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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/list/colhk/hengan>

“Growing with You for a Better Life”

FINANCIAL SUMMARY			
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022			
	Unaudited		
	2022	2021	% of
	RMB'000	RMB'000	change
Revenue	11,200,021	9,973,914	12.3%
Gross profit margin	35.2%	39.4%	
Operating profit	1,885,753	2,540,583	(25.8%)
Profit attributable to shareholders	1,276,191	1,860,292	(31.4%)
**Profit attributable to shareholders (Excluding exchange (losses)/gains from operating activities — net)	1,643,988	1,846,108	(10.9%)
Earnings per share			
— Basic	RMB1.098	RMB1.574	
— Diluted	RMB1.098	RMB1.574	
Finished goods turnover (days)	39	50	
Trade and bills receivables turnover (days)	51	59	
Rate of return on equity (annualised)	13.0%	19.2%	

* For identification purposes only

** Reconciliation of profit attributable to shareholders to profit attributable to shareholders (excluding exchange (losses)/gains from operating activities — net):

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit attributable to shareholders	1,276,191	1,860,292
Less: Exchange (losses)/gains from operating activities — net	(367,797)	14,184
Profit attributable to shareholders (Excluding exchange (losses)/gains from operating activities — net)	<u>1,643,988</u>	<u>1,846,108</u>

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 2022, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2022, 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 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
Revenue	6	11,200,021	9,973,914
Cost of goods sold		<u>(7,257,830)</u>	<u>(6,043,243)</u>
Gross profit		3,942,191	3,930,671
Selling and distribution costs		(1,435,858)	(1,296,654)
Administrative expenses		(705,496)	(623,401)
Net accrual of impairment losses on financial assets	7	(26,403)	(12,071)
Other income and other gains — net		<u>111,319</u>	<u>542,038</u>
Operating profit		<u>1,885,753</u>	<u>2,540,583</u>
Finance income		164,138	109,102
Finance costs		<u>(241,554)</u>	<u>(233,417)</u>
Finance costs — net		<u>(77,416)</u>	<u>(124,315)</u>
Share of net losses of associates	19	<u>(12,437)</u>	<u>(383)</u>
Profit before income tax	7	1,795,900	2,415,885
Income tax expense	8	<u>(504,282)</u>	<u>(547,335)</u>
Profit for the period		<u>1,291,618</u>	<u>1,868,550</u>
Profit attributable to:			
Shareholders of the Company		1,276,191	1,860,292
Non-controlling interests		<u>15,427</u>	<u>8,258</u>
		<u>1,291,618</u>	<u>1,868,550</u>
Earnings per share for profit attributable to shareholders of the Company			
— Basic	9	<u>RMB1.098</u>	<u>RMB1.574</u>
— Diluted	9	<u>RMB1.098</u>	<u>RMB1.574</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2022

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit for the period	1,291,618	1,868,550
Other comprehensive loss:		
<i>Items that may be reclassified to profit or loss</i>		
— Currency translation differences	(23,333)	(17,408)
<i>Items that will not be subsequently reclassified to profit or loss</i>		
— Currency translation differences	153,239	—
Total comprehensive income for the period	<u>1,421,524</u>	<u>1,851,142</u>
Attributable to:		
Shareholders of the Company	1,395,372	1,848,610
Non-controlling interests	26,152	2,532
Total comprehensive income for the period	<u>1,421,524</u>	<u>1,851,142</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2022

		Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	7,171,980	7,296,727
Construction-in-progress	<i>11</i>	623,237	509,647
Right-of-use assets	<i>12</i>	1,125,546	979,055
Investment properties	<i>11</i>	170,616	216,293
Intangible assets	<i>11</i>	662,914	724,778
Prepayments for non-current assets		334,879	468,652
Deferred income tax assets		484,319	544,762
Investments in associates	<i>19</i>	45,612	53,330
Financial assets at fair value through profit or loss		204,285	194,342
Long-term bank time deposits	<i>14</i>	3,176,760	4,035,960
		<u>14,000,148</u>	<u>15,023,546</u>
Current assets			
Inventories		3,637,708	4,162,477
Trade and bills receivables	<i>13</i>	3,286,966	2,970,182
Other receivables, prepayments and deposits		1,591,219	1,881,213
Current income tax recoverable		8,973	7,427
Derivative financial instruments		8,531	913
Restricted bank deposits	<i>14</i>	302	303
Financial assets at fair value through profit or loss		1,041	–
Cash and bank balances	<i>14</i>	24,516,268	18,246,687
		<u>33,051,008</u>	<u>27,269,202</u>
Total assets		<u><u>47,051,156</u></u>	<u><u>42,292,748</u></u>

		Unaudited	Audited
		30 June	31 December
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	<i>17</i>	123,345	123,345
Other reserves		3,098,571	2,862,648
Retained earnings		16,426,883	16,051,047
		<u>19,648,799</u>	<u>19,037,040</u>
Non-controlling interests		262,682	243,410
		<u>19,911,481</u>	<u>19,280,450</u>
LIABILITIES			
Non-current liabilities			
Borrowings	<i>16</i>	2,082,897	739,342
Lease liabilities	<i>12</i>	16,788	10,843
Deferred income tax liabilities		210,858	224,633
		<u>2,310,543</u>	<u>974,818</u>
Current liabilities			
Trade and bills payables	<i>15</i>	2,172,822	2,565,486
Other payables and accrued charges	<i>15</i>	1,550,043	1,455,267
Contract liabilities		93,567	225,627
Current income tax liabilities		179,291	280,712
Borrowings	<i>16</i>	20,802,116	17,487,753
Derivative financial instruments		11,895	5,028
Lease liabilities	<i>12</i>	19,398	17,607
		<u>24,829,132</u>	<u>22,037,480</u>
Total liabilities		<u>27,139,675</u>	<u>23,012,298</u>
Total equity and liabilities		<u>47,051,156</u>	<u>42,292,748</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Unaudited					
	Attributable to the Company's shareholders				Non- controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
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 (<i>Note 10(b)</i>)	–	–	(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	<u>123,345</u>	<u>3,098,571</u>	<u>16,426,883</u>	<u>19,648,799</u>	<u>262,682</u>	<u>19,911,481</u>
Balance at 1 January 2021	125,366	3,133,402	16,152,622	19,411,390	250,084	19,661,474
Profit for the period	–	–	1,860,292	1,860,292	8,258	1,868,550
Currency translation differences	–	(11,682)	–	(11,682)	(5,726)	(17,408)
Total comprehensive income	–	(11,682)	1,860,292	1,848,610	2,532	1,851,142
Transactions with owners						
2020 final dividends paid (<i>Note 10(b)</i>)	–	–	(1,530,799)	(1,530,799)	(1,150)	(1,531,949)
Buy-back of shares	–	(380,194)	–	(380,194)	–	(380,194)
Cancellation of shares	(740)	740	–	–	–	–
Capital reduction of a subsidiary	–	–	–	–	(2,097)	(2,097)
Total of transactions with owners	(740)	(379,454)	(1,530,799)	(1,910,993)	(3,247)	(1,914,240)
Appropriation to statutory reserves	–	107,463	(107,463)	–	–	–
Balance at 30 June 2021	<u>124,626</u>	<u>2,849,729</u>	<u>16,374,652</u>	<u>19,349,007</u>	<u>249,369</u>	<u>19,598,376</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities		
— Cash generated from operations	2,684,847	2,742,104
— Income tax paid	(560,824)	(527,206)
	2,124,023	2,214,898
Cash flows from investing activities		
— Purchase of property, plant and equipment, intangible assets, construction-in-progress and other non-current assets	(345,563)	(283,001)
— Purchase of land use rights	(21,888)	(22,964)
— Refund of deposits for purchase of land use rights	29,575	—
— Proceeds on disposal of property, plant and equipment	1,620	728
— Decrease in long-term and short-term bank time deposits	3,138,639	2,452,709
— Proceeds from disposal of financial assets at fair value through profit or loss	—	102,447
— Investment in an associate	(428)	—
— Transactions with non-controlling interests	(2,280)	—
— Cash disposal on losing control of a subsidiary	(5,756)	—
— Interest received	388,363	477,088
	3,182,282	2,727,007
Net cash generated from investing activities		
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)	(2,097)
— Proceeds from borrowings (<i>Note 16</i>)	15,313,615	12,383,815
— Repayment of borrowings (<i>Note 16</i>)	(11,135,917)	(9,392,491)
— Decrease in restricted bank deposits	—	3,418
— Buy-back of shares	—	(380,194)
— Interest paid	(179,335)	(209,071)
— Dividends paid (<i>Note 10(b)</i>)	(813,485)	(1,530,799)
— Dividends paid to non-controlling interests	(2,119)	(4,153)
— Lease payments	(11,714)	(9,452)
— Payment to non-controlling interests for liquidation of a subsidiary	(6,000)	—
	3,169,399	858,976
Net cash generated from financing activities		
Increase in cash and cash equivalents	8,475,704	5,800,881
Cash and cash equivalents at 1 January	12,339,816	11,607,059
Effect of foreign exchange rate changes	73,316	(30,706)
Ending cash and cash equivalents at 30 June	20,888,836	17,377,234

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2022

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, Uglund 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 19 August 2022.

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 2022 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 2021, 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 2021 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
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

- (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 2022 and have not been early adopted by the Group.

Standards and amendments		Effective for annual periods beginning on or after
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
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 2021, 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 2021.

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

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Cont'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 <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 3 years <i>RMB'000</i>	Between 3 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 June 2022 (Unaudited)					
Borrowings	20,802,116	2,081,667	1,230	–	22,885,013
Interest payables of borrowings	191,160	56,584	18	–	247,762
Net settled derivative financial instruments	11,895	–	–	–	11,895
Lease Liabilities	20,565	12,125	5,142	64	37,896
Trade, bills and other payables	<u>2,578,217</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,578,217</u>
Total	<u>23,603,953</u>	<u>2,150,376</u>	<u>6,390</u>	<u>64</u>	<u>25,760,783</u>
At 31 December 2021 (Audited)					
Borrowings	17,487,753	737,083	2,081	178	18,227,095
Interest payables of borrowings	164,152	6,590	63	–	170,805
Net settled derivative financial instruments	5,028	–	–	–	5,028
Lease Liabilities	18,458	8,785	2,166	182	29,591
Trade, bills and other payables	<u>2,955,077</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,955,077</u>
Total	<u>20,630,468</u>	<u>752,458</u>	<u>4,310</u>	<u>360</u>	<u>21,387,596</u>

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 (Cont'd)

5.3 Fair value estimation (Cont'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 2022 (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")	1,041	–	204,285	205,326
Derivative financial instruments	–	–	8,531	8,531
	<u>1,041</u>	<u>–</u>	<u>212,816</u>	<u>213,857</u>
Financial liabilities				
Derivative financial instruments	–	–	(11,895)	(11,895)
	<u>–</u>	<u>–</u>	<u>(11,895)</u>	<u>(11,895)</u>
Recurring fair value measurements At 31 December 2021 (audited)				
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
FVPL	–	–	194,342	194,342
Derivative financial instruments	–	–	913	913
	<u>–</u>	<u>–</u>	<u>195,255</u>	<u>195,255</u>
Financial liabilities				
Derivative financial instruments	–	–	(5,028)	(5,028)
	<u>–</u>	<u>–</u>	<u>(5,028)</u>	<u>(5,028)</u>

During the six months ended 30 June 2022, 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. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities or available for sale.

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

5.3 Fair value estimation (Cont'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 deposit fund 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. The Group's derivative financial instruments above are level 3 instruments and their fair value is determined with reference to valuation reports provided by various banks.

(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 2022:

	Unlisted preference shares <i>RMB'000</i>	Derivative financial instruments <i>RMB'000</i>	Total <i>RMB'000</i>
Closing balance as at 31 December 2021	194,342	(4,115)	190,227
Gains recognised in other income	–	1,002	1,002
Currency translation differences	9,943	(251)	9,692
Closing balance as at 30 June 2022	204,285	(3,364)	200,921

(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		Un-observable inputs	Inputs	Relationship of unobservable inputs to fair values
	30 Jun 2022 <i>RMB'000</i>	31 Dec 2021 <i>RMB'000</i>			
Unlisted preference shares	204,285	194,342	Risk-free Rate	1.25%	The higher the risk-free rate, the higher the fair value
			Volatility	45.00%	The higher the expected volatility, the lower the fair value

(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. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Cont'd)

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 interest income receivables and corporate assets. Unallocated liabilities comprise accrued interest expenses and corporate liabilities.

6. SEGMENT INFORMATION (Cont'd)

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

	Unaudited				Group RMB'000
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others 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	<u>3,128,524</u>	<u>633,512</u>	<u>5,842,613</u>	<u>1,595,372</u>	<u>11,200,021</u>
Segment profit	<u>1,330,726</u>	<u>101,566</u>	<u>305,995</u>	<u>42,106</u>	<u>1,780,393</u>
Unallocated costs					(5,959)
Other income and other gains — net					<u>111,319</u>
Operating profit					1,885,753
Finance income					164,138
Finance costs					(241,554)
Share of net losses of associates					<u>(12,437)</u>
Profit before income tax					1,795,900
Income tax expense					<u>(504,282)</u>
Profit for the period					1,291,618
Non-controlling interests					<u>(15,427)</u>
Profit attributable to shareholders of the Company					<u><u>1,276,191</u></u>
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	<u>11,027</u>	<u>—</u>	<u>13</u>	<u>7,014</u>	<u>18,054</u>
As at 30 June 2022 (Unaudited)					
Segment assets	<u>3,997,582</u>	<u>1,013,862</u>	<u>11,492,919</u>	<u>1,969,467</u>	<u>18,473,830</u>
Deferred income tax assets					484,319
Current income tax recoverable					8,973
Investments in associates					45,612
FVPL					205,326
Long-term time deposits					3,176,760
Cash and bank balances					24,516,268
Unallocated assets					<u>140,068</u>
Total assets					<u><u>47,051,156</u></u>
Segment liabilities	<u>711,680</u>	<u>246,539</u>	<u>2,383,179</u>	<u>423,469</u>	<u>3,764,867</u>
Deferred income tax liabilities					210,858
Current income tax liabilities					179,291
Borrowings					22,885,013
Unallocated liabilities					<u>99,646</u>
Total liabilities					<u><u>27,139,675</u></u>

6. SEGMENT INFORMATION (Cont'd)

The segment information for the six months ended 30 June 2021 is as follows:

	Unaudited				Group RMB'000
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	
Segment revenue	3,060,964	639,528	5,143,771	2,051,945	10,896,208
Inter-segment sales	(30,994)	(19,860)	(447,249)	(424,191)	(922,294)
Revenue of the Group	<u>3,029,970</u>	<u>619,668</u>	<u>4,696,522</u>	<u>1,627,754</u>	<u>9,973,914</u>
Segment profit	<u>1,447,375</u>	<u>97,856</u>	<u>420,002</u>	<u>42,622</u>	<u>2,007,855</u>
Unallocated costs					(9,310)
Other income and other gains — net					<u>542,038</u>
Operating profit					2,540,583
Finance income					109,102
Finance costs					(233,417)
Share of net losses of associates					<u>(383)</u>
Profit before income tax					2,415,885
Income tax expense					<u>(547,335)</u>
Profit for the period					1,868,550
Non-controlling interests					<u>(8,258)</u>
Profit attributable to shareholders of the Company					<u><u>1,860,292</u></u>
Addition to non-current assets	51,348	34,445	177,510	22,463	285,766
Depreciation of property, plant and equipment and investment properties	85,749	19,405	262,380	25,200	392,734
Depreciation of right-of-use assets	6,045	1,861	11,252	3,607	22,765
Amortisation charge	<u>9,085</u>	<u>—</u>	<u>193</u>	<u>7,012</u>	<u>16,290</u>
As at 31 December 2021 (Audited)					
Segment assets	<u>4,190,495</u>	<u>1,279,550</u>	<u>11,414,922</u>	<u>2,163,264</u>	<u>19,048,231</u>
Deferred income tax assets					544,762
Current income tax recoverable					7,427
Investments in associates					53,330
FVPL					194,342
Long-term time deposits					4,035,960
Cash and bank balances					18,246,687
Unallocated assets					<u>162,009</u>
Total assets					<u><u>42,292,748</u></u>
Segment liabilities	<u>1,027,890</u>	<u>272,345</u>	<u>2,434,935</u>	<u>453,465</u>	<u>4,188,635</u>
Deferred income tax liabilities					224,633
Current income tax liabilities					280,712
Borrowings					18,227,095
Unallocated liabilities					<u>91,223</u>
Total liabilities					<u><u>23,012,298</u></u>

7. PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Crediting		
Government grant income	250,754	153,643
Income from long-term and short-term bank time deposits	268,088	365,697
Interests income from cash and cash equivalents	164,138	109,102
Net gains on derivative financial instruments	1,002	16,708
Exchange gains from operating activities — net	—	14,184
Charging		
Depreciation of property, plant and equipment (Note 11)	398,196	389,587
Depreciation of investment properties (Note 11)	3,146	3,147
Amortisation of intangible assets (Note 11)	18,054	16,290
Depreciation of right-of-use assets (Note 12)	29,084	22,765
Employee benefit expense, including Directors' emoluments	1,062,776	983,834
Losses on disposal of property, plant and equipment and intangible assets	51,389	15,608
Net impairment losses on trade and bills receivables	26,403	12,071
Provision for decline in value of inventories	23,459	7,076
Exchange losses from financing activities — net	44,329	1,593
Exchange losses from operating activities — net	367,797	—
Interest expenses on borrowings and bank charges after deducting interest expenses of RMB3,323,000 (2021: RMB4,140,000) capitalised in construction-in-progress	196,492	231,182
Miscellaneous taxes and levies	46,944	49,690

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax on profits for the period	396,243	471,618
Withholding income tax on profits of the current period	61,613	82,807
Deferred income tax on other timing differences, net	46,426	(7,090)
Income tax expense	504,282	547,335

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% (2021: 25%).

8. INCOME TAX EXPENSE (Cont'd)

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 RMB61,613,000 (2021: RMB82,807,000) for the six months ended 30 June 2022 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	
	2022	2021
Profit attributable to shareholders of the Company (RMB'000)	<u>1,276,191</u>	<u>1,860,292</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,162,121</u>	<u>1,182,147</u>
Basic earnings per share (RMB)	<u><u>1.098</u></u>	<u><u>1.574</u></u>

(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 2022 as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

10. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interim, proposed/paid, RMB0.70 (2021: RMB1.00) per share (Note (a))	<u>813,485</u>	<u>1,175,121</u>

Notes:

- (a) An interim dividend of RMB0.70 (equivalent to Hong Kong dollars (“HK\$”) 0.809801) (2021: amounted to RMB1.00 per share, equivalent to HK\$1.202125) per share was proposed by the Board of Directors on 19 August 2022. This interim dividend, amounting to RMB813,485,000, calculated based on 1,162,120,917 issued shares as at 19 August 2022, 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 18 August 2022 is 0.86441.

- (b) A final dividend of RMB813,485,000, equivalent to HK\$999,601,000 (2020: RMB1,530,799,000, equivalent to HK\$1,832,480,000) related to the period up to 31 December 2021 was paid in June 2022.

11. CAPITAL EXPENDITURE — NET BOOK VALUE

	Unaudited			
	Property, plant and equipment <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
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 (Note 7)	(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
At 1 January 2021	7,571,430	489,052	213,609	755,444
Additions	49,567	180,115	–	3,990
Transfer from construction-in-progress	170,394	(170,394)	–	–
Transfer from property, plant and equipment	(1,855)	–	1,855	–
Transfer from right-of-use assets	–	–	3,481	–
Disposals	(16,273)	–	–	(63)
Depreciation/amortisation	(389,587)	–	(3,147)	(16,290)
Currency translation differences	(1,539)	–	(400)	–
At 30 June 2021	7,382,137	498,773	215,398	743,081

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 2022 RMB'000	Audited As at 31 December 2021 RMB'000
Right-of-use assets		
— Land use rights	1,089,972	951,181
— Buildings	<u>35,574</u>	<u>27,874</u>
Total	<u>1,125,546</u>	<u>979,055</u>
Lease liabilities		
— Current	(19,398)	(17,607)
— Non-current	<u>(16,788)</u>	<u>(10,843)</u>
Total	<u>(36,186)</u>	<u>(28,450)</u>

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 2022 RMB'000	2021 RMB'000
Depreciation of right-of-use assets (Note 7)		
— Land use rights	18,021	13,747
— Buildings	<u>11,063</u>	<u>9,018</u>
	<u>29,084</u>	<u>22,765</u>
Interest expense	<u>733</u>	<u>642</u>
Short-term and low-value lease expenses	<u>39,004</u>	<u>45,260</u>

The total cash payment for leases during the period was RMB50,718,000(2021: RMB48,456,000), excluding the cash payment for land-use rights.

13. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 <i>RMB'000</i>
Trade receivables	3,356,530	3,006,542
Bills receivables	<u>10,850</u>	<u>21,660</u>
	<u>3,367,380</u>	<u>3,028,202</u>
Less: provision for impairment	<u>(80,414)</u>	<u>(58,020)</u>
Trade and bills receivables, net	<u><u>3,286,966</u></u>	<u><u>2,970,182</u></u>

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 <i>RMB'000</i>
Within 30 days	1,373,559	1,178,212
31 to 180 days	1,715,785	1,615,586
181 to 365 days	143,456	137,069
Over 365 days	<u>134,580</u>	<u>97,335</u>
	<u><u>3,367,380</u></u>	<u><u>3,028,202</u></u>

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	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Long-term bank time deposits		
Term deposits with maturities over one year	<u>3,176,760</u>	<u>4,035,960</u>
Restricted bank deposits	<u>302</u>	<u>303</u>
Cash and bank balances		
— Term deposits with maturities over three months and within one year	3,627,432	5,906,871
— Cash and cash equivalents	<u>20,888,836</u>	<u>12,339,816</u>
	<u>24,516,268</u>	<u>18,246,687</u>
Total	<u><u>27,693,330</u></u>	<u><u>22,282,950</u></u>

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

15. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Trade payables	2,170,807	2,561,424
Bills payables	<u>2,015</u>	<u>4,062</u>
	<u>2,172,822</u>	<u>2,565,486</u>
Other payables and accrued charges		
— Other payables and accrued expenses	1,274,906	1,206,680
— Payables for purchase of property, plant and equipment	248,238	219,514
— Other taxes payables	<u>26,899</u>	<u>29,073</u>
	<u>1,550,043</u>	<u>1,455,267</u>
Total	<u><u>3,722,865</u></u>	<u><u>4,020,753</u></u>

15. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES (Cont'd)

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

	Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
Within 30 days	1,080,132	1,638,196
31 to 180 days	1,080,305	912,070
181 to 365 days	3,092	3,550
Over 365 days	9,293	11,670
	<u>2,172,822</u>	<u>2,565,486</u>

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 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
Non-current		
Long-term bank loans — unsecured	1,999,000	650,305
Other borrowings — unsecured	80,640	84,800
Long-term bank loans — secured (b)	3,257	4,237
	<u>2,082,897</u>	<u>739,342</u>
Current		
Short-term bank loans — unsecured	15,459,444	15,206,140
Current portion of long-term bank loans — unsecured	401,330	1,991,500
Short-term commercial papers (a)	4,500,000	—
Current portion of other borrowings — unsecured	8,320	8,320
Trust receipt bank loans	431,099	279,919
Current portion of long-term bank loans — secured (b)	1,923	1,874
	<u>20,802,116</u>	<u>17,487,753</u>
Total	<u>22,885,013</u>	<u>18,227,095</u>

As at 30 June 2022, the effective interest rate of the Group's bank loans and other borrowings was approximately 1.70% (31 December 2021: 2.08%) per annum.

16. BORROWINGS (Cont'd)

(a) Short-term commercial papers

As at 30 June 2022, the Company had the following short-term commercial papers:

	Interest rate	Expiration term	Mature date	Amount RMB'000
22恒安國際CP001	2.50%	180 days	2022-08-30	1,000,000
22恒安國際CP002	2.50%	180 days	2022-08-30	1,000,000
22恒安國際CP003	2.40%	180 days	2022-09-14	1,500,000
22恒安國際CP004	2.10%	180 days	2022-12-07	1,000,000

(b) Long-term bank loans — secured

As at 30 June 2022, bank borrowings of RMB5,180,000 (31 December 2021: RMB6,111,000) were pledged by the property, plant and equipment (carrying amount of RMB9,865,000 (31 December 2021: RMB10,386,000) and cost of RMB12,757,000 (31 December 2021: RMB12,770,000)) of a subsidiary.

Movements in borrowings are analysed as follows:

	Unaudited RMB'000
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
At 1 January 2021	20,836,300
New borrowings	12,383,815
Repayments of borrowings	(9,392,491)
Bonds payable — interest adjustment	866
Currency translation differences	(115,105)
At 30 June 2021	23,713,385

17. SHARE CAPITAL

Ordinary shares, issued and fully paid

	Number of shares	RMB'000
At 1 January 2022 and 30 June 2022 (unaudited)	1,162,120,917	123,345
At 1 January 2021	1,186,337,417	125,366
Buy-back and cancellation of shares	(8,800,000)	(740)
At 30 June 2021 (unaudited)	1,177,537,417	124,626

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:

	2022		2021	
	Average exercise price in HK\$ per share	Options (thousands)	Average exercise price in HK\$ per share	Options (thousands)
At 1 January	75.88	10,972	74.46	15,319
Granted (i)	<u>41.48</u>	<u>44,747</u>	–	–
At 30 June	<u>48.26</u>	<u>55,719</u>	<u>74.46</u>	<u>15,319</u>

- (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 options shall be exercisable from 18 January 2025 to 17 January 2026.

Out of the 55,719,000 outstanding options (31 December 2021: 10,972,000), 10,972,000 options (31 December 2021: 10,972,000) were exercisable as at 30 June 2022.

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

	Exercise price in HK\$ per share option	Options (thousands)	
		30 June 2022	31 December 2021
Expiry date — 28 July 2022	72.75	5,639	5,639
Expiry date — 17 January 2024	41.48	13,424	–
Expiry date — 17 January 2025	41.48	13,424	–
Expiry date — 5 October 2025	79.20	5,333	5,333
Expiry date — 17 January 2026	41.48	<u>17,899</u>	–
		<u>55,719</u>	<u>10,972</u>

18. SHARE-BASED COMPENSATION (Cont'd)

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 2022 amounted to RMB30,043,000 (2021: Nil), and the remaining unamortised fair value of approximately RMB92,485,000 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 73,006,742, 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 IN ASSOCIATES

The details of investments in associates are as follows:

	<i>RMB'000</i>
At 1 January 2022	53,330
Addition (i)	428
Disposal of a subsidiary (ii)	5,669
Share of net losses	(12,437)
Currency translation difference	(1,378)
	<hr/>
At 30 June 2022 (unaudited)	45,612
	<hr/> <hr/>
At 1 January 2021	97,188
Share of net losses	(383)
	<hr/>
At 30 June 2021 (unaudited)	96,805
	<hr/> <hr/>

- (i) The Group held a 45.50% equity interest in an associate. On 20 June 2022, the Group completed a capital contribution of HKD500,000.
- (ii) The Group previously held a 55% equity interest in a subsidiary. On 16 May 2022, the non-controlling interests of this subsidiary completed a capital injection of RMB16,660,000. Upon the completion of the capital injection, the subsidiary became an associate of the Group.

19. INVESTMENTS IN ASSOCIATES (Cont'd)

The particulars of the associates of the Group as at 30 June 2022, 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	Paid-up capital	Principal activities
Finnpulp Oy	Kuopio, Finland	36.46%	RMB90,252,000	Manufacturing, distribution and sale of wood pulp
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB11,412,000	Research and development of personal hygiene materials
V-camp (Xiamen) Network Technology Co., Ltd.*	Xiamen, PRC	30.00%	RMB11,000,000	Design and promotion of internet images
Karrion Development Limited	Hong Kong, PRC	45.50%	HKD500,000	Development, distribution, wholesaling and retailing of medical, healthcare and hygiene products

* For identification purpose only

20. CAPITAL COMMITMENTS

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	650,072	634,792
Leasehold land and buildings	262,573	301,479
Total	912,645	936,271

21. CONTINGENT LIABILITIES

At 30 June 2022, the Group had no material contingent liabilities (31 December 2021: 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 2022, the key management compensation amounted to approximately RMB18,371,000 (2021: RMB7,349,000).

23. SUBSEQUENT EVENT

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

BUSINESS REVIEW

In the first half of 2022, the coronavirus epidemic once again broke out in many regions, geopolitical upheavals affected the supply chain and exacerbated the rise in inflation, coupled with uncertainties such as the US Federal Reserve interest rate hike and balance sheet runoff, hindered the global economic recovery. Under the impact of lockdown and epidemic control measures, in the first half of the year, China's gross domestic product ("GDP") only grew 2.5% year-on-year, of which the GDP in the second quarter only expanded 0.4% year-on-year. Consumer sentiment in Mainland China became more cautious in the light of the epidemic. In the first half of the year, the total retail sales of consumer goods fell 0.7% year-on-year, and the overall operating environment was very challenging. Against the background of rising raw material costs and survival of the fittest, Hengan leveraged its own advantages to buck the trend, effectively expand market share, and demonstrate strong business resilience.

New consumption patterns have gradually become mainstream in the post-pandemic era, and the market penetration of e-commerce and other new retail channels is increasing day by day. Hengan seized opportunities from the changing consumption patterns, actively expanded its e-commerce platform and new retail markets business, and promoted the recovery of sales in traditional channels by stabilizing prices and launching exclusive products. During the period, the Group's multi-channel sales approach performed remarkably. For the six months ended 30 June 2022, the Group's revenue increased by about 12.3% to approximately RMB11,200,021,000 (2021 first half: RMB9,973,914,000) as compared to the same period last year.

In the first half of 2022, the Group continued to step up its efforts in developing its e-commerce business and expanding into new retail markets. In addition to promoting its brand on traditional large-scale e-commerce platforms, the Group also explored other emerging e-commerce channels (such as Douyin ("抖音")) to seize business opportunities and increase market share. During the period, the Group further increased its proportion in e-commerce sales (including Retail Integrated ("零售通") and New Channel ("新通路")) to approximately 24.2% (2021 first half: 20.1%), which includes good progress in the development of other new sales channels (including online-to-offline (O2O) platform, community group-buying, etc.), with sales accounting for more than 10.0% of the overall sales. The Group is also committed to developing premium products and optimizing product mix to meet domestic consumers' pursuit of quality of life and high-quality diversified products. During the period, the premium tissue series "Cloudy Soft Skin" (雲感柔膚) and the premium disposable diapers series "Q•MO" were well received by the market and received enthusiastic sales response. The sales of various products also recorded good year-on-year growth.

During the period under review, rising raw material prices and operating costs have brought enormous pressure to the industry, which accelerated market consolidation of eliminating the weak and retaining the strong. Hengan, with its advantages of scale, rich experience and rapid adaptability, successfully broke through the difficulties and gained more market share. The price of wood pulp, the main raw material of tissue paper, remained high during the period due to geopolitical upheavals, the epidemic and inflation. Therefore, the Group adopted a stable pricing strategy and managed sales promotions during the period. In addition, the sales of the Group's upgraded products and premium product series grew significantly during the period, which helped to partially offset the impact of soaring prices of the raw materials for tissue paper production. In the first half of 2022, the Group's overall gross profit slightly increased by approximately 0.3% to approximately RMB3,942,191,000 (2021 first half: RMB3,930,671,000), however, the overall gross profit margin dropped to approximately 35.2% (2021 first half: 39.4%) due to the sharp increase in raw material prices. Given that the price of wood pulp is currently at a high level and the future trend is still uncertain, it is expected that the Group's gross profit margin will continue to be under pressure in the second half of 2022.

During the period, operating profit fell about 25.8% to approximately RMB1,885,753,000 (2021 first half: RMB2,540,583,000). Although the Group's sales bucked the trend and achieved growth of over 10%, the striking depreciation of the Renminbi against the US dollar and HK\$ during the period resulted in a significant foreign exchange loss in the Group's operations. Therefore, profit attributable to shareholders of the Company was approximately RMB1,276,191,000 (2021 first half: RMB1,860,292,000), representing a year-on-year decrease of approximately 31.4%. If deducting the operating foreign exchange loss, profit attributable to shareholders of the Company decreased by approximately 10.9% year-on-year instead. Basic earnings per share was approximately RMB1.098 (2021 first half: RMB1.574).

The Board of Directors declared an interim dividend of RMB0.70 per share for the six months ended 30 June 2022 (2021 first half: RMB1.00), amounted to RMB813,485,000. The Group maintains a dividend payout ratio of approximately 60% to declare and distribute to shareholders.

Sanitary Napkin

China's feminine care products market is immense, but the market is highly saturated. Many domestic and foreign brands have actively promoted their products to lower tier cities to seize the market share of the mid-to-high-end market and younger generation. As a leading brand of sanitary products in China, Hengan continued to adhere to a rational and stable pricing strategy to maintain its brand image. The Group has continuously upgraded and launched premium products to reinforce its market leadership. With excellent quality and brand image, the Group's upgraded sanitary napkin products, such as the "Ultra-thin for Teen Girls" (少女特薄) and "Pants-style" (褲型) series, received satisfactory market response, thereby driving the sales growth of the sanitary napkin business.

New consumption patterns have become the norm, the fragmentation of sales channels is accelerating, and e-commerce platforms and other emerging retail channels (including O2O platform and community group-buying) are burgeoning. During the period, the Group performed well in new retail channels. Facing the unfavorable business environment of severe epidemic and market saturation, the Group's sanitary napkin business still recorded an increase in sales. In the first half of 2022, the sales of the Group's sanitary napkin business grew approximately 3.3% to approximately RMB3,128,524,000 (2021 first half: RMB3,029,970,000), accounting for around 27.9% (2021 first half: 30.4%) of the Group's total revenue.

Notwithstanding the market competition pressure, the Group stayed committed to a rational and stable pricing strategy. However, the surge in petroleum and commodity prices has led to a price hike in petrochemical raw materials used in sanitary napkins, resulting in a year-on-year decrease of 4.7 percentage points in the gross profit margin of the sanitary napkin business to approximately 65.3% (2021 first half: 70.0%).

The Group's sanitary napkin brand, 七度空間 has always been a market leader in Mainland China by means of sales volume and market share. The Group continued to launch upgrade and premium products to keep up with the premiumization trend in the feminine care products market and consumer demand. The upgraded products launched in recent years, such as the "Ultra-thin" (特薄), "Extra-long — Night Use" (加長夜用), and "Pants-style" series, were well-received by the market with enthusiastic sales response and increasing market share. During the period, the Group launched various promotional activities for the upgraded series of 七度空間 based on the preferences of young female consumers to enhance the brand image. The Group believes that the upgraded series of 七度空間 will continue to instil strong growth momentum into the sanitary napkin business in the future, helping the Group expand its share in the sanitary napkin market and gradually increase the proportion of the upgrade products. Meanwhile, the Group will continue to actively expand new retail channels and increase the sales proportion of new retail channels, and will strive to develop exclusive products for new retail channels and adhere to a stable pricing strategy, so as to support the Group's long-term development and consolidate the Group's leading position in the market.

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

Tissue Paper

In the first half of 2022, although the coronavirus epidemic broke out in many regions, which has hampered the overall retail market, the Group's tissue paper business turned crisis into opportunity, and achieved substantial growth in sales against the challenging market conditions. With the re-emergence of the epidemic, the national health awareness has further improved, and the demand for tissue paper continued to be strong. The tissue paper market is highly competitive. However, as small and medium-sized tissue paper companies cannot withstand the soaring costs which affect their business development, the Group has gained more market shares leveraging its strong capital strength and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group insisted on a stable pricing strategy and effective managed sales promotions. During the period under review, the revenue of the Group's tissue paper business increased substantially by close to 25.0% to approximately RMB5,842,612,000 (2021 first half: RMB4,696,522,000), accounting for approximately 52.2% of the Group's overall revenue (2021 first half: 47.1%).

In the first half of 2022, the Group was inevitably affected by the sharp surge in wood pulp prices due to the tight supply of wood pulp and logistical disruption. High wood pulp prices exerted enormous pressure on the Group's gross profit in the first half of the year, and the gross profit margin dropped to approximately 23.1% in the first half of 2022 (2021 first half: 29.2%).

Amid the epidemic, the demand for tissue paper products remained at a high level. The Group's premium tissue paper products garnered very encouraging sales results. Among them, the sales of the "Cloudy Soft Skin" (雲感柔膚) series recorded a growth of more than 80% and accounted for more than 10.0% of the overall tissue paper sales. Regarding the Group's wet wipes business, it has maintained a good growth momentum in recent years. During the period under review, the sales of the Group's wet wipes business grew nearly 20.0% to approximately RMB413,312,000 (2021 first half: RMB346,282,000), accounting for approximately 7.1% of the sales of the tissue paper business (2021 first half: 7.4%). Looking ahead, the Group will continue to increase the domestic wet tissue market share to maintain its leading position in the wet wipes market.

The Group actively responded to the fragmentation of sales channels, and the efforts and resources invested in the early years gradually paid off. The tissue paper sales in e-commerce channel increased by more than 30.0%, accounting for more than 21.0% of the sales of tissue paper, whereas tissue paper sales in emerging channels such as online-to-offline (O2O) platform and community group-buying recorded an encouraging growth of over 30.0%. In the future, the Group will continue to expand various sales channels and endeavor to achieve the largest market share.

In view of the improving living standards of people and the continued high level of health awareness, there is great development potential in the overall tissue paper market. In the face of the fierce market competition, the Group will continue to develop more high-quality products according to the different needs of the market, seize business opportunities of domestic tissue paper market, expand its market share and strive to consolidate the Group's leading position in the tissue paper market. During the period, the Group maintained its production capacity at approximately 1.42 million tons. In the second half of the year, the Group will actively determine the speed of future production capacity enhancement and optimization based on future market conditions and sales performance.

Disposable Diapers

With the improvement of people's living standards and the intensified ageing population, there is considerable growth potential in the domestic adult disposable diaper market. In addition, the national change of parenting concept and the pursuit of quality life have also injected growth momentum into the baby disposable diaper market.

The Group continued to develop high-quality baby and adult care products to meet consumers' growing demand for product quality. During the period under review, the sales of the flagship premium product "Q • MO" continued to perform well, with a year-on-year growth of approximately 18.0%, and its proportion further increased to more than 30.0%. Benefitting from the growing market size of the domestic adult incontinence products market and the increasing penetration rate of the Group's adult disposable diapers, the sales of the Group's adult disposable diaper business also achieved a growth of approximately 8.3% during the period, accounting for approximately 21.2% of the overall sales of the disposable diaper business.

In the first half of 2022, the Group strived to strengthen the development of e-commerce and maternity sales channels. The proportion of sales of disposable diapers through e-commerce and maternity channels increased to more than approximately 50.0% and more than approximately 20.0%, respectively, offsetting the significant drop in the sales of mid-to-low-end products and products in traditional channel. During the period, the sales of the Group's disposable diaper business rebounded, and the revenue increased by 2.2% to approximately RMB633,513,000 (2021 first half: RMB619,668,000), accounting for approximately 5.7% of the Group's overall revenue (2021 first half: 6.2%).

In terms of gross profit margin, the gross profit margin of the Group's disposable diapers business saw a decline in the light of the significant rise in the cost of sales caused by the price increase in petrochemical raw materials for disposable diapers during the period. However, the increase in the proportion of sales of higher-margin "Q • MO" products offset part of the impact of rising costs on the overall business profitability. Thus, the gross profit margin of the disposable diapers business only dropped slightly to about 35.3% (2021 first half: 36.2%).

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

In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternity stores, nursing homes and hospitals. On the one hand, it will seize new business opportunities brought by the new retail. On the other hand, through the cooperation with maternity stores, nursing homes and hospitals, it will expand the Group’s customer base and provide a one-stop product sales chain, bringing sustainable growth momentum to the disposable diaper business, supporting the long-term development of the adult care business and continue 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 in the first half of the year decreased by approximately 2.0% year-on-year to approximately RMB1,595,372,000 (2021 first half: RMB1,627,754,000), which was mainly attributed to the tight supply of raw materials during the period and the Group’s preference to keep raw materials in reserve. As a result, revenue from raw material trading business decreased by approximately RMB240.0 million (approximately 21.5%).

During the period under review, revenue from the Group’s household products segment was approximately RMB170,887,000 (2021 first half: RMB152,502,000), representing a year-on-year increase of approximately 12.1%, accounting for about 1.5% of the Group’s revenue (2021 first half: 1.5%), which was mainly because the exports of household products started to pick up as the epidemic began to improve in other regions.

In the first half of 2022, the Group greatly expanded the product range of its brand, “Hearttex” (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will continue to take advantage of these overseas sales network to bring Hengan’s products to overseas market.

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

In addition to the revenue from the household products segment, the Group's other income also includes revenue from Wang-Zheng Group in Malaysia and other medical related products. As for the business of other medical products, the demand for medical products rose significantly due to the re-emergence of the epidemic. Thus, the sales of medical products surged notably and recorded a revenue contribution of approximately RMB167,542,000 (2021 first half: approximately RMB45,389,000). Although medical products do not account for a significant portion of the overall revenue, medical products have higher profit margin, which effectively increased the overall gross profit margin of other businesses to approximately 20.4% (2021 first half: 13.2%).

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 the year, turnover of overseas channel (including Wang-Zhang Group business) was approximately RMB1,072,226,000 (2021 first half: RMB883,319,000), accounting for approximately 9.6% of the Group's overall sales (2021 first half: 8.9%).

During the period, with the easing of the epidemic and the reopening of the region, the Group's Wang-Zhang Group business in Malaysia saw a steady recovery and its turnover increased by approximately 18.0% year-on-year to approximately RMB203,628,000 (2021 first half: RMB172,582,000), accounting for approximately 1.8% of the Group's overall sales (2021 first half: 1.7%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include "Dry Pro" disposable diapers and "Carina" personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult disposable diapers into the Southeast Asian market.

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

E-commerce and New Retail Channel Strategies

Driven by the coronavirus pandemic, domestic online shopping has skyrocketed, with sales reaching RMB5,449.3 billion in the first half of 2022, an increase of approximately 5.6%, of which online sales of consumer goods increased by approximately 5.1%. The Group has seized the business opportunities arising from the evolving consumption patterns and is committed to expanding e-commerce and other new retail channels. During the period, the Group carried out customized promotion of various brands in new channels and received positive feedback from the market. Although the Group prudently controlled promotional expenses in the first half of the year in view of the epidemic, the Group's sales during the 18 June (618) shopping festival increased by about 30% year-on-year, which was better than expected, reflecting the positive support for the Group's products in e-commerce and new retail channels and the Group's remarkable results.

In the first half of 2022, the Group's e-commerce channels (including Retail Integrated and New Channel) maintained a strong development momentum and the sales during the period soared over 30.0% to approximately RMB2.70 billion (2021 first half: RMB2.00 billion), accounting for approximately 24.2% of the Group's overall sales (2021 first half: 20.1%).

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), actively optimize the data analysis of end customers, precisely allocate expenses and formulate related sales strategies, allowing the Group to make great strides towards its strategic goal of becoming a global top-tier supplier of daily products. In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide consumers with different customized products on each channel, and comprehensively improve the online and offline consumption experience so as to achieve optimal efficiency.

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

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize the opportunities arising from the post-epidemic economic recovery, put forward effective sales strategies and conduct end-consumer data analysis, continue precise positioning and optimise the product portfolio to bring satisfactory return for shareholders. During the period, the Group faced the challenge of an approximately over 30.0% increase in transportation costs due to geopolitical tension and the epidemic. In addition, as the Group granted share options to certain directors and employees of the Group in January 2022, the share option expense apportioned during the period was approximately RMB30,043,000. As a result, the Group's selling and administrative expenses during the period amounted to approximately RMB2,141,354,000, representing a year-on-year increase of approximately 11.5%. However, as the Group's sales increased by more than approximately 12.0%, the proportion of the Group's selling and administrative expenses to the total revenue during the period slightly decreased to approximately 19.1% (2021 first half: 19.3%). The Group believes that the total revenue is expected to resume remarkable growth in the coming year, together with the effective sales and promotion strategies, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi. During the period, due to the sharp depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group's operating exchange gain turned to a loss of approximately RMB367,797,000 (2021 first half: exchange gain of approximately RMB14,184,000), which was mainly attributed to the sharp depreciation of Renminbi against the H.K. dollar, resulting in an exchange loss of approximately RMB340.0 million in respect of Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company.

As at 30 June 2022, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Appointment of Professional Consultant

In order to further optimise and upgrade the Group's SAP system, logistics network, inventory management and informatization plan, the Group signed a contract with SAP (Beijing) Software System Co., Ltd. (SAP) in June 2022 for the use of SAP's updated cloud software, and appointed SAP to perform software update to meet the growing business development in the future.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 30 June 2022, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB27,693,330,000 (31 December 2021: RMB22,282,950,000); short-term commercial papers amounted to RMB4.50 billion (31 December 2021: RMB Nil); and bank borrowings and other borrowings amounted to approximately RMB18,385,013,000 (31 December 2021: RMB18,227,095,000).

In December 2021, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion. From March to June 2022, the Group issued short-term commercial papers in four batches of RMB4.5 billion in total, the coupon rates are between 2.1% to 2.5% per annum. The four batches of short-term commercial papers will mature in 180 days from the respective issue date.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 3.8% (2021 first half: from 0.5% to 3.7%).

As at 30 June 2022, 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 116.5% (31 December 2021: 95.7%), while the net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 24.5% (31 December 2021: negative 21.3%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position.

During the period, the Group's capital expenditure was approximately RMB523,581,000. As at 30 June 2022, the Group had no material contingent liabilities.

Share Option Scheme

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

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

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

Latest Awards

In the first half of 2022, awards and honours won by the Group were as follows:

Awards/Honours	Organisation
2021 Philanthropy Promotion Award Responsible Business Leader of the Year — 2021	The 11th Philanthropy Festival and Corporate Social Responsibility Carnival
2021 Top 500 Brands of Chinese Listed Companies — Most Socially Responsible Brand of Chinese Listed Companies	Initiated by Asiabrand, and co- hosted by China-Asia Economic Development Association and Global Times
Enterprise that Paid More Than RMB1.0 Billion Tax in Quanzhou in 2021	2022 Quanzhou Private Economic Development Conference
Top 500 Most Valuable Chinese Brands	GYbrand’s list of 2022 Top 500 Most Valuable Chinese Brands
Outstanding Builder of Non-Public Economy in Fujian Province	Outstanding Builder of Non- Public Economy in Fujian Province
Most Honoured Companies Best ESG Best CEO Best CFO	Institutional Investor
Enterprise that Paid More Than RMB1.0 Billion Tax in 2021 Science and Technology Innovation Benchmark Enterprise	2022 Jinjiang Innovation and Development Conference
Consecutive 4 years Awarded the Best Managed Company	Best Managed Company in China

Products and Raw Materials Research and Development

Adhering to the “consumer-oriented” market principle, Hengan has stayed committed to its corporate vision of becoming a “global top-tier supplier of daily products through sustainable innovation and provision of high-quality products and services”. The Group will vigorously upgrade its products portfolio, facilitate the long-term and sustainable business development and provide the public with high-quality personal and household hygiene products.

In response to consumers’ pursuit of products whose manufacturing process and ingredients support environmental protection and sustainable development, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environment-friendly production technologies.

During the period, the main objective of the Group’s Innovation Centre was to promote the 3R’s — reduce, reuse and recycle. This includes the Group’s Innovation Centre planned to establish a sustainable development platform for plastics during the period, to study the 3R’s and degradability (1D) of plastics.

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 2022, 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.

Corporate Social Responsibility

Taking environmental and social sustainability as its responsibility, Hengan continues to strengthen corporate ESG management, pays attention to quality innovation, environmental protection, energy conservation and emission reduction, talent training, safety and health, and philanthropy, adheres to sustainable development, thus laying a solid foundation for achieving 100 billion in 100 years.

In order to improve ESG transparency and convey the concept of and practice corporate sustainable development, Hengan actively responded to domestic and foreign ESG ratings, and its rating performance steadily improved year by year. Among them, the Group’s FTSE Russell ESG rating and the S&P Dow Jones Indices ESG rating are both higher than the industry average. During the period, the Group was awarded “Best Environmental, Social and Corporate Governance (ESG)” by Institutional Investor.

Philanthropy

As a leading brand of household products in China, Hengan continues to promote the high-quality development of corporate social responsibility and public welfare undertakings, and assumes its own responsibility. During the period, the fifth wave of the coronavirus epidemic raged across Hong Kong with a continuously surge in the number of confirmed cases. Rapid antigen testing has become an important daily epidemic prevention measure for Hong Kong people. Karrion Development Limited, a joint venture established by Hengan and Kerry Logistics Network Limited, launched a new SARS-CoV-2 Antigen Rapid Detection Kit (Colloidal gold method) ('rapid detection kit') named "BandiCheck" under the Banitore brand in Hong Kong to help check the spread of the COVID-19 and protect the public. The Group and Banitore, a leading medical brand in Hong Kong donated 50,000 sets of rapid detection kit to the grassroots, hoping to ease the financial burden of underprivileged people and contribute to the fight against the epidemic.

In the first half of 2022, the Group donated a total of RMB3,561 million in cash and necessary items for charity and epidemic prevention and control, including the donations of RMB15.0 million in necessary items and RMB5 million in cash to the Red Cross Society of Quanzhou, and RMB10.0 million in cash to Jinjiang General Labour Union, Jinjiang Federation of Industry and Commerce, and Jinjiang Charity Federation.

Environmental Protection and Carbon Reduction

Hengan has always been practising the concept of green, low-carbon, and sustainable development, integrating sustainable development into daily operations, production and product and raw material development, contributing to the realisation of the "30 • 60" dual carbon goals and the promotion of green and low-carbon circular development. In the first half of 2022, Hengan continued to apply various energy-saving technologies and equipment to improve energy efficiency; built reclaimed water reuse system and final-stage effluent treatment system to reduce water consumption; implemented fully-covered solar roof in plants across the country; aimed to reduce, reuse, and recycle materials. During the period, the Group planned to establish a sustainable development platform for plastics, to study the 3R's and degradability (1D) of plastics so as to promote green and low-carbon development.

Since 8 December 2021, the Group has been awarded the industry's first vice-chairman unit of the Carbon Neutrality Committee of China Energy Conservation Association. The Group will stick to its post and actively participate in the initiation of Chinese corporate commitment to social responsibility and carbon neutrality with concrete actions.

Talent Development

The Group earnestly protects the rights and interests of employees, provides employees with diversified training programmes, comprehensive remuneration and benefits and promotion systems, achieving a win-win situation between corporate value and personal value. Hengan actively carries out the principle of equal employment and shows no discrimination towards employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc.

The Group established the “Hengan Innovation Academy” to carry out all-round and staged professional skills and management training for employees at all levels; set up a competitive internal recruitment process with dual promotion channels for professional and management promotion to build a talent pipeline from first-line workers to department heads, thereby providing a good career plan for the personal development of employees.

In the first half of 2022, the Group carried out various training activities for employees. During the period, the Group launched the Executive Development Programme (EDP) in partnership with the School of Management of Xiamen University to expand cognition of the Group’s executives and allow them to think out of the box, encourage teams to meet adaptive challenges, reinvent themselves, and keep up with the times.

As of 30 June 2022, Hengan had a total of approximately 23,000 employees, of which 58.84% were female employees, the total number of training hours exceeded 144,400 hours, the number of management positions promoted was 56, and the percentage of employees joining the labour union was 100%.

Health and Safety

The Group actively implements the main responsibility of the enterprise, implements unified and systematic management of the Group, and improves safety capabilities and performance to achieve high-quality and sustainable development. Hengan established an occupational health and safety management system and passed the certification, established a Safety Management Committee to lead the management of safety affairs and make major safety decisions, built a safety management process framework for the entire life cycle, and carried out safety work in the entire operation process in a standardised and orderly manner. Hengan actively promotes the development blueprint and strategy of comprehensive safety management.

In the first half of 2022, the Group continued to promote phase III of the comprehensive safety management project and successfully fulfilled the project objectives. After the implementation and promotion of the phase III project, the Group has improved the safety management organisation mechanism, safety system and element standards, and enhanced work safety performance. In the first half of 2022, the per capita working hour loss decreased by 80% compared to the previous year.

Hengan cares about physical and psychological health of employees and organises regularly safety rules training, firefighting training and drills to raise the safety awareness and self-protection capabilities of all employees. Hengan devoted unremitting efforts in the prevention and control of the epidemic, and adopted various measures to improve the epidemic prevention and control, standardised, performed proper employee health management and achieved 100% vaccination rate.

Outlook

Looking ahead to the second half of 2022, the coronavirus epidemic will remain evolving, and geopolitical tensions and rising inflation will heighten uncertainty in global economy. Although China's economy is showing a steady recovery, many uncertain factors such as the epidemic situation and the macro environment still bring variables to China's economic growth. The Group will continue to pay close attention to the development of the epidemic at home and abroad and changes in market trends, respond flexibly and make prudent decisions.

It is expected that high wood pulp prices will continue to exert pressure on the profitability of the Group in the second half of the year. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other raw materials.

Despite the fierce competition in the domestic daily necessities market, Hengan's solid strength and advantages in obtaining raw materials, coupled with its extensive nationwide distribution and diversified product portfolio, allow Hengan to be more resilient than other companies that focus on certain regional markets. The Group still managed to seize opportunities and expand market share amid challenging operating environment. In the future, the Group will further enhance and highlight the distinctive and unique image of each brand, continue to upgrade and develop new products, endeavouring to make Hengan's products the first choice of consumers. Meanwhile, the Group will speed up sales channels expansion to reach a wider customer base.

Hengan has always attached great importance to its brand image, and the upgrade of the overall brand image of the Group has been completed. In the future, the Group will step up its efforts to enhance its products' brand image, including brand upgrades through strategies such as product premiumisation, new packaging and new ambassadors. In addition, Hengan will continue to develop premium products, such as the hot-selling series "Q • MO" and "Cloudy Soft Skin". During the period, the Group set up a marketing department to carry out live streaming promotion and brand enhancement. In the future, the Group will continue to allocate more resources to fully optimise the brand image.

In the future, the Group will centre around long-term development to formulate business strategies and allocate resources. In the short term, Hengan will allocate resources to improve the infrastructure and the efficiency of the supply chain to enhance the brand, such as cloudification of the SAP system, and strive to improve the quality of the system, so as to obtain better data to perform business analysis and formulate appropriate operational strategies. At the same time, as the e-commerce platform has become an important sales channel, the Group will strive to expand the coverage of new sales channels and increase the proportion of e-commerce and new retail sales in order to meet the evolving consumption patterns.

In order to continue to consolidate the Group's market leadership in tissue paper and hygiene products and meet domestic consumers' demand for high-quality products, the Group plans to carry out production capacity expansion and technological upgrades in the future, including the establishment of a new upgraded sanitary napkin, disposable diapers, wet wipes plant in Neikeng, Fujian, and the expansion of tissue paper production capacity in Xiaogan, Hunan, and Yunfu, Guangdong.

As a leading enterprise in the personal and household hygiene products industry in China, Hengan will continue to adhere to the mission of "Growing with You for a Better Life", and strive to become a supplier of high-quality, reliable and sustainable personal and household hygiene products. The Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), enhance its brand image, seize the opportunities in the "new retail" era, take long-termism as the general direction for future development to further scale its business. At the same time, the Group will continue to take industry extension as the long-term development goal, actively expand and extend to feminine care, infant and child care, and elderly care business to continue to maintain its overall competitiveness, and 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 (2021: RMB1.00 per share) for the six months ended 30 June 2022 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 16 September 2022. Dividend warrants will be despatched to shareholders on or about 7 October 2022.

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 14 September 2022 to 16 September 2022 (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 13 September 2022.

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 2022. 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 2022.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2022, 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 2022, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

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.

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, 19 August 2022

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