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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1044)

Websites: http://www.hengan.com
http://www.irasia.com/listco/hk/hengan

"Growing with You for a Better Life"

FINANCIAL SUMMARY
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Unaudited		
	2023	2022	% of
	RMB'000	*RMB'000*	change
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 margin	**31.0%**	35.2%	
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			
— Basic	**RMB1.055**	RMB1.098	
— Diluted	**RMB1.055**	RMB1.098	
Finished goods turnover (days)	**33**	39	
Trade and bills receivables turnover (days)	**43**	51	
Rate of return on equity (annualised)	**12.2%**	13.0%	

INTERIM FINANCIAL INFORMATION

The Board of Directors of Hengan International Group Company Limited ("Hengan International" or the "Company") (the "Board") is pleased to present the unaudited interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2023, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2023, together with the comparative figures and selected explanatory notes (the "Interim Financial Information"). The Interim Financial Information has been reviewed by the Company's Audit Committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

		Unaudited	
		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*6*	**12,204,605**	11,200,021
Cost of goods sold		**(8,416,055)**	(7,257,830)
Gross profit		**3,788,550**	3,942,191
Selling and distribution costs		**(1,835,053)**	(1,435,858)
Administrative expenses		**(729,652)**	(705,496)
Net accural of impairment losses on financial assets	*7*	**(30,535)**	(26,403)
Other income and other gains — net		**508,371**	111,319
Operating profit		**1,701,681**	1,885,753
Finance income		**157,570**	164,138
Finance costs		**(317,951)**	(241,554)
Finance costs — net		**(160,381)**	(77,416)
Share of net gains/(losses) of investments accounted for using the equity method	*19*	**182**	(12,437)
Profit before income tax	*7*	**1,541,482**	1,795,900
Income tax expense	*8*	**(314,581)**	(504,282)
Profit for the period		**1,226,901**	1,291,618
Profit attributable to:			
Shareholders of the Company		**1,225,768**	1,276,191
Non-controlling interests		**1,133**	15,427
		1,226,901	1,291,618
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*9*	**RMB1.055**	RMB1.098
— Diluted	*9*	**RMB1.055**	RMB1.098

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Profit for the period	**1,226,901**	1,291,618
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(58,921)**	(23,333)
Items that will not be subsequently reclassified to profit or loss		
— Currency translation differences	**134,491**	153,239
Total comprehensive income for the period	**1,302,471**	1,421,524
Attributable to:		
Shareholders of the Company	**1,303,565**	1,395,372
Non-controlling interests	**(1,094)**	26,152
Total comprehensive income for the period	**1,302,471**	1,421,524

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	Note	**Unaudited 30 June 2023** *RMB'000*	Audited 31 December 2022 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**7,122,130**	7,099,255
Construction-in-progress	*11*	**1,490,244**	969,210
Right-of-use assets	*12*	**1,163,903**	1,192,081
Investment properties	*11*	**166,055**	166,696
Intangible assets	*11*	**655,420**	656,976
Prepayments for non-current assets		**262,947**	460,660
Deferred income tax assets		**556,185**	532,204
Investments accounted for using the equity method	*19*	**43,937**	43,576
Financial assets at fair value through profit or loss		**242,448**	212,572
Long-term bank time deposits	*14*	**1,895,639**	2,895,490
		13,598,908	14,228,720
Current assets			
Inventories		**3,501,082**	4,544,935
Trade and bills receivables	*13*	**2,838,823**	2,931,887
Other receivables, prepayments and deposits		**1,694,938**	1,920,248
Current income tax recoverable		**13,251**	42,168
Derivative financial instruments		**–**	1,490
Restricted bank deposits	*14*	**300**	302
Cash and bank balances	*14*	**26,749,710**	18,667,492
		34,798,104	28,108,522
Total assets		**48,397,012**	42,337,242

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)
As at 30 June 2023

	Note	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	17	**123,345**	123,345
Other reserves		**3,282,113**	3,143,018
Retained earnings		**16,630,235**	16,257,244
		20,035,693	19,523,607
Non-controlling interests		**244,344**	252,130
Total equity		**20,280,037**	19,775,737
LIABILITIES			
Non-current liabilities			
Borrowings	16	**201,251**	2,001,334
Lease liabilities	12	**17,127**	16,636
Deferred income tax liabilities		**187,641**	149,433
		406,019	2,167,403
Current liabilities			
Trade and bills payables	15	**2,186,250**	2,920,685
Other payables and accrued charges	15	**1,579,404**	1,671,547
Contract liabilities		**87,283**	453,741
Current income tax liabilities		**180,522**	268,564
Borrowings	16	**23,658,741**	15,028,618
Derivative financial instruments		**774**	32,838
Lease liabilities	12	**17,982**	18,109
		27,710,956	20,394,102
Total liabilities		**28,116,975**	22,561,505
Total equity and liabilities		**48,397,012**	42,337,242

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Unaudited					
	Attributable to the Company's shareholders					
	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2023	**123,345**	**3,143,018**	**16,257,244**	**19,523,607**	**252,130**	**19,775,737**
Profit for the period	–	–	**1,225,768**	**1,225,768**	**1,133**	**1,226,901**
Currency translation differences	–	**77,797**	–	**77,797**	**(2,227)**	**75,570**
Total comprehensive income	–	**77,797**	**1,225,768**	**1,303,565**	**(1,094)**	**1,302,471**
Transactions with owners						
2022 final dividends paid *(Note 10(b))*	–	–	**(813,485)**	**(813,485)**	**(6,692)**	**(820,177)**
Share-based compensation						
— value of employee services	–	**22,006**	–	**22,006**	–	**22,006**
Total of transactions with owners	–	**22,006**	**(813,485)**	**(791,479)**	**(6,692)**	**(798,171)**
Appropriation to statutory reserves	–	**39,292**	**(39,292)**	–	–	–
Balance at 30 June 2023	**123,345**	**3,282,113**	**16,630,235**	**20,035,693**	**244,344**	**20,280,037**
Balance at 1 January 2022	123,345	2,862,648	16,051,047	19,037,040	243,410	19,280,450
Profit for the period	–	–	1,276,191	1,276,191	15,427	1,291,618
Currency translation differences	–	119,181	–	119,181	10,725	129,906
Total comprehensive income	–	119,181	1,276,191	1,395,372	26,152	1,421,524
Transactions with owners						
2021 final dividends paid *(Note 10(b))*	–	–	(813,485)	(813,485)	(2,119)	(815,604)
Liquidation of a subsidiary	–	(126)	126	–	(6,000)	(6,000)
Capital contribution by non-controlling interests	–	–	–	–	7,500	7,500
Capital reduction of a subsidiary	–	–	–	–	(3,146)	(3,146)
Change in ownership interests in subsidiaries without change of control	–	–	(171)	(171)	(2,109)	(2,280)
Disposal of a subsidiary	–	–	–	–	(1,006)	(1,006)
Share-based compensation						
— value of employee services	–	30,043	–	30,043	–	30,043
Total of transactions with owners	–	29,917	(813,530)	(783,613)	(6,880)	(790,493)
Appropriation to statutory reserves	–	86,825	(86,825)	–	–	–
Balance at 30 June 2022	123,345	3,098,571	16,426,883	19,648,799	262,682	19,911,481

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Cash flows from operating activities		
— Cash generated from operations	**2,298,556**	2,684,847
— Income tax paid	**(359,602)**	(560,824)
Net cash generated from operating activities	**1,938,954**	2,124,023
Cash flows from investing activities		
— Purchase of property, plant and equipment, intangible assets, construction-in-progress and other non-current assets	**(739,005)**	(345,563)
— Purchase of land use rights	**(2,530)**	(21,888)
— Refund of deposits for purchase of land use rights	**–**	29,575
— Proceeds on disposal of property, plant and equipment and right-of-use assets	**23,692**	1,620
— Decrease in long-term and short-term bank time deposits	**4,308,935**	8,529,088
— Increase in long-term and short-term bank time deposits	**(6,686,293)**	(5,390,449)
— Payments for acquisition of investments in associates and a joint venture	**(3,000)**	(428)
— Transactions with non-controlling interests	**–**	(2,280)
— Cash disposal on losing control of a subsidiary	**–**	(5,756)
— Proceeds on disposal of derivative financial instruments	**61,702**	–
— Interest received	**327,267**	388,363
Net cash (used in)/generated from investing activities	**(2,709,232)**	3,182,282
Cash flows from financing activities		
— Proceeds from capital contribution by non-controlling interests	**–**	7,500
— Payment to non-controlling interests for capital reduction of a subsidiary	**–**	(3,146)
— Proceeds from borrowings *(Note 16)*	**13,535,887**	15,313,615
— Repayment of borrowings *(Note 16)*	**(6,953,953)**	(11,135,917)
— Decrease in restricted bank deposits	**2**	–
— Interest paid	**(320,037)**	(179,335)
— Dividends paid *(Note 10(b))*	**(813,485)**	(813,485)
— Dividends paid to non-controlling interests	**(7,850)**	(2,119)
— Lease payments	**(10,808)**	(11,714)
— Payment to non-controlling interests for liquidation of a subsidiary	**–**	(6,000)
— Cash inflow arising from liquidation of a subsidiary	**1,564**	–
Net cash generated from financing activities	**5,431,320**	3,169,399
Increase in cash and cash equivalents	**4,661,042**	8,475,704
Cash and cash equivalents at 1 January	**6,088,603**	12,339,816
Effect of foreign exchange rate changes	**43,967**	73,316
Ending cash and cash equivalents at 30 June	**10,793,612**	20,888,836

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2023

1. GENERAL INFORMATION

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

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

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

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

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 24 August 2023.

This interim condensed consolidated financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with HKAS 34, *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the notes of the type normally included in the annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this interim condensed consolidated financial information are consistent with those of the annual consolidated financial statements for the year ended 31 December 2022 and corresponding interim financial period, except for the adoption of new and amended standards set out as below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. ACCOUNTING POLICIES (Cont'd)

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group assessed the adoption of these new and amended standards and concluded that they did not have a significant impact on the Group's interim results and financial position.

Standards and amendments		Effective for annual periods beginning on or after
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statetment 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The amendments to HKAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The cumulative effect of recognising these adjustments was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

The Group has adopted International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12 upon their release on 21 July 2023. The amendments provide a temporary mandatory exception applying retrospectively from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure from 31 December 2023.

As an exception to requirements in the amendments to HKAS 12, the Group neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes because no new legislation to implement the top-up tax was enacted or substantively enacted at 31 December 2022 in any jurisdiction in which the Group operates.

The relief and the new disclosures will also be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2023.

3. ACCOUNTING POLICIES (Cont'd)

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to HKFRS 16	Lease liability in sale and leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

4. ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

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

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Con'd)

5.2 Liquidity risk

Compared to the last year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2023 (Unaudited)					
Borrowings	**23,658,741**	**1,251**	**200,000**	**–**	**23,859,992**
Interest payables of borrowings	**316,870**	**4,618**	**4,486**	**–**	**325,974**
Net settled derivative financial instruments	**774**	**–**	**–**	**–**	**774**
Lease Liabilities	**19,108**	**12,237**	**4,556**	**916**	**36,817**
Trade, bills and other payables	**3,568,084**	**–**	**–**	**–**	**3,568,084**
Total	**27,563,577**	**18,106**	**209,042**	**916**	**27,791,641**
At 31 December 2022 (Audited)					
Borrowings	15,028,618	2,001,150	184	–	17,029,952
Interest payables of borrowings	259,054	27,515	–	–	286,569
Net settled derivative financial instruments	32,838	–	–	–	32,838
Lease liabilities	19,186	12,278	3,581	1,346	36,391
Trade, bills and other payables	4,345,112	–	–	–	4,345,112
Total	19,684,808	2,040,943	3,765	1,346	21,730,862

5.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Con'd)

5.3 Fair value estimation (Con'd)

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

Recurring fair value measurements **At 30 June 2023 (Unaudited)**	**Level 1** ***RMB'000***	**Level 2** ***RMB'000***	**Level 3** ***RMB'000***	**Total** ***RMB'000***
Financial assets				
Financial assets at fair value through profit or loss ("FVPL")	**–**	**–**	**242,448**	**242,448**
Financial liabilities				
Derivative financial instruments	**–**	**(774)**	**–**	**(774)**

Recurring fair value measurements **At 31 December 2022 (Audited)**	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Financial assets				
FVPL	–	–	212,572	212,572
Derivative financial instruments	–	1,490	–	1,490
	–	1,490	212,572	214,062
Financial liabilities				
Derivative financial instruments	–	(32,838)	–	(32,838)

During the six months ended 30 June 2023, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no significant changes in the reclassification of financial assets or liabilities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. The Group did not have such instrument as at 30 June 2023.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Con'd)

5.3 Fair value estimation (Con'd)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group's derivative financial instruments above are level 2 instruments and their fair value is determined with reference to quotations provided by various banks.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group's unlisted preference shares are level 3 instruments and their fair value is determined with inputs for the asset or liability that are not based on observable market data.

(i) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the six months ended 30 June 2023:

	Unlisted preference shares *RMB'000*
Closing balance as at 31 December 2022	212,572
Changes in fair value recognised in profit or loss	21,591
Currency translation differences	8,285
Closing balance as at 30 June 2023	242,448

(ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for unlisted preference shares:

Description	**Fair value at 30 Jun 2023** ***RMB'000***	Fair value at 31 Dec 2022 *RMB'000*	**Un-observable inputs**	**Inputs**	**Relationship of unobservable inputs to fair values**
Unlisted preference shares	**242,448**	212,572	Risk-free rate	4.43%	The higher the risk-free rate, the higher the fair value
			Volatility	56.00%	The higher the expected volatility, the lower the fair value

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Con'd)

5.3 Fair value estimation (Con'd)

(iii) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

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

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

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

6. SEGMENT INFORMATION

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

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

The Group's operations are mainly organised under the segments of manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated statement of profit or loss.

Most of the Group's companies are domiciled in PRC. The revenue from external customers in PRC accounted for more than 90% of the Group's total revenue.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with those of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Addition to non-current assets comprise addition to property, plant and equipment, investment properties, construction-in-progress, right-of-use assets and intangible assets.

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets. Unallocated liabilities comprise corporate liabilities and derivative financial instruments.

6. SEGMENT INFORMATION (Con'd)

The segment information for the six months ended 30 June 2023 is as follows:

	Unaudited				
	Sanitary napkin products *RMB'000*	**Disposable diaper products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Segment revenue	**3,273,936**	**703,770**	**7,322,807**	**1,555,689**	**12,856,202**
Inter-segment sales	**(54,641)**	**(38,466)**	**(152,697)**	**(405,793)**	**(651,597)**
Revenue of the Group	**3,219,295**	**665,304**	**7,170,110**	**1,149,896**	**12,204,605**
Segment profit	**1,149,778**	**30,152**	**5,180**	**40,350**	**1,225,460**
Unallocated costs					**(32,150)**
Other income and other gains — net					**508,371**
Operating profit					**1,701,681**
Finance income					**157,570**
Finance costs					**(317,951)**
Share of net gains of investments accounted for using the equity method					**182**
Profit before income tax					**1,541,482**
Income tax expense					**(314,581)**
Profit for the period					**1,226,901**
Non-controlling interests					**(1,133)**
Profit attributable to shareholders of the Company					**1,225,768**
Addition to non-current assets	**182,305**	**20,539**	**697,463**	**89,041**	**989,348**
Depreciation of property, plant and equipment and investment properties	**75,623**	**23,494**	**270,456**	**30,279**	**399,852**
Depreciation of right-of-use assets	**6,209**	**2,614**	**12,826**	**4,705**	**26,354**
Amortisation charge	**11,109**	**2**	**23**	**3,326**	**14,460**
As at 30 June 2023 (Unaudited)					
Segment assets	**3,959,603**	**1,044,753**	**11,881,088**	**1,831,147**	**18,716,591**
Deferred income tax assets					**556,185**
Current income tax recoverable					**13,251**
Investments accounted for using the equity method					**43,937**
FVPL					**242,448**
Long-term time deposits					**1,895,639**
Cash and bank balances					**26,749,710**
Unallocated assets					**179,251**
Total assets					**48,397,012**
Segment liabilities	**678,847**	**249,598**	**2,516,626**	**358,303**	**3,803,374**
Deferred income tax liabilities					**187,641**
Current income tax liabilities					**180,522**
Borrowings					**23,859,992**
Unallocated liabilities					**85,446**
Total liabilities					**28,116,975**

6. SEGMENT INFORMATION (Con'd)

The segment information for the six months ended 30 June 2022 is as follows:

	Unaudited				
	Sanitary napkin products *RMB'000*	Disposable diaper products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Segment revenue	3,197,418	655,274	6,208,064	1,966,106	12,026,862
Inter-segment sales	(68,894)	(21,762)	(365,451)	(370,734)	(826,841)
Revenue of the Group	3,128,524	633,512	5,842,613	1,595,372	11,200,021
Segment profit	1,330,726	101,566	305,995	42,106	1,780,393
Unallocated costs					(5,959)
Other income and other gains — net					111,319
Operating profit					1,885,753
Finance income					164,138
Finance costs					(241,554)
Share of net losses of investments accounted for using the equity method					(12,437)
Profit before income tax					1,795,900
Income tax expense					(504,282)
Profit for the period					1,291,618
Non-controlling interests					(15,427)
Profit attributable to shareholders of the Company					1,276,191
Addition to non-current assets	239,147	52,125	180,689	51,620	523,581
Depreciation of property, plant and equipment and investment properties	86,984	21,295	267,551	25,512	401,342
Depreciation of right-of-use assets	7,644	1,936	15,172	4,332	29,084
Amortisation charge	11,027	–	13	7,014	18,054
As at 31 December 2022 (Audited)					
Segment assets	4,347,292	1,134,152	12,254,049	2,055,975	19,791,468
Deferred income tax assets					532,204
Current income tax recoverable					42,168
Investments accounted for using the equity method					43,576
FVPL					212,572
Long-term time deposits					2,895,490
Cash and bank balances					18,667,492
Unallocated assets					152,272
Total assets					42,337,242
Segment liabilities	1,101,507	293,649	3,162,454	432,501	4,990,111
Deferred income tax liabilities					149,433
Current income tax liabilities					268,564
Borrowings					17,029,952
Unallocated liabilities					123,445
Total liabilities					22,561,505

7. PROFIT BEFORE INCOME TAX

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

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Crediting		
Government grant income	**200,440**	250,754
Income from long-term and short-term bank time deposits	**377,644**	268,088
Interests income from cash and cash equivalents	**109,557**	164,138
Net gains on derivative financial instruments	**92,142**	1,002
Exchange gains from financing activities — net	**48,013**	–
Fair value gains on FVPL	**21,591**	–
Reversal of provision for inventories write-down	**10,484**	–
Gains on disposal of investments accounted for using the equity method	**6,623**	–
Charging		
Depreciation of property, plant and equipment *(Note 11)*	**396,769**	398,196
Depreciation of investment properties *(Note 11)*	**3,083**	3,146
Amortisation of intangible assets *(Note 11)*	**14,460**	18,054
Depreciation of right-of-use assets *(Note 12)*	**26,354**	29,084
Employee benefit expense, including Directors' emoluments	**1,121,322**	1,062,776
Losses on disposal of property, plant and equipment and intangible assets, and right-of-use assets	**12,654**	51,389
Net impairment losses on trade and bills receivables	**30,535**	26,403
Provision for decline in value of inventories	**–**	23,459
Exchange losses from financing activities — net	**–**	44,329
Exchange losses from operating activities — net	**182,426**	367,797
Interest expenses on borrowings and bank charges after deducting interest expenses of RMB6,965,000 (2022: RMB3,323,000) capitalised in construction-in-progress	**317,222**	196,492
Miscellaneous taxes and levies	**44,427**	46,944

8. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current tax on profits for the period	**300,477**	396,243
Withholding income tax on profits of the current period	**31,977**	61,613
Deferred income tax on other timing differences, net	**(17,873)**	46,426
Income tax expense	**314,581**	504,282

Taxation on Mainland China income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in Mainland China in which the Group operates. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25% (2022: 25%).

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

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

The profits of subsidiaries in Mainland China of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to investors in Hong Kong, or at a rate of 10% for other foreign investors. Deferred income tax liabilities of approximately RMB31,977,000 (2022: RMB61,613,000) for the six months ended 30 June 2023 have been provided for in this regard based on the expected dividends to be distributed from the Group's subsidiaries in Mainland China in the foreseeable future.

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2023	2022
Profit attributable to shareholders of the Company *(RMB'000)*	**1,225,768**	1,276,191
Weighted average number of ordinary shares in issue *(thousands)*	**1,162,121**	1,162,121
Basic earnings per share *(RMB)*	**1.055**	1.098

9. EARNINGS PER SHARE (Con'd)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. Share options is the only category of dilutive potential ordinary shares of the Company.

The diluted earnings per share is the same as basic earnings per share for the six months ended 30 June 2023 as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

10. DIVIDENDS

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Interim, proposed/paid, RMB0.70 (2022: RMB0.70) per share *(Note (a))*	**813,485**	813,485

Notes:

(a) An interim dividend of RMB0.7 (equivalent to Hong Kong dollars ("HK$") 0.762187) (2022: amounted to RMB0.7 per share, equivalent to HK$0.809801) per share was proposed by the Board of Directors on 24 August 2023. This interim dividend, amounting to RMB813,485,000 calculated based on 1,162,120,917 issued shares as at 24 August, 2023, has not been recognised as a liability in this interim condensed consolidated financial information.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its dividend payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The exchange rate of HK$ to RMB on 23 August 2023 is 0.91841.

(b) A final dividend of RMB813,485,000, equivalent to HK$927,355,000 (2021: RMB813,485,000, equivalent to HK$999,601,000) related to the period up to 31 December 2022 was paid in June 2023.

11. CAPITAL EXPENDITURE — NET BOOK VALUE

	Unaudited			
	Property, plant and equipment	**Construction-in-progress**	**Investment properties**	**Intangible assets**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2023	**7,099,255**	**969,210**	**166,696**	**656,976**
Additions	**135,013**	**825,868**	**–**	**12,904**
Transfer from construction-in-progress	**310,783**	**(310,783)**	**–**	**–**
Transfer to investment properties	**(1,252)**	**–**	**1,252**	**–**
Transfer from right-of-use assets	**–**	**–**	**1,354**	**–**
Disposals	**(25,895)**	**–**	**–**	**–**
Depreciation/amortisation	**(396,769)**	**–**	**(3,083)**	**(14,460)**
Currency translation differences	**995**	**5,949**	**(164)**	**–**
At 30 June 2023	**7,122,130**	**1,490,244**	**166,055**	**655,420**
At 1 January 2022	7,296,727	509,647	216,293	724,778
Additions	97,184	259,638	–	183
Transfer from construction-in-progress	146,048	(146,048)	–	–
Transfer from investment properties	34,406	–	(34,406)	–
Transfer to right-of-use assets	–	–	(8,114)	–
Disposals	(9,106)	–	–	(43,903)
Depreciation/amortisation	(398,196)	–	(3,146)	(18,054)
Disposal of a subsidiary	(554)	–	–	(90)
Currency translation differences	5,471	–	(11)	–
At 30 June 2022	7,171,980	623,237	170,616	662,914

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

12. LEASES

(a) Amounts recognised in the consolidated balance sheet

	Unaudited As at 30 June 2023 *RMB'000*	Audited As at 31 December 2022 *RMB'000*
Right-of-use assets		
— Land use rights	**1,129,445**	1,157,972
— Buildings	**34,458**	34,109
Total	**1,163,903**	1,192,081
Lease liabilities		
— Current	**(17,982)**	(18,109)
— Non-current	**(17,127)**	(16,636)
Total	**(35,109)**	(34,745)

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

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

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

	Unaudited Six months ended 30 June	
	2023 *RMB'000*	2022 *RMB'000*
Depreciation of right-of-use assets *(Note 7)*		
— Land use rights	**16,116**	18,021
— Buildings	**10,238**	11,063
	26,354	29,084
Interest expense	**729**	733
Short-term and low-value lease expenses	**27,373**	39,004

The total cash payment for leases during the period was RMB38,181,000 (2022: RMB50,718,000), excluding the cash payment for land-use rights.

13. TRADE AND BILLS RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**2,923,398**	2,968,424
Bills receivables	**5,700**	24,710
	2,929,098	2,993,134
Less: provision for impairment	**(90,275)**	(61,247)
Trade and bills receivables, net	**2,838,823**	2,931,887

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. The ageing analysis of trade and bills receivables based on invoice date is as follows:

	Unaudited	Audited
	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
Within 30 days	**1,003,767**	961,667
31 to 180 days	**1,679,683**	1,724,960
181 to 365 days	**115,504**	189,311
Over 365 days	**130,144**	117,196
	2,929,098	2,993,134

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximated their fair values as at the balance sheet date.

14. LONG-TERM BANK TIME DEPOSITS, RESTRICTED BANK DEPOSITS AND CASH AND BANK BALANCES

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Long-term bank time deposits	**1,895,639**	2,895,490
Restricted bank deposits	**300**	302
Cash and bank balances		
— Bank time deposits	**15,956,098**	12,578,889
— Cash and cash equivalents	**10,793,612**	6,088,603
	26,749,710	18,667,492
Total	**28,645,649**	21,563,284

The cash and cash equivalents represented cash deposits held at call with banks and in hand an other short-term highly liquid investments with maturities of three months or less.

15. TRADE, BILLS AND OTHER PAYABLES AND ACCURED CHARGES

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Trade payables	**2,184,154**	2,913,743
Bills payables	**2,096**	6,942
	2,186,250	2,920,685
Other payables and accrued charges		
— Accrued expenses and other payables	**1,141,646**	1,183,190
— Payables for purchase of property, plant and equipment	**240,188**	241,237
— Employee benefit payable	**164,857**	217,555
— Other taxes payables	**32,713**	29,565
	1,579,404	1,671,547
Total	**3,765,654**	4,592,232

15. TRADE, BILLS AND OTHER PAYABLES AND ACCURED CHARGES (Con'd)

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

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Within 30 days	**1,060,944**	1,609,093
31 to 180 days	**1,119,753**	1,299,393
181 to 365 days	**1,953**	8,270
Over 365 days	**3,600**	3,929
	2,186,250	2,920,685

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

16. BORROWINGS

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Non-current		
Long-term bank loans — unsecured	**200,000**	1,999,000
Long-term bank loans — secured (b)	**1,251**	2,334
	201,251	2,001,334
Current		
Short-term bank loans — unsecured	**15,402,880**	14,319,923
Super short-term commercial papers (a)	**5,000,000**	–
Current portion of long-term bank loans — unsecured	**2,863,000**	415,433
Trust receipt bank loans	**310,159**	206,419
Current portion of other borrowings — unsecured	**80,640**	84,800
Current portion of long-term bank loans — secured (b)	**2,062**	2,043
	23,658,741	15,028,618
Total	**23,859,992**	17,029,952

As at 30 June 2023, the effective interest rate of the Group's bank loans and other borrowings was approximately 3.31% (31 December 2022: 2.10%) per annum.

16. BORROWINGS (Con'd)

(a) Super short-term commercial papers

As at 30 June 2023, the Company had the following super short-term commercial papers:

	Interest rate	Expiration term	Mature date	Amount *RMB'000*
23恒安國際SCP001	2.40%	180 days	2023–08–27	1,500,000
23恒安國際SCP002	2.40%	178 days	2023–09–28	2,000,000
23恒安國際SCP003	2.39%	180 days	2023–11–08	1,000,000
23恒安國際SCP004	2.39%	179 days	2023–11–17	500,000

(b) Long-term bank loans — secured

As at 30 June 2023, bank borrowings of RMB3,313,000 (31 December 2022: RMB4,377,000) were pledged by the property, plant and equipment (carrying amount of RMB8,997,000 (31 December 2022: RMB9,675,000)) and cost of RMB12,976,000 (31 December 2022: RMB13,193,000) of a subsidiary.

Movements in borrowings are analysed as follows:

	Unaudited *RMB'000*
At 1 January 2023	17,029,952
New borrowings	13,535,887
Repayments of borrowings	(6,953,953)
Currency translation differences	248,106
At 30 June 2023	23,859,992
At 1 January 2022	18,227,095
New borrowings	15,313,615
Repayments of borrowings	(11,135,917)
Currency translation differences	480,220
At 30 June 2022	22,885,013

17. SHARE CAPITAL

Ordinary shares, issued and fully paid

	Number of shares	*RMB'000*
At 1 January 2023 and 30 June 2023 (unaudited)	**1,162,120,917**	**123,345**
At 1 January 2022 and 30 June 2022 (unaudited)	1,162,120,917	123,345

18. SHARE-BASED COMPENSATION

The Company adopted share option schemes on 17 May 2021 ("2021 Scheme") and 26 May 2011 ("2011 Scheme"). Pursuant to the scheme, share options had been granted to the Directors and selected employees. The options granted will be forfeited if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2023		2022	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**45.34**	**51,606**	75.88	10,972
Granted (i)	**–**	**–**	41.48	44,747
At 30 June (Unaudited)	**45.34**	**51,606**	48.26	55,719

(i) The Board of Directors announced that on 18 January 2022 ("date of grant"), 44,747,000 share options to subscribe for a total of 44,747,000 ordinary shares of HK$0.10 each in the share capital of the Company were granted to certain directors and employees of the Group, under the share option scheme adopted by the Company on 17 May 2021. The validity period of the share options shall be from the date of grant to 17 January 2026 and the share options shall lapse at the expiry of the validity period. The share options granted shall be exercisable during the following periods: (a) up to 30% of the share options shall be exercisable from 18 January 2023 to 17 January 2024, (b) additional 30% of the share options shall be exercisable from 18 January 2024 to 17 January 2025, (c) the remaining 40% of the share osptions shall be exercisable from 18 January 2025 to 17 January 2026.

Out of the 51,606,000 outstanding options (31 December 2022: 51,606,000), 19,215,000 options (31 December 2022: 5,333,000) were exercisable as at 30 June 2023.

18. SHARE-BASED COMPENSATION (Con'd)

Based on fair value of the underlying ordinary shares, the Group uses binomial model to determine the fair value of the share options as of the grant date. Key assumptions are set as below:

	Key assumptions	
	Options granted on 18 January 2022	**Options granted on 21 December 2022**
Fair value at grant date	HK$2.63-HK$3.84	HK$4.01-HK$4.97
Share price at grant date	HK$38.65	HK$40.30
Exercise price	HK$41.48	HK$40.30
Risk free interest rate	0.68%–1.22%	3.51%–4.05%
Dividend yield	4.88%	5.83%
Expected volatility *(Note)*	24%–25%	23%–25%
Expected life (in years)	2–4	2–4

Note: The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average weekly trading price volatility of the shares of the Company.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

		Options (thousands)	
	Exercise price in HK$ per share option	**Unaudited 30 June 2023**	Audited 31 December 2022
Expiry date — 17 January 2024	41.48	**13,424**	13,424
Expiry date — 20 December 2024	40.30	**458**	458
Expiry date — 17 January 2025	41.48	**13,424**	13,424
Expiry date — 5 October 2025	79.20	**5,333**	5,333
Expiry date — 20 December 2025	40.30	**458**	458
Expiry date — 17 January 2026	41.48	**17,899**	17,899
Expiry date — 20 December 2026	40.30	**610**	610
		51,606	51,606

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the six month ended 30 June 2023 amounted to RMB22,006,000 (2022: RMB30,043,000), and the remaining unamortised fair value of approximately RMB47,178,000 will be charged to the consolidated income statement in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2021 Scheme are 71,480,742, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the 2021 Scheme.

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	Unaudited 30 June 2023	Audited 31 December 2022
	RMB'000	*RMB'000*
Investments in associates (a)	**40,936**	43,576
Joint ventures (b)	**3,001**	–
Total	**43,937**	43,576

(a) Investments in associates

	RMB'000
At 1 January 2023	**43,576**
Disposal	**(4,377)**
Share of net gains	**181**
Currencey translation differences	**1,556**
At 30 June 2023 (unaudited)	**40,936**
At 1 January 2022	53,330
Addition	428
Disposal of a subsidiary	5,669
Share of net losses	(12,437)
Currencey translation differences	(1,378)
At 30 June 2022 (unaudited)	45,612

(b) Joint ventures

	RMB'000
At 1 January 2023	**–**
Addition	**3,000**
Share of net gains	**1**
At 30 June 2023 (unaudited)	**3,001**

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Con'd)

The particulars of the associates and joint ventures of the Group as at 30 June 2023, all of which equity method is used to account for, are set out as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Particulars of issued share capital	Principal activities
Finnpulp Oy	Kuopio, Finland	36.46%	EUR10,002	Manufacturing, distribution and sale of wood pulp
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB29,411,800	Research and development of personal hygiene materials
Karrion Development Limited	Hong Kong, PRC	50.00%	HK$1,000,000	Development, distribution, wholesaling and retailing of medical, healthcare and hygiene products
Xiamen Anjian Real Estate Operation Co., Ltd.*	Xiamen, PRC	50.00%	RMB6,000,000	Real estate development and operation.

* *For identification purpose only*

20. CAPITAL COMMITMENTS

	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Contracted but not provided for in respect of:		
Machinery and equipment	**644,660**	511,979
Leasehold land and buildings	**709,907**	213,248
Total	**1,354,567**	725,227

21. CONTINGENT LIABILITIES

At 30 June 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

22. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

(a) During the period, the Group had no significant related party transactions;

(b) For the six months ended 30 June 2023, the key management compensation amounted to approximately RMB27,003,000 (2022: RMB18,371,000).

23. SUBSEQUENT EVENT

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

BUSINESS REIVEW

In the first half of 2023, with the support of China's effective policies to stabilise the economy, China's economic recovery continued, and the gross domestic product ("GDP") in the first half of 2023 grew 5.5% year-on-year. Consumption also showed a steady growth momentum. In the first half of 2023, the total retail sales of consumer goods increased by 8.2% year-on-year, of which the total retail sales of daily necessities increased by 5%. However, negative factors such as the complex and severe international environment and interest rate hikes in Europe and the United States continued, the foundation for sustained economic recovery and development was not solid. Leveraging its comprehensive competitive advantages and effective sales strategies, Hengan continued to expand its market share, and further consolidated its strong business resilience.

During the period, Hengan fully grasped the consumption potential released by the transformation of consumption patterns. Hengan greatly expanded the e-commerce platforms and new retail channels through effective price stabilisation strategies and product line upgrades. It also promoted sales in traditional channels and created its new growth points. The effectiveness of the development of the Group's omni-channel continued to improve. Benefiting from the omni-channel strategy and continuous enhancement of the brand image, revenues of the Group's three core business segments (tissue, sanitary napkins and disposable diapers) maintained robust growth in the first half of the year, with a year-on-year increase of approximately 15.1%. As of 30 June 2023, the Group's overall revenue increased by 9.0% to approximately RMB12,204,605,000 as compared with the same period last year (2022 first half: RMB11,200,021,100). The Group's revenue is expected to maintain notable growth in the second half of 2023.

In the first half of 2023, 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")). During the period, 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 29.0% (2022 first half: 24.2%), growing about 30.0% year-on-year of which other new retail channels (including Retail Integrated, community group-buying, etc.) are progressing well with sales increasing by more than 30.0% year-on-year and accounting for more than 7.0% of the overall sales. The Group is also committed to developing premium products and continuously optimising its product mix, actively enhancing its brand image to meet domestic customers' pursuit of high-quality and diversified products. The premium tissue paper series "Cloudy Soft Skin" (雲感柔膚), the premium disposable diapers series "Q • MO" and sanitary napkins series "Sweet Dream Pants" (萌睡褲) continued to be well-received by customers and maintained a strong sales momentum during the period. The sales of various upgraded and premium products also achieved satisfactory year-on-year growth, which increased over 15.0% year-on-year and continued to increase its proportion over the sales.

During the period under review, raw material prices dropped significantly in the second quarter, leading to intensified market promotions and price competition. In the face of fierce market competition, Hengan actively responded to the market changes, further expanded its market share and enhanced its leading position in the market. The price of wood pulp, the main raw material of tissue paper, remained high in the first quarter of the year. However, with continuous improvement in supply underpinned by logistics and production capacity, the price of wood pulp started to drop in the second quarter. Although the Group's upgraded products and premium product series both grew during the period, which helped partially offset the impact of the high-cost wood pulp inventory purchased earlier, the gross profit of the tissue paper business was still under pressure. In the first half of 2023, the Group's overall gross profit decreased by approximately 3.9% to approximately RMB3,788,550,000 (2022 first half: RMB3,942,191,000), and the overall gross profit margin dropped to 31.0% (2022 first half: 35.2%) due to the impact of raw material prices. The positive impact of the decrease in the price of wood pulp has been gradually reflected in the cost of the tissue paper business since the second quarter of this year. The gross profit margin recorded an increase month-on-month, and is expected to continue to improve in the second half of the year.

During the period, operating profit fell approximately 9.8% to approximately RMB1,701,681,000 (2022 first half: RMB1,885,753,000). Although the Group achieved growth in sales, the depreciation of the Renminbi against the US dollar and the HK dollar during the period resulted in an operating foreign exchange loss before tax of approximately RMB182,426,000. However, the loss was significantly reduced by about 50.4% compared with the operating foreign exchange loss before tax in the first half of 2022. Therefore, profit attributable to shareholders of the Company was approximately RMB1,225,768,000 (2022 first half: RMB1,276,191,000), representing a year-on-year decrease of approximately 4.0%, mainly reflecting that the high-cost wood pulp inventory continued to affect the Group's gross profit margin during the period. Basic earnings per share was approximately RMB1.055 (2022 first half: RMB1.098).

The Board of Directors declared an interim dividend of RMB0.70 per share (2022 first half: RMB0.70 per share) or RMB813,485,000 (2022 first half: RMB813,485,000) for the six months ended 30 June 2022, to maintain a stable dividend payment amounts to the shareholders.

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. Many domestic and foreign brands adopted aggressive sales strategies to expand into the mid-to-high-end market and attract more young customers. Hengan has full confidence in its product quality and long-standing reputation among customers, and adheres to a rational and stable pricing strategy. In order to enhance the brand image and consolidate its leading position in the mid-to-high-end market and traditional sales channels, Hengan continued to promote product upgrades and premiumisation to meet consumers' demand for high-quality feminine care products and improve the Company's competitiveness, helping Hengan to stand out in the competition. The Group's upgraded sanitary napkin products, such as the 'Sweet Dream Pants' (萌睡褲), were well received by customers due to their excellent quality and brand image, driving the sales growth of the overall sanitary napkin business.

The rapid increase in the penetration of new consumption patterns has exacerbated the fragmentation of channels. E-commerce platforms and other new retail channels (including online-to-offline (O2O) platforms, community group-buying) are thriving. The Group actively seized the opportunities of emerging consumption trends, actively expanded new sales channels, and consolidated its leading edge in traditional channels, which effectively boosted the sales of sanitary napkins and maintained a leading market share. During the period, the Group achieved satisfactory sales in new retail channels, and products of the 七度空間 series achieved the leading position in the sales in many new retail channels. Despite fierce market competition, the Group's sanitary napkin business still grew in revenue. In the first half of 2023, the revenue of the Group's sanitary napkin business increased by approximately 2.9% to approximately RMB3,219,295,000 (2022 first half: RMB3,128,524,000), accounting for approximately 26.4% (2022 first half: 27.9%) 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 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), the main raw material for sanitary napkins, rose, resulting in a year-on-year decrease of approximately 3.5 percentage points in the gross profit margin of the sanitary napkin business to approximately 61.8% (2022 first half: 65.3%). Benefiting from the steady increase in the proportion of premium brands and upgraded products and the decline in the cost of some petrochemical raw materials in the second quarter, the gross profit margin is expected to improve in the second half of 2023.

The Group's sanitary napkin brand 七度空間 continued to launch upgraded and premium products and strived to enhance its brand image. In recent years, the Group launched upgraded products such as "Ultra-thin" (特薄), "Extra-long — Night Use" (加長夜用) and "Pants-style" (褲型) series, which received an overwhelming response from the market. 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 signed female artists with bright and positive image, including actresses Zhao Jinmai and Zhang Jiani, as brand ambassadors of 七度空間, injecting 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, meetings and limited-edition gift sets, based on the preferences of young female customers and white-collar women to further enhance the brand image and attract young and white-collar customers.

In addition, the "Pants-style" series still has great growth potential with sales increasing over 76.0% year-on-year during the period. The Group will continue to step up its efforts in promoting the "Pants-style" series of products, and plans to launch an upgraded version of "Sweet Dream Pants" to attract more customers and further increase market penetration. The Group believes that the upgraded products of the 七度空間 series will continue to be the main growth driver for the sanitary napkin business, which will help the Group expand its market share and increase the revenue contribution of premium products. Meanwhile, the Group will continue to increase the sales proportion of new retail channels, strive to develop higher quality products, adhere to a stable pricing strategy, and maintain stable growth in traditional channels, thereby promoting the Group's long-term development and consolidating its leading position.

In addition, the Group will continue to 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 the first half of 2023, 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 sales strategy, driving the continuous growth of tissue paper sales. 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 under review, the revenue of the Group's tissue paper business surged approximately 22.7% to approximately RMB7,170,110,000 (2022 first half: RMB5,842,612,000), accounting for approximately 58.7% of the Group's overall revenue (2022 first half: 52.2%). 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 the second quarter of 2023, the price of wood pulp started to come down. However, as 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 the first half of 2023. Therefore, the gross profit margin dropped to approximately 17.7% in the first half of 2023 (2022 first half: 23.1%). Nonetheless, the benefit of the reduction in wood pulp costs has been gradually reflected in the gross profit margin in the second quarter. The Group's gross profit margin in the second quarter improved significantly compared with the second half of last year. Therefore, the Group expects that the gross profit margin of the tissue paper business will continue to improve in the second half of the year.

Driven by the improvement of national health awareness and the growing demand for consumption upgrades, the Group's upgraded and premium tissue paper products achieved outstanding sales. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of more than 40.0% and accounted for more than 12.0% of the overall tissue paper sales. In terms of the Group's wet wipes business, the sales for the period was approximately RMB491,497,000 (2022 first half: RMB413,312,000), recording a sales growth of nearly 18.9%, accounting for approximately 6.9% of the overall sales of the tissue paper business (2022 first half: 7.1%). The wet wipes business has maintained a strong growth momentum in recent years, the Group will continue to increase its market share in the domestic wet wipes market and maintain its market leadership. The Group actively responded to the fragmentation of channels and the efforts and resources invested in strategic deployment in the early years has entered the harvest period. The sales of tissue paper in e-commerce channels increased by more than 40.0%, accounting for close to 33.3% of the overall sales of tissue paper. Meanwhile, emerging channels such as community group-buying also saw an increase of more than 40.0%, delivering stellar performance. In the future, the Group will continue its endeavours in expanding different sales channels, striving for the largest market share.

With the continuous enhancement of living standards and health awareness, the overall tissue paper market is full of opportunities. In the face of fierce market competition, the Group will develop more high-quality products to meet the diverse needs of customers, improve the cost-effectiveness of tissue paper production, and increase the production capacity of each production base, so as to fully grasp the business opportunities in the domestic tissue paper market and maintain its leading position in the tissue paper market. During the period, the Group's annual production capacity was approximately 1.47 million tonnes. It is expected that in the second half of 2023, production capacity will be gradually increased in Hunan, Hubei, Guangdong and other regions to respond to market conditions and meet the demand for sales growth.

Disposable Diapers

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

The Group continues to develop high-quality baby and adult care products to meet customers' growing demand for product quality. During the period, sales of the flagship premium product "Q • MO" maintained satisfactory growth. It recorded a year-on-year growth of nearly 19.1%, and its proportion further increased to more than 35.0%. In the first half of 2023, 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 rose to more than 50.0% and more than 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 to sport pants to meet the current consumer demands, which 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 the penetration rate of the Group's adult disposable diapers, the Group's adult disposable diaper business recorded a growth of approximately 45.1% during the period, accounting for approximately 29.2% of the overall diaper sales. Therefore, the sales of the Group's diaper business rebounded during the period, which increased by approximately 5.0% to approximately RMB665,304,000 (2022 first half: RMB633,513,000), accounting for approximately 5.5% of the Group's overall revenue (2022 first half: 5.7%). 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 are expected to maintain growth in the second half of 2023.

In terms of gross profit margin, the price increase in petrochemical raw materials for disposable diapers led to an increase in costs of sales during the period, however, the increase in the proportion of sales of the higher-margin "Q • MO" products offset the impact of rising costs on the overall business profitability. Therefore, the gross profit margin of the diaper business grew approximately 36.0% (2022 first half: 35.3%). The gross profit margin of the diaper business is expected to remain stable in the second half of the year.

During the period, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding 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 customers, effectively driving an increase in sales. On the other hand, "Q • MO" magic breathing diapers, which have 3.6 times more vents than traditional diapers, has been well-received by the market. The Group will continue to optimise "Q • MO" products to instill growth momentum into the Group's future development. With the dual-brand strategy, the Group expects the sales of the baby diaper business will maintain a steady growth in the second half of 2023.

In addition, as China 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 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 vigorously 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 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 continuing to tap the growth potential of the adult care market.

Other Income 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 27.9% year-on-year to approximately RMB1,149,896,000 (2022 first half: RMB1,595,372,000). The decline was mainly due to the Group's preference to consume high-cost raw materials through production as soon as possible and to ensure the raw material trading business's profit, which caused the revenue from the raw material trading business to drop significantly about 34.7% to approximately RMB580,000,000 (2022 first half: approximately RMB890,000,000).

During the period, revenue from the household products business was approximately RMB126,284,000 (2022 first half: RMB170,887,000), representing a year-on-year decrease of approximately 26.1%, accounting for approximately 1.0% of the Group's revenue, which was mainly due to the decline in the export business of household products.

In the first half of 2023, 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 high quality products to overseas markets.

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 fell in light of the end of epidemic. Thus, the sales of medical products decreased notably and recorded a revenue contribution of approximately RMB62,195,000(2022 first half: RMB167,542,000). Although the revenue of medical products that have higher profit margin decreased, raw material trading business that has relatively lower margin saw a large extent of year-on-year decline, therefore the overall gross profit margin of other businesses increased to approximately 25.4% (2022 first half: 20.4%).

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 the first half of 2023, turnover of overseas channel (including Wang-Zheng Group business) was approximately RMB916,810,000 (2022 first half: RMB1,072,226,000), accounting for approximately 7.5% of the Group's overall sales (2022 first half: 9.6%).

During the period, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approximately 8.2% year-on-year to approximately RMB220,359,000 (2022 first half: RMB203,628,000), accounting for approximately 1.8% of the Group's overall sales (2022 first half: 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 and tissue products, cotton products and processed papers. Its brands include "P Love" disposable adult diapers and "Carina" personal hygiene products. The Group leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's tissues and adult disposable diapers products into the Southeast Asian market.

In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch good quality products under the Wang-Zheng 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 the first half of 2023, the national online retail sales of physical goods reached RMB6.06 trillion, representing a year-on-year increase of 10.8%, of which the online retail sales of consumer goods increased by 10.3%. In order to meet the ever-upgrading needs of customers, 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 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.

In first half of 2023, 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 approximately RMB3.5 billion (2022 first half: RMB2.7 billion), bringing the proportion of e-commerce sales up to approximately 29.0% (2022 first half: 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) and improve data analysis capabilities for end customers.

To cater for the new customer trends, the Group will interact with customers through livestream sales and other community activities, and strengthen the connection with young customers. The Group also appointed Xiao Zhan, a popular artist, as the brand ambassador of "Hearttex" to further enhance the brand influence, the Group will continue to increase the Group's market share in the e-commerce and new retail channels sector, thus injecting strong impetus for rapid growth in the future.

Selling and Administrative Expenses

As the Group moderately increased its online marketing investment to capture the market opportunities and promote the Group's key selling products, the Group's selling and administrative expenses during the period amounted to approximately RMB2,564,705,000, representing a year-on-year increase of approximately 19.8%. The proportion of the Group's selling and administrative expenses to the total revenue for the period increased to approximately 21.0% (2022 first half: 19.1%). The Group believes that the total revenue is expected to continue to increase in the second half of the year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi. During the period, due to the depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group recorded an operating exchange loss of approximately RMB182,426,000, the exchange loss significantly narrowed by approximately 50.4%, mainly due to significant decline in Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company, which mainly caused the recognition of operating exchange loss in last period (2022: first half RMB367,797,000).

As at 30 June 2023, apart from certain foreign currency swap contracts and foreign exchange options contract 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 30 June 2023, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB28,645,649,000 (31 December 2022: RMB21,563,284,000); super short-term commercial papers of RMB5.0 billion (31 December 2022: Nil) and bank borrowings and other borrowings amounted to approximately RMB18,859,992,000 (31 December 2022: RMB17,029,952,000).

In December 2022, the Group successfully registered super short-term commercial papers in an aggregate amount of not more than RMB5 billion. From February to May 2023, the Group issued super short-term commercial papers in four batches of RMB5.0 billion in total with the coupon rates ranging from 2.39% to 2.4% per annum and a tenor ranging from 178 days to 180 days.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 1.4% to 6.5% (2022 first half: from 0.4% to 3.8%).

As at 30 June 2023, 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 119.1% (31 December 2022: 87.2%), 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 23.9% (31 December 2022: negative 23.2%) 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 period, the Group's capital expenditure was approximately RMB989,348,000 (2022 first half: RMB523,581,000). As at 30 June 2023, the Group had no material contingent liabilities.

Human Resources and Management

During the period, the Group actively improved the efficiency of human resources, raised the salaries of employees to the industry level, and implemented a more scientific and reasonable 'target remuneration' system by linking the salary system with the staff duties and responsibilities and task goals, thus stimulating the staff enthusiasm for work, and improving work efficiency. As at 30 June 2023, the Group employed approximately 23,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

Latest Awards

In the first half of 2023, awards and honours won by the Group were as follows:

Awards/Honours	Organisations
Vice Chairman Unit of ACEF	All-China Environment Federation (ACEF) "Belt and Road" Eco-Industry Cooperation Working Committee
Designated Supplies of the "Belt and Road" Economic & Environmental Cooperation Forum	All-China Environment Federation (ACEF)
2022 The Showcase of "the Belt and Road" Green Supply Chain	All-China Environment Federation (ACEF) "Belt and Road" Eco-Industry Cooperation Working Committee
2022 Wind ESG Hong Kong Stock Best Practice Award (Consumer Staples)	Wind Information Co., Ltd.
Enterprise that Paid More Than RMB500 Million Tax in 2022	The Jinjiang Municipal Government
2022 Forbes China Top 50 Sustainable Development Industrial Enterprises	Forbes China
China Red Cross Fraternity Medal	Red Cross Society of China
Special Contribution Award	Red Cross Society of China
Fujian Red Cross Humanitarian Gold Medal	Red Cross Society of China Fujian Branch
The 1st Top 100 Most Valuable Brands in Fujian Province	Fujian Federation of Enterprises and Entrepreneurs, Fujian Council of Brand Development
Ingenious Product of China's Household Paper Industry in 2023	China National Household Paper Industry Association
Ingenious Product of China's Sanitary Products Industry in 2023	China National Household Paper Industry Association
All-Asia Executive Team 2023 rankings: Most Honoured Company: Hengan International and Best ESG	Institutional Investor
The Fifth China Best Managed Companies List	Deloitte China

Corporate Social Responsibility

Hengan continues to implement the concept of sustainable development, establishes the Board-level ESG Committee to comprehensively coordinate issues related to sustainable development, and improves the management over various fields such as product innovation, quality assurance, energy conservation and carbon reduction, talent cultivation, health and safety, and philanthropy, leading the company to steadily achieve the goal of "gain RMB100 billion within 100 years" with sustainability path.

Hengan has continuously strengthened the transparency of ESG information disclosure and the ESG ratings of the Group were greatly improved during the reporting period. Among them, the FTSE Russell ESG rating score has increased to 3.1, which enabled Hengan's inclusion in the FTSE 4Good Index. Also, the Group was successfully selected in the first-ever *Sustainability Yearbook 2023 (China Edition)* released by S&P Global, an authoritative rating agency, and was rated as the "Industry Mover".

In the first half of 2023, the Group was included in the "2022 Forbes China Top 50 Sustainable Development Industrial Enterprises". Moreover, for the second consecutive year, the Group was awarded "Asia's Best CSR" and "Best Investor Relations Company" in the "Asian Excellence Awards" organized by *Corporate Governance Asia*, and CEO Mr. Hui Ching Lau was selected as "Asia's Best CEO (Investor Relations)".

Innovative Research and Development

Adhering to the "consumer-oriented" market principle, the Group is committed to its corporate vision of "to become global top-tier supplier of daily products through ongoing innovations and provision of premium products and services", and regards innovation capability as the driving force for corporate development, and continuously remains keen on the market to provide the public with more high-quality and reliable personal and household hygiene products.

In response to customers' rising demand for environmental protection, the Group vigorously introduces and cultivates innovative talents, and established a complete product research and development system and high-level corporate standards to strictly regulate product design and development. Based on the advantages of innovation capability, the Group focuses on developing safer and healthier eco-friendly products, striving to develop products that are environmentally friendly and reliable in terms of quality.

Hengan deepened cooperation with different parties on biodegradable materials to explore new models for green industrial development. During the reporting period, Hengan planned the sustainable development platform for plastics, researching the Reduce, Reuse, Recycle (3R) and Degradable (1D) of plastics to enhance the green attributes of products.

Philanthropy

As a leading enterprise in the industry, Hengan always remember the responsibility to the society by setting an example in promoting the development of social welfare undertakings and actively participating in charity events. During the period, the Group donated materials worth RMB2 million to women and children in the earthquake-stricken areas to safeguard the health of the people in both countries and help them to rebuild after the disaster. The Group also focuses on women's health and education, and has supported the "Spring Bud Project" for consecutive years. In March 2023, the Group joined hands with the China Children and Teenagers' Fund (CCTF) to present "Building the Future — Girls' Growth Energy Packs" to the Spring Bud girls in Zhengding County, which fully fit their needs of adolescent development. In addition, as one of the Group's brands, ElderJoy 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.

In the first half of 2023, the CEO, Mr. Hui Ching Lau, was honoured with the "Caring Donation Individual" of the first "Fujian Charity Award".

Low-Carbon and Environmental Protection

Hengan closely follows the national strategy to cope with climate change and formulates a sustainability plan. The Group released the *Environmental Protection Policy and Biodiversity Protection Policy* to reduce the ecological impacts of Hengan's own operations and mitigate the risks of climate change, thus contributing to the achievement of national low-carbon economy transition and the carbon peak and carbon neutrality goals.

Hengan is always committed to clean production and "zero emission". The Group continued to promote the use of clean energy by carrying out photovoltaic projects in many plants across the country and fully equipping them with solar roof; carried out energy-saving equipment transformation and factory energy-saving projects in the production process to enhance energy efficiency; widely applied wastewater recycling and reuse technology to reduce water consumption.

Hengan promotes the fulfilment of environmental and social responsibilities in the value chain. The Group joined the Green Recycled Plastics Supply Chain Joint Working Group (GRPG) and served as the vice chairman, and strived to reduce plastics use at source. Also, the Group released the Packaging Material Policy to regulate the reduction of plastic packaging material. Meanwhile, the Group continued to promote responsible procurement for wood pulp and join hands with suppliers to propel the sustainable development of the supply chain for wood pulp. Six paper production subsidiaries of Hengan received the Chain of Custody Certification of Forest Stewardship Council (FSC/CoC).

As the industry's first vice-chairman unit of the Carbon Neutrality Committee of China Energy Conservation Association, Hengan remembers the responsibility and actively participate in the initiation of Chinese corporate commitment to social responsibility of carbon neutrality with concrete actions. In the first half of 2023, as the only case in the household paper industry, the Group was successfully selected as one of the "Belt and Road Initiative" green supply chain cases by the All-China Environment Federation.

Talent Development

The Group actively responds to human rights principles such as the *Universal Declaration of Human Rights* and released the *Human Rights Policy* during the reporting period. The policy pledges to fulfil the responsibility of upholding human rights in operations, create an equal and inclusive working environment, and effectively safeguard the rights and interests of its employees, such as equal pay for equal work. Meanwhile, the Group issued the *Anti-Discrimination and Anti-Harassment Policy*, which implements the principle of equal employment and stipulates that the Group will not discriminate against employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc., and that the Group adopts a zero-tolerance attitude towards discriminatory and harassing behaviours. The Group strives to protect the rights and interests of employees in practice by providing employees with comprehensive remuneration and promotion mechanism, achieving a win-win situation between corporate and employees.

The Group formulated the "Overall Framework of the Talent Training System" to provide employees with comprehensive skills and quality training at different levels and stages. Also, the Group continuously improves the dual-channel career development and supporting mechanisms for management and technical directions, and screens outstanding employees to enter the promotion pipeline. Meanwhile, the Group focuses on cultivating internal trainers to build an inward talents training base. In the first half of 2023, the Group provided employees with diversified training programs to help employees improve their professionalism, break through the existing cognition and thinking, and adapt to the ever-changing market environment.

As of 30 June 2023, Hengan had approximately a total of 23,000 full-time employees, of which 57.55% were female employees, the total number of training hours exceeded 143,300 hours, the number of management positions promoted was 111, and the percentage of employees joining the labour union was 100%.

Health and Safety

Hengan regards safety as the basis for the survival and development of enterprises, formulates comprehensive safety management principles and objectives, implements sound management and established control procedures, and continuously improves safety management capabilities and performance. The Group established the ISO 45001 Occupational Health and Safety Management System and passed the certification. It set up a Safety Management Committee as a comprehensive safety management leadership and decision-making body, and built a safety management process for the entire life cycle and comprehensive safety risks emergency measures to create a safe and healthy working environment. Hengan has steadily implemented the comprehensive safety management strategy and successfully entered the phase II of the comprehensive safety management, striving to become a benchmark enterprise in safety management in the industry.

The Group is committed to maintaining the occupational health and safety of its employees. It regularly organised fire training and drills to exercise the self-protection capabilities of employees. During this period, Hengan carried out safety production month activities to comprehensively popularize safety knowledge and raise the safety awareness of all employees.

Hengan cares about the mental health of employees. It carries out various cultural activities to enrich the leisure time of employees, regularly visits and provides support and assistance to the families of employees in difficulty and employees with disabilities, thus improving employees' sense of happiness.

Outlook

Looking ahead to the second half of 2023, with the Russo-Ukrainian War and the continuation of the tightening monetary policies of the world's major central banks, the global economic outlook will be clouded by recession, and the domestic economic development will also come under pressure. However, the long-term sound fundamentals of the Chinese economy remain unchanged. It is expected that China will continue to introduce policies and measures to stabilise the economy and expand domestic demand, supporting the recovery of the economy and consumer market. The Group will continue to pay close attention to the political and economic developments at home and abroad as well as 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 continued to increase, coupled with the uncertain outlook of the global economy affecting market demand, the price of wood pulp started to come down in the second quarter. Since the Group needs to consume the existing high-cost wood pulp inventory first, the positive impact of wood pulp price decrease 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.

Despite the intensified competition in the domestic daily necessities market, Hengan, leveraging its leading research and development and production capabilities and excellent brand image, coupled with its extensive nationwide distribution and diversified product portfolio, still demonstrated strong resilience in a challenging operating environment, successfully seized the opportunity of industry consolidation, and further expanded market share.

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 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", "Cloudy Soft Skin" and "Sweet Dream Pants", 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.

The Group will also 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, for example, the Group has completed its system upgrade in March this year and implemented the 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.

In order to continue to consolidate the Group's market leadership in tissue paper and hygiene products and meet domestic customers' 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 the second half of 2023.

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, while also actively promote ESG development and contribute to building a green and sustainable world. 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".

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of RMB0.70 per share (2022: RMB0.70 per share) for the six months ended 30 June 2023 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 22 September 2023. Dividend warrants will be despatched to shareholders on or about 12 October 2023.

Dividends payable to shareholders will be paid in Hong Kong dollars ("HK$"). The exchange rate adopted by the Company for its dividend payable is the middle exchange rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration.

The Register of Members of the Company will be closed from 20 September 2023 to 22 September 2023 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on 19 September 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2023. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises five independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2023.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2023, the Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2023, and they all confirmed that they had fully complied with the required standard set out in the Model Code, except that Mr. Hui Ching Lau was in breach of Rules A.3 and B.8 of the Model Code on 22 March 2023 having inadvertently purchased 100,000 shares of the Company immediately after publication of the annual results announcement for the year ended 31 December 2022, which falls on the blackout period for Directors' dealings which lasts up to and including the day of the publication of the annual results announcement for the year ended 31 December 2022 (i.e. including 22 March 2023).

To avoid recurrence of similar incidents in the future, the Company has arranged a training session for all Directors. Going forward, the Company will continually reminding all Directors of the dealing restrictions throughout any future blackout periods.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules of the Stock Exchange during the period, except that Mr. Chan Henry and Ms. Wong Ying Kay Ada, independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 22 May 2023 due to other engagements at that time.

ACKNOWLEDGEMENT

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

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

Hong Kong, 24 August 2023

As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hui Ching Lau, Mr. Xu Da Zuo, Mr. Sze Wong Kim, Mr. Hui Ching Chi, Mr. Li Wai Leung and Mr. Xu Wenmo as executive directors, and Mr. Theil Paul Marin, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching, Mark and Mr. Chen Chuang as independent non-executive directors.