to >35.0%.
- During the period, the proportion of sales of e-commerce and maternity sales channels rose to more than 50.0% and over 16.6%, respectively. Despite fierce market competition, benefitting from the enhanced brand image, the sales growth of the Group's premium product "Q • MO" and the improvement in sales resulting from the rebranding of the "Anerle" (安兒樂) brand effectively offset the decline in sales from traditional channels and mid-to-low-end products.
- On the other hand, benefitting from the growing domestic adult incontinence products market and the continuous increase in penetration rate of the Group's adult disposable diapers, sales of the Group's adult disposable diaper business grew approx. 45.1% during the period, accounting for approx. 29.2% of the overall diaper sales.
- Therefore, the sales of the Group's diaper business rebounded and increased by approx. 5.0% to approx. RMB665.3 mn (1H2022: RMB633.5 mn), accounting for approximately 5.5% of the Group's overall revenue (1H2022: 5.7%). With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business are expected to maintain growth in 2H2023.
- GP margin of the Group's disposable diapers business grew to about 36.0% (1H2022: 35.3%) as the increase in the proportion of sales of the higher-margin "Q•MO" products offset the rise in the cost of sales caused by the price increase in petrochemical raw materials. The GP margin of the disposable diaper business is expected to remain stable in 2H2023.
- For the baby diaper business, the Group continued to rebrand 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 Breath diapers have 3.6 times the air holes of traditional diapers, and are very popular in the market. Through the dual-brand strategy, the Group expects the sales of the baby diaper business to maintain a steady growth in 1H2023.
- The Group will invest more resources in the development of adult care products, so as to fully penetrate the "ElderJoy" (安而康) brand and its products into the domestic market and expand its market share in Southeast Asia.



Market overview

- The Group has stepped up its efforts to develop the household products business to expand its market coverage.



Business performance in 1H2023 and 2H2023 outlook

- Regarding other income and household products, the Group's revenue for 1H2023 decreased by approx. 27.9% y-o-y to approx. RMB1,150 mn (1H2022: RMB1,595 mn), which was mainly due to the Group's preference to consume high-cost raw materials as soon as possible and to ensure the raw material trading business's profit. As a result, revenue from raw material trading business dropped significantly by about 34.7% to RMB580.0 mn (1H2022: approx. RMB890.0 mn).
- Revenue from the Group's household products segment was approx. RMB126.2 mn (1H2022: RMB170.9 mn), a y-o-y decrease of approx. 26.1%, accounting for 1.0% of the Group's revenue (1H2022: 1.5%), which was mainly because the export business of household products declined.
- In 1H2023, 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.
- 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.



MALAYSIA

- The Group's Wang-Zhang Group business in Malaysia saw a steady recovery and its turnover increased by approx. 8.2% y-o-y to approx. RMB220.4 mn (1H2022: RMB203.6 mn), accounting for approx. 1.8% of the Group's overall sales (1H2022: approx. 1.8%). Profit for the period dropped by 22.6% to RMB6.0 mn due to drop in GP and increase in selling expense during the period (1H 2022: 7.8 mn).
- 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 and tissue products, cotton products and processed papers. Its brands include "P Love" disposable diapers and "Carina" personal hygiene products.
- In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring tissues and 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 good quality products under the Hengan brand and further increase its market share in Malaysia and Southeast Asia.

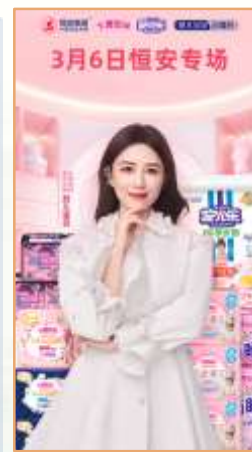


E-commerce and New Retail Channel Strategies



Market overview

- Online shopping market is expanding, the national online retail sales of physical goods reached RMB6.06 tn in 1H2023, an increase of 10.8%, of which the online retail sales of consumer goods increased by 10.3%.
- 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.



Top Rankings on Community E-commerce Platforms

Brand	Top Rankings on Community E-commerce Platforms	
Platform	Brand	Ranking
美团优选	相印	金牌
拼多多	相印	金牌
京东	相印	金牌
抖音	相印	金牌
	七度空间	金牌
	七度空间	金牌
	七度空间	金牌
	七度空间	金牌

Business performance in 1H2023 and 2H2023 outlook

- During the period, the Group carried out higher quality products promotions for various brands in new channels, and its stable pricing strategy received positive responses from the market, thus further enhancing the Group's brand awareness and market share in online and other new retail channels.
- The Group's e-commerce channels (including Retail Integrated and New Channel) maintained a robust development momentum and sales for the period soared over 30.0% to approx. RMB3.5 bn (1H2022: RMB2.7 bn), bringing the proportion of e-commerce sales up to approx. 29.0% (1H2022: 24.2%) of the Group's overall sales. During the period, new retail channels made over 30%, over 20% and over 50% of contribution for the sales of tissue paper business, sanitary napkin business, and disposable diaper business respectively. It is expected that the proportion of sales on new retail channels will be further increased in the future.
- 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.
- To cater for the new consumer trends, the Group will interact with consumers through livestream sales and other community activities, and strengthen the connection with young consumers. The Group will continue to increasing its market share in the e-commerce and new retail channels.

Environmental Social & Governance

Green and Low Carbon System

	1H2023	2022
FTSE Russell ESG rating score	3.1	2.6
Proportion of production companies with ISO 14001 certification	100%	100%
Percentage of paper production companies with FSC/CoC certification	100%	100%

Health & Safety

	1H2023	2022
Proportion of production companies with ISO 45001 certification	100%	100%
Number and rate of work-related fatalities	0	0
Occupational disease cases	0	0

Hengan was selected in the first-ever **Sustainability Yearbook 2023 (China Edition)** released by S&P Global and rated as the “**Industry Mover**”.



Hengan's inclusion in the **FTSE4Good Index**.



Hengan was honoured with “**2022 Forbes China Top 50 Sustainable Development Industrial Enterprises**”



Employee Development	1H2023	2022
Total number of full-time employees	23,000	23,000
Percentage of female employees	58%	58%
Percentage of employees joining the labour union	100%	100%
Number of management positions promoted	111	78
Total number of training hours exceeded	143,300	260,000



The Group's "Elderjoy" brand launched a short public welfare movie "This time, love can not be late" with a precise insight into the plight of the elderly, calling on the community to care for the elderly.

Hengan was honoured with "2022 'Belt and Road' Green Supply Chain Case" of ACEF.



Hengan donated **materials worth RMB2 million** to women and children in the earthquake-stricken areas to safeguard the health of the people in both Turkey and Syria and help them to rebuild after the disaster.





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Outlook





Hengan's semi-annual staff meeting reinforced vision and boosted morale.



Leveraging its leading research and development and production capacities and excellent brand image, coupled with extensive nationwide distribution and diversified product portfolio, Hengan will continue to demonstrate strong resilience in a challenging operating environment, successfully seize opportunity industry consolidation, and further expand its market share

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 2H2023.

Further enhance the brand image of its products and set up a marketing department to comprehensively optimise the brand image; continue to enhance its product mix and accelerate product premiumisation, further develop sales channels to expand its customer base.

Continue to optimise the organisational structure, strengthen the construction of young professional team, improve team efficiency, and allocate resources to improve infrastructure and enhance supply chain efficiency, such as cloudification of the SAP system, and strive to improve the quality of the system, so as to effectively monitor operational data and improve operational visibility to formulate appropriate business strategies.

Actively implement the 3 core strategies, including "focus on main businesses", "brand upgrade" and "long-termism", so as to lay a solid foundation for the sustainable development; focus on the development of the 3 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 and other markets in the mainland China. Actively promote ESG development. The Group strives to become a "global top-tier supplier of daily 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 gradually in 2H2023.



Hengan SAP system cloudification project successfully went online



Hengan's new tissue production plant in Xiaogan, Hunan has gradually commenced operation



Strong revenue growth momentum and continuously improved its current ratio, working capital ratios amid market competition

Key Performance Indicators	2020	2021	2022	1H2021	1H2022	1H2023
Core revenue (RMB '000)	18,463,036	17,178,404	19,606,418	8,346,160	9,604,906	11,054,710
YOY change		↓ 7.0%	↑ 14%		↑ 15%	↑ 15%
SG&A expenses (RMB '000)	(4,832,922)	(4,526,290)	(4,888,813)	(1,920,055)	(2,141,354)	(2,564,705)
% of core revenue	26.2%	26.3%	24.9%	23.0%	22.3%	23.2%
Working capital ratios						
– Account receivables (days)	55	56	48	59	51	43
– Finished goods (days)	50	50	43	50	39	33
– Current ratio (times)	1.4	1.2	1.4	1.24	1.33	1.26
Net cash* (RMB '000)	3,129,586	4,055,552	4,533,070	3,569,967	4,808,015	4,785,657
Net cash generated from operating activities (RMB '000)	5,041,666	4,603,606	3,809,862	2,214,898	2,124,023	1,938,954
Gearing ratio (%)	107.3	95.7	87.2	122.6	116.5	119.1

*Net Cash: Total cash and bank balances, long-term bank deposits and restricted bank deposits less bank and other borrowings.



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Open Forum

