

【For Immediate Release】



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

Hengan International Announces 2024 Interim Results

**Profit Attributable to Shareholders Increases by 15.0% to RMB1.41 Billion
GP Margins of Three Core Business Segments Further Improve,
Outperforming the Industry
Interim Dividend at RMB 0.70 Per Share**

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***Continuously Launch Premium Products and
Expand Production Capacity to Meet Diverse Consumer Demand
Demonstrate Strong Resilience amid Stiff Industry Competition***

(19 August 2024— Hong Kong) – **Hengan International Group Company Limited** (“Hengan International” or the “Company”, SEHK stock code: 1044, together with its subsidiaries, the “Group”) announces today its interim results for the year ended 30 June 2024.

During the period, the domestic personal care consumer market experienced fierce competition. Both domestic and foreign brands adopted aggressive price reduction and promotion measures in an effort to capture various domestic consumer groups and channels, leading to a significant negative growth in market sales. However, Hengan tapped into the increasing demand for high-quality personal care products and the consumption potential released by the fragmentation of consumption channels. Through effective price stabilisation strategies and product line upgrades and premiumisation, Hengan greatly expanded into e-commerce platforms and new retail channels, and also promoted sales and created new growth points in traditional channels. The effectiveness of the development of the Group’s omni-channel continued to improve. Benefitting from the omni-channel strategy, continuous enhancement of the brand image and diversified product portfolio, although the total sales of the Group’s three core business segments (tissue paper, sanitary napkins and disposable diapers) recorded a year-on-year decline of approximately 2.2%, they still performed significantly better than the market-wide decline. Meanwhile, the Group’s market share maintained a leading position in the industry. As of 30 June 2024, the Group’s revenue decreased by 3.0% to approximately RMB11,835,893,000 (2023 first half: RMB12,204,605,000) as compared to the same period last year. The Group’s revenue in the second half of 2024 is expected to improve as compared to the first half of 2024.

In the first half of 2024, 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 proportion of the Group’s e-commerce and new retail sales (including Retail Integrated (“零售通”) and New Channel (“新通路”)) further increased to approximately 32.0% (2023 first half: 29.0%), growing about 6.5% year-on-year. In addition, the Group effectively boosted sales and created new growth points in traditional channels during the period, maintaining stable development. Meanwhile, the Group was also committed to developing premium products and optimising its product mix, actively enhancing its brand image to cater to domestic consumers’ pursuit of high-quality and diversified products. The premium tissue paper series “Fluffy Cube” (絨立方) which adopts the Through Air Drying (TAD) technology for the first time in China and Asia, the premium disposable diapers series “Q • MO”, and

the sanitary napkins series “Sweet Dream Pants” (萌睡褲) and “Heavenly Mountain Cotton” (天山絨棉) continued to be well-received by consumers and maintained a strong sales momentum during the period. The sales of various key upgraded and premium products also achieved a year-on-year growth of more than 10.0% and continued to increase its proportion over the sales.

During the period under review, in the face of fierce market competition, Hengan actively responded to the market changes, adhered to stable pricing, and focused on enhancing profitability, effectively further expanding its market share and consolidating its leading position in the market. Benefitting from the significant drop in raw material prices since the second half of 2023, the Group saw continued year-over-year decline in costs during the period. Additionally, the Group’s upgraded and premium product series recorded growth, leading to a marked improvement in the gross profit of the three core business segments during the period. In the first half of 2024, the Group’s overall gross profit increased sharply by approximately 3.9% to approximately RMB3,936,242,000 (2023 first half: RMB3,788,550,000). The gross profit margin increased to about 33.3% (2023 first half: 31.0%) It is expected that in the second half of 2024, the Group will prudently allocate promotional resources and premium high margin products are expected to sustain significant growth, so as to offset the impact on gross margin from the rise in wood pulp prices.

During the period, the Group’s operating profit increased significantly by approximately 11.4% to approximately RMB1,895,891,000 (2023 first half: RMB1,701,681,000). Profit attributable to shareholders of the Company was approximately RMB1,408,992,000 (2023 first half: RMB1,225,768,000), representing a year-on-year increase of approximately 15.0%, which was mainly due to the improvement in the Group’s gross profit across the three core business segments, resulting from the decline in raw material costs during the period and product upgrades, as well as a decrease in foreign exchange loss. Basic earnings per share was approximately RMB1.234 (2023 first half: RMB1.055).

The Board of Directors declared an interim dividend of RMB0.70 per share (2023 first half: RMB0.70 per share) or RMB813,485,000 (2023 first half: RMB813,485,000) for the six month ended 30 June 2024, maintaining a stable dividend amount.

Commenting on the Group’s interim results, **Mr. Sze Man Bok, Chairman of Hengan International**, said, “in the first half of 2024, with China’s orderly implementation and consolidation of its macroeconomic policies, the national economy was generally stable with steady growth and consumer demand gradually recovered. However, the escalating geopolitical tensions, persistently high interest rates and the rise of trade protectionism brought challenges to global economic development. Leveraging its comprehensive competitive advantages and effective profit-focused sales strategy, Hengan continued to expand its market share and further consolidated its strong business resilience.”

Sanitary Napkin

China has the world’s largest feminine care products market. With the growing awareness of feminine care and increasing spending power in China, female consumers are paying increasing attention to product quality, material safety and added value of products, driving consumption upgrade and 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 tap into the mid-to-high-end market and young consumers. Hengan has full confidence in its product quality and longstanding 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, so as to maintain its leadership in the fierce market competition. The Groups’

upgraded sanitary napkin products, such as the “Sweet Dream Pants” series and the premium “Heavenly Mountain Cotton” series launched in the second half of 2023, were favoured by consumers due to their excellent quality and brand image.

The continuous rapid increase in the penetration of new consumption patterns has exacerbated the fragmentation of channels. E-commerce platforms and other emerging retail channels (including community group-buying) are thriving. The Group actively seized the opportunities of emerging consumption trends, vigorously expanded emerging sales channels, and consolidated its leading edge in traditional channels, which effectively boosted sales of sanitary napkins and maintained a leading market share. However, during the period, the competition in the domestic sanitary napkin market became increasingly fierce, both domestic and foreign brands adopted aggressive price reduction and promotion strategies to expand their market share, which inevitably led to a double-digit year-on-year increase in the Group’s promotional expenses. In the first half of 2024, the revenue of the Group’s sanitary napkin business decreased by approximately 2.2% to approximately RMB3,146,946,000 (2023 first half: RMB3,219,295,000), accounting for approximately 26.6% (2023 first half: 26.4%) of the Group’s overall revenue, outperforming the negative sales growth in the sanitary napkin industry. Driven by the increasing sales proportion of upgraded and premium products and the continuous growth in traditional sales channels, it is expected that the revenue of the Group’s sanitary napkin business in the second half of 2024 will improve as compared to the first half of 2024.

The Group adheres to a stable pricing strategy and prudent allocation of promotional expenses. Benefiting from brand premiumisation and the steady increase in the proportion of upgraded products, as well as the stable price of petrochemical raw materials, the main raw material for sanitary napkins in the period, the gross profit margin of the sanitary napkin business improved to approximately 62.7% year-on-year in the first half of 2024 (2023 first half: 61.8%). While seizing the opportunities in the domestic market, and driven by product upgrades and premiumisation, the Group expects the gross profit margin to continue to improve in the second half of 2024.

The Group’s sanitary napkin brand 七度空間 continues to launch upgraded and premium products and strives 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 “Heavenly Mountain Cotton” series that the Group recently promoted, uses rare and pure long staple cotton from snowy mountains to meet the demand of today’s customers for high-quality products. Although the series was only launched in the second half of last year, its sales already reached RMB230 million during the period, and are expected to gradually increase. The Group signed Zhao Jinmai, a female artist with a bright and positive image, as the brand ambassador 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 ambassador 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 reaching RMB290 million during the period, a year-on-year increase of approximately 22.0%. The Group will continue to vigorously promote the “Pants-style” series of products to consumers and launch an upgraded version of “Sweet Dream Pants” and “Sweet Day Pants” (萌動褲) to attract more consumers 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 in the future, which will help the Group expand its market share and increase the revenue contribution of premium products. Moreover, the Group's sanitary napkin brand "Anerle" (安爾樂) launched instant-absorbing liquid sanitary napkins during the period. This product utilises patented core and 3D liquid compartment technology, allowing for quick absorption and leakage prevention. It has been popular among domestic consumers and is expected to bring a new wave of hot sales in 2024. 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. The Group will also continue to develop and launch other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, and seize domestic market opportunities brought about by the increasing demand for personal care products.

Tissue Paper

In the first half of 2024, the national economy and consumer market continued to recover, but domestic demand had not been fully released. Domestic tissue paper brands adopted aggressive price adjustment and promotion campaigns to expand their coverage in the domestic market. Therefore, the industry recorded an overall significant decline during the period. However, the Group focused on improving profitability and responded to the cutthroat price competition with stable prices and an omni-channel sales strategy, continuously driving tissue paper sales. The Group gained more market share by virtue of its strong capital and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group adhered to a stable pricing strategy and effectively controlled sales promotions. During the period under review, although domestic demand for tissue paper sustained growth, the revenue of the Group's tissue paper business decreased by approximately 3.1% to approximately RMB6,950,578,000 (2023 first half: RMB7,170,110,000) due to increased promotional expenses and a high sales base in the same period last year. Still, the Group's tissue paper sales outperformed the industry average and maintained a leading market share. The sales of the tissue paper business accounted for approximately 58.7% of the Group's overall revenue (2023 first half: 58.7%). 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 in the second half of 2024 will improve as compared to the first half.

In the first half of 2024, benefitting from the decline in wood pulp costs and the increase in sales proportion of premium products such as wet wipes, the gross profit margin of tissue paper products for the first half of 2024 increased to approximately 19.6% (2023 first half: 17.7%). Looking ahead to the second half, the Group will reduce promotional expenses and continue to increase the sales proportion of premium products to help offset the impact of the rebound in the price of wood pulp in the second half of 2024. The Group expects that the gross profit margin of the tissue paper business will remain stable

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. In March, the Group's brand "Hearttex" (心相印) joined hands with the industry to release the "100% Virgin Wood Pulp" logo, aiming to establish quality standards for tissue paper and drive the quality upgrade of the household paper industry. At the same time, the Group introduced the "Fluffy Cube" series of tissue paper products (including facial tissue and kitchen roll). "Fluffy Cube" is a new tissue paper series of the Group, produced by the first TAD tissue machine in China. It is also the first tissue paper series in China to adopt the

TAD technology. TAD is an internationally recognized high-quality household paper production technology, with its fluffiness and water absorption capacity being twice and 12 times that of ordinary products, respectively, providing a disruptive upgrade in comfort and practicality. The “Fluffy Cube” series facial tissue is soft and gentle on the skin, while the kitchen roll can absorb oil and trap water effectively, which are popular among consumers, driving the sales growth of the “Fluffy Cube” series.

In terms of wet wipes business, with the rise in health awareness among domestic consumers and their pursuit of quality life, convenient and hygienic wet wipes have become a daily necessity for the public. Consumer demand and penetration rate of domestic wet wipe products have increased continuously, driving the rapid development of the wet wipes market. Leveraging its excellent exceptional product quality and thoughtful packaging design, the Group’s wet wipes business maintained strong growth momentum. By launching a diversified wet wipes product portfolio, the Group accelerated penetration into toilet wet wipes, cooling towels, baby wipes, adult wipes, and household cleaning wipes and other market segments, meeting various preferences and demands of consumers, and establishing itself as a market leader. Moreover, the gross profit margin of wet wipes is the highest among tissue paper products, with distinguished profitability. During the period, the gross profit margin of wet wipes was 52.2%. The Group’s Hearttex wet wipes are made of high-quality spunlace nonwoven fabric with moisturizing liquid, soft to touch yet strong, and are renowned as the “No. 1 brand in the domestic wet wipes industry”. With the Group’s continuous deep cultivation of the wet wipes market, its wet wipes business recorded double-digit explosive growth during the period, with sales reaching approximately RMB591,953,000 (2023 first half: RMB491,497,000), representing an increase of 20.4% and accounting for approximately 8.5% of the overall sales of the tissue paper business (2023 first half: 6.9%). As consumers’ health awareness continues to enhance, the wet wipes business is expected to maintain significant growth. The Group will continue to seize the opportunities brought by the strong growth momentum of the wet wipes market, expand its market share in the domestic wet wipes market and consolidate its market leadership.

In addition, the Group is also committed to enhancing the brand image of “Hearttex” and demonstrating its care for society. During the period, the Group launched the “Rosy Life” (玫瑰人生) co-branded facial tissue of “Hearttex” and Majid. Majid is a former senior Arabic teacher who tramped the streets of Syria due to the unfortunate of war and illness. He could only stay afloat by selling tissue paper. “Hearttex” sent roses and handwritten letters to Majid and his wife to express the brand’s respect. “Hearttex” also added an illustration of Majid and the quote, “We must live life to the fullest” on the tissue packaging. In addition, the Group invited Majid to participate in a live broadcast, which won high praise from all walks of life. “Hearttex” leveraged its brand influence to raise social awareness of Majid and other socially vulnerable and displaced individuals, thoroughly implementing the brand slogan of “Love in Hearttex” and deepening the warm and caring brand image of “Hearttex”.

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 tissue paper business performed remarkably in e-commerce and new retail channels (including Retail Integrated, community group-buying, etc.), with a sales growth of approximately 6.0%, accounting for nearly 36.4% of the overall sales of tissue paper. 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 the increasing demand for premium hygiene products, 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, 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 increased to approximately 1,630,000 tonnes. The first phase of Xiaogan, Hubei project and part of the Guangdong Yunfu phase I projects have been put into production during the period. It is expected that in the second half of 2024 to early 2025, production capacity of the remaining part of the Guangdong Yunfu phase I will be gradually completed in increasing capacity to respond to market conditions and meet the demand for sales growth.

Disposable Diapers

The continuous ageing population and improvement of national living standards continue to drive the expansion of China's disposable diaper market. The trend of consumption upgrade and evolving parenting concepts have also promoted the continuous increase in the penetration rate of baby disposable diapers. Although the birth rate growth in recent years has slowed down compared with previous years, recognition of domestic baby diaper brands rose among domestic consumers. Therefore, there is huge 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 good growth, with sales reaching RMB320 million, a year-on-year growth of approximately 34.0%, and its proportion further increased to about 45.0%. In the first half of 2024, the Group strived to strengthen the development of new retail channels and maternity sales channels, with new retail channels and maternity sales channels accounting for approximately 53.5% and 20.0% of sales, respectively. Despite fierce market competition, bolstered by enhanced brand competitiveness, the continuous sales growth of the Group's premium product "Q • MO" and the improvement in sales resulting from the successful rebranding of the "Anerle" (安兒樂) brand to "Sports-style" (運動型) series 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 sales of the Group's adult disposable diaper business remained stable during the period, accounting for approximately 22.5% of the overall diaper sales. As a result, the sales of the Group's disposable diaper business increased by approximately 7.0% to approximately RMB711,624,000 (2023 first half: RMB665,304,000), accounting for approximately 6.0% (2023 first half: 5.5%) of the Group's overall revenue. The Group believes that the adult disposable diaper market has considerable development potential. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business are expected to maintain growth in the second half of 2024. In terms of gross profit margin, the stable price of petrochemical raw materials for disposable diapers during the period, coupled with the increase in the proportion of sales of the higher-margin premium "Q • MO" products led to a substantial increase in the gross profit margin of the diaper business to approximately 45.3% in the first half of 2024 (2023 first half: 36.0%). The Group expects the gross profit margin of the diaper business to further improve in the second half of 2024.

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 in recent years, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today’s consumers, 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, are very popular in the market. The Group will continue to optimise diaper products to seize domestic growth opportunities and gain a larger market share. 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 2024.

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 Incomes and Household Products

Regarding other income and household products, the Group’s revenue for the period, which mainly includes revenues from raw material trading business, household products business, and Wang-Zheng Group in Malaysia, decreased by approximately 10.7% year-on-year to approximately RMB1,026,745,000 (2023 first half: RMB1,149,896,000). The decline was mainly due to the Group’s preference to reserve raw materials for the manufacturing of products and ensure reasonable profits from its raw material trading business. As a result, revenue from raw material trading business dropped significantly by approximately 15.4% to approximately RMB490 million (2023 first half: RMB580 million).

During the period, revenue from the household products business was approximately RMB116,244,000 (2023 first half: RMB126,284,000), representing a year-on-year decrease of approximately 8.0%, 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 recent years, 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.

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 2024, turnover of overseas channel (including Wang-Zheng Group business) for the period was approximately 833,479,000 (2023 first half: RMB916,810,000), accounting for approximately 7.0% of the Group’s overall sales (2023 first half: 7.5%).

During the period, the Group's Wang-Zheng Group business in Malaysia saw a steady development and its turnover amounted to approximately RMB214,540,000 (2023 first half: RMB220,359,000) accounting for approximately 1.8% of the Group's overall sales (2023 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" adult disposable diapers and "Carina" personal hygiene products. The Group leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's tissue 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 more 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. According to statistics, the national online retail sales of physical goods reached RMB6.0 trillion in the first half of 2024, representing an increase of 8.8%, of which the online retail sales of daily necessities increased by 7.8%. In order to meet the ever-upgrading needs of consumers, the Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities. During the period, the Group carried out higher quality product 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 the first half of 2024, the Group's e-commerce and new retail channels (including Retail Integrated and New Channel) maintained a robust development momentum with outstanding performance during the "618 Shopping Festival" and outperforming the industry. Its sales on Douyin also increased significantly, and the sales for the period increased by approximately 6.5% to more than RMB3.76 billion (2023 first half: RMB3.50 billion), bringing the proportion of e-commerce sales up to approximately 31.8% (2023 first half: 29.0%) of the Group's overall sales. During the period, new retail channels contributed approximately 36.4%, 25.6% and 53.5% to the sales of tissue paper business, sanitary napkin business, and disposable diaper business respectively. It is expected that the proportion of sales in 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 consumer trends, the Group interacted with consumers through livestream sales and other community activities to strengthen the connection with young consumers. The Group also appointed Xiao Zhan, a popular artist, as the global brand ambassador of "Hearttex" to further enhance the brand influence. The Group will continue to increase its market share in e-commerce and new retail channels to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

As the Group moderately increased its online marketing investment in the first half of 2024 to capture market opportunities and promote the Group's key selling products, the Group's selling and administrative expenses for the period amounted to approximately RMB2,472,296,000, representing a slight year-on-year decrease of approximately 3.6%. The proportion of the Group's selling and administrative expenses to the total revenue for the period slightly decreased to approximately 20.9% (2023 first half: 21.0%). The Group believes that the total revenue will continue to improve in the second half of 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, the exchange rate of Renminbi against the U.S. dollar and the H.K. dollar remained relatively stable. The Group recorded an operating exchange loss of approximately RMB35,894,000, representing a decrease of approximately 80.3% (2023 first half: RMB182,426,000).

As at 30 June 2024, apart from certain foreign currency swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 30 June 2024, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB26,075,451,000 (31 December 2023: RMB19,628,406,000); and bank borrowings and other borrowings amounted to approximately RMB20,670,121,000 (31 December 2023: RMB14,237,625,000).

In December 2022, the Group successfully registered super short-term commercial papers in an aggregate amount of not more than RMB5.0 billion. In March 2024, the Group issued two batches of super short-term commercial papers in an aggregate amount of RMB5.0 billion with a coupon rate of 2.1% per annum and tenors ranging from 180 days to 182 days. The proceeds from the issuance of the two batches of super short-term commercial papers are intended to be used to supplement the working capital of the Group and its subsidiaries and to repay their debts.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.1% to 5.4% (2023 first half: from 1.4% to 6.5%)

As at 30 June 2024, 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) was approximately 99.1% (31 December 2023: 69.8%), primarily due to the Group's utilization of low-cost funding for the Company's operations. 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 approximately negative 25.9% (31 December 2023: negative 26.4%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio and maintaining a solid net cash position to ensure a sound financial position.

During the period, the Group's capital expenditure was approximately RMB774,423,000 (2023 first half: RMB989,348,000), primarily allocated to increase the production capacity of various manufacturing facilities. As at 30 June 2024, the Group had no material contingent liabilities.

Outlook

Looking ahead to the second half of 2024, **Mr. Sze Man Bok, Chairman of Hengan International**, said, "The geopolitical tensions and ongoing trade frictions, coupled with the persistently high interest rate environment, are expected to continue weighing on investment and consumer confidence. Faced with the complicated external environment, China's economy will further consolidate its recovery and upward trajectory. It is expected that the government will continue to actively implement macro-control policies, increase efforts to boost domestic consumption demand and promote high-quality economic development. As necessities, household products will continue to benefit from the trend of consumption upgrading. The Group will continue to pay close attention to the domestic and international political and economic developments, as well as changes in market trends, respond flexibly and make prudent decisions."

"With pulp suppliers raising prices, wood pulp prices are expected to rebound in the second half of 2024. The Group will reduce expenses, continue to increase the proportion of premium products, and improve sales performance to offset the impact of rising wood pulp prices on the gross profit margin, striving to maintain a stable gross profit margin. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other materials."

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

"In the future, the Group will further optimise the brand image of its products through strategies such as product premiumisation, new packaging, and precise allocation of marketing resources. Additionally, the marketing department will comprehensively enhance the brand image to encourage consumers to purchase Hengan products. The Group will continue to enhance its product mix and accelerate product premiumisation, such as the hot-selling series "Q • MO", "Cloudy Soft Skin", "Heavenly Mountain Cotton" and "Fluffy Cube", so as to improve the Group's profitability, further develop online and offline sales channels and promote the joint development of multi-channels to expand its customer base."

"In order to continue to consolidate the Group's market leadership in tissue paper and hygiene products and meet domestic consumers' demand for high-quality products, the Group plans to carry out production capacity expansion and technological upgrades in the future, including the establishment of a new upgraded hygiene products and raw materials in Neikeng, Fujian, and the expansion of tissue paper production capacity in Yunfu, Guangdong. It is expected that the new production capacity will be put into operation successively in the second half of 2024 and 2025."

"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”.

– End –

Company Background

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

For further information, please contact:

iPR Ogilvy Limited

Callis Lau / Tina Law/ Lorraine Luk/ Kayden Hou

Tel: (852) 2136 6952/ 2136 6181/ 2169 0467/ 3920 7649

E-Mail: hengan@iprogilvy.com