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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1044)

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

"Growing with You for a Better Life"

2023 ANNUAL RESULTS FINANCIAL SUMMARY			
	2023	2022	Change
	RMB'000	*RMB'000*	*%*
Revenue	**23,767,936**	22,615,878	5.1%
Gross profit margin (%)	**33.7%**	34.0%	
Operating Profit	**3,977,931**	2,869,154	38.6%
Profit attributable to shareholders	**2,800,533**	1,925,249	45.5%
Earnings per share			
— Basic	**RMB2.415**	RMB1.657	45.8%
— Diluted	**RMB2.415**	RMB1.657	45.8%
Dividends			
— Interim (paid)	**RMB0.70**	RMB0.70	
— Final (proposed/paid)	**RMB0.70**	RMB0.70	
Accounts receivable turnover (days)	**42**	48	
Finished goods turnover (days)	**42**	43	
Current ratio (times)	**1.4**	1.4	
Rate of return (%)	**13.7%**	9.9%	

RESULTS

The Board of Directors of Hengan International Group Company Limited (the "Company" or "Hengan International" or "恒安國際") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023, together with the comparative figures for the previous year, as follows:

Consolidated statement of profit or loss

	Note	**Year ended 31 December 2023** *RMB'000*	2022 *RMB'000*
Revenue	*2*	**23,767,936**	22,615,878
Cost of goods sold		**(15,757,248)**	(14,926,379)
Gross profit		**8,010,688**	7,689,499
Selling and distribution costs		**(3,552,898)**	(3,369,466)
Administrative expenses		**(1,515,989)**	(1,519,347)
Net impairment losses on financial assets		**(123,317)**	(19,231)
Other income and other gains — net		**1,159,447**	87,699
Operating profit		**3,977,931**	2,869,154
Finance income		**273,351**	445,865
Finance costs		**(646,577)**	(468,159)
Finance costs — net		**(373,226)**	(22,294)
Share of net gains/(losses) of investments accounted for using the equity method		**699**	(13,574)
Profit before income tax	*3*	**3,605,404**	2,833,286
Income tax expense	*4*	**(798,000)**	(883,986)
Profit for the year		**2,807,404**	1,949,300
Profit attributable to:			
Shareholders of the Company		**2,800,533**	1,925,249
Non-controlling interests		**6,871**	24,051
		2,807,404	1,949,300
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*5*	**RMB2.415**	RMB1.657
— Diluted	*5*	**RMB2.415**	RMB1.657

Consolidated statement of comprehensive income

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Profit for the year	**2,807,404**	1,949,300
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(64,659)**	(238,713)
Items that will not be subsequently reclassified to profit or loss		
— Currency translation differences	**82,041**	368,951
Total comprehensive income for the year	**2,824,786**	2,079,538
Attributable to:		
Shareholders of the Company	**2,823,176**	2,047,519
Non-controlling interests	**1,610**	32,019
Total comprehensive income for the year	**2,824,786**	2,079,538

Consolidated balance sheet

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**7,255,824**	7,099,255
Right-of-use assets		**1,190,224**	1,192,081
Construction-in-progress		**1,710,626**	969,210
Investment properties		**163,360**	166,696
Intangible assets		**640,498**	656,976
Prepayments for non-current assets		**239,560**	460,660
Deferred income tax assets		**498,460**	532,204
Investments accounted for using the equity method		**56,854**	43,576
Financial assets at fair value through profit or loss		**212,370**	212,572
Long-term bank time deposits		**1,438,163**	2,895,490
		13,405,939	14,228,720
Current assets			
Inventories		**4,352,041**	4,544,935
Trade and bills receivables	*7*	**2,553,357**	2,931,887
Other receivables, prepayments and deposits		**1,703,406**	1,920,248
Current income tax recoverable		**10,915**	42,168
Derivative financial instruments		**–**	1,490
Restricted bank deposits		**300**	302
Cash and bank balances		**18,189,943**	18,667,492
		26,809,962	28,108,522
Total assets		**40,215,901**	42,337,242
Equity			
Equity attributable to shareholders of the Company			
Share capital		**123,345**	123,345
Other reserves		**2,880,980**	3,143,018
Retained earnings		**17,391,515**	16,257,244
		20,395,840	19,523,607
Non-controlling interests		**234,011**	252,130
Total equity		**20,629,851**	19,775,737

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*9*	**330,430**	2,001,334
Lease liabilities		**12,948**	16,636
Deferred income tax liabilities		**182,386**	149,433
		525,764	2,167,403
Current liabilities			
Trade and bills payables	*8*	**2,750,069**	2,920,685
Other payables and accrued charges		**1,630,085**	1,671,547
Contract liabilities		**540,276**	453,741
Derivative financial instruments		**15,548**	32,838
Lease liabilities		**17,675**	18,109
Current income tax liabilities		**199,438**	268,564
Borrowings	*9*	**13,907,195**	15,028,618
		19,060,286	20,394,102
Total liabilities		**19,586,050**	22,561,505
Total equity and liabilities		**40,215,901**	42,337,242

1. Basis of preparation and principal accounting policies

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") as issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622.

HKFRSs comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards.
- Hong Kong Accounting Standards.
- Interpretations developed by the Hong Kong Institute of Certified Public Accounts.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss ("FVPL") (including derivative instruments and unlisted preference shares), which are carried at fair value.

(i) 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 results and financial position.

Standards and amendments		Effective for annual periods beginning on or after
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 12 (Amendments)	International Tax Reform — Pillar Two Model Rules	1 January 2023

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 31 December 2023 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		**Effective for annual periods beginning on or after**
HKAS 1 (Amendments)	Classification of Liabilities as current or non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2. Revenue and segment information

The segment information provided to the Executive Directors for the reportable segments is as follows:

	2023				
	Sanitary napkins products *RMB'000*	**Disposable diapers products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Segment revenue	**6,386,582**	**1,316,905**	**14,074,820**	**3,426,785**	**25,205,092**
Inter-segment sales	**(208,144)**	**(62,835)**	**(326,648)**	**(839,529)**	**(1,437,156)**
Revenue of the Group	**6,178,438**	**1,254,070**	**13,748,172**	**2,587,256**	**23,767,936**
Segment profit	**2,317,022**	**194,302**	**243,739**	**129,601**	**2,884,664**
Unallocated costs					**(66,180)**
Other income and other gains — net					**1,159,447**
Operating profit					**3,977,931**
Finance income					**273,351**
Finance costs					**(646,577)**
Share of net gains of investments accounted for using the equity method					**699**
Profit before income tax					**3,605,404**
Income tax expense					**(798,000)**
Profit for the year					**2,807,404**
Non-controlling interests					**(6,871)**
Profit attributable to shareholders of the Company					**2,800,533**

	2023				
	Sanitary napkins products	Disposable diapers products	Tissue paper products	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other items for the year ended 31 December 2023					
Additions to non-current assets	**287,027**	**89,111**	**1,333,481**	**134,269**	**1,843,888**
Depreciation of property, plant and equipment and investment properties	**159,359**	**49,050**	**545,520**	**60,868**	**814,797**
Depreciation of right-of-use assets	**12,051**	**5,820**	**25,721**	**10,609**	**54,201**
Amortisation charge	**24,143**	**2**	**26**	**6,651**	**30,822**
As at 31 December 2023					
Segment assets	**4,297,173**	**1,086,481**	**12,384,739**	**1,862,643**	**19,631,036**
Deferred income tax assets					**498,460**
Current income tax recoverable					**10,915**
Investments accounted for using the equity method					**56,854**
FVPL					**212,370**
Long-term time deposits					**1,438,163**
Cash and bank balances					**18,189,943**
Unallocated assets					**178,160**
Total assets					**40,215,901**
Segment liabilities	**929,902**	**269,567**	**3,287,919**	**372,125**	**4,859,513**
Deferred income tax liabilities					**182,386**
Current income tax liabilities					**199,438**
Borrowings					**14,237,625**
Unallocated liabilities					**107,088**
Total liabilities					**19,586,050**

	2022				
	Sanitary napkins products *RMB'000*	Disposable diapers products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Segment revenue	6,358,599	1,300,680	12,997,505	3,863,091	24,519,875
Inter-segment sales	(202,539)	(98,333)	(749,494)	(853,631)	(1,903,997)
Revenue of the Group	6,156,060	1,202,347	12,248,011	3,009,460	22,615,878
Segment profit	2,507,569	135,815	136,505	88,591	2,868,480
Unallocated costs					(87,025)
Other income and other gains — net					87,699
Operating profit					2,869,154
Finance income					445,865
Finance costs					(468,159)
Share of net losses of investments accounted for using the equity method					(13,574)
Profit before income tax					2,833,286
Income tax expense					(883,986)
Profit for the year					1,949,300
Non-controlling interests					(24,051)
Profit attributable to shareholders of the Company					1,925,249

	2022				
	Sanitary napkins products *RMB'000*	Disposable diapers products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Other items for the year ended 31 December 2022					
Additions to non-current assets	421,283	176,090	624,414	105,419	1,327,206
Depreciation of property, plant and equipment and investment properties	171,741	42,928	532,961	52,259	799,889
Depreciation of right-of-use assets	13,728	3,896	26,844	9,226	53,694
Amortisation charge	22,992	3	42	10,373	33,410
As at 31 December 2022					
Segment assets	4,347,292	1,134,152	12,254,049	2,055,975	19,791,468
Deferred income tax assets					532,204
Current income tax recoverable					42,168
Investments accounted for using the equity method					43,576
FVPL					212,572
Long-term time deposits					2,895,490
Cash and bank balances					18,667,492
Unallocated assets					152,272
Total assets					42,337,242
Segment liabilities	1,101,507	293,649	3,162,454	432,501	4,990,111
Deferred income tax liabilities					149,433
Current income tax liabilities					268,564
Borrowings					17,029,952
Unallocated liabilities					123,445
Total liabilities					22,561,505

3. Profit before income tax

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

	2023	2022
	RMB'000	*RMB'000*
Crediting		
Government grants income *(Note)*	**549,621**	546,165
Interest income from cash and cash equivalents	**272,469**	330,056
Income from long-term and short-term bank time deposits	**696,546**	537,444
Exchange gains from financing activities — net	**882**	115,809
Realised fair value gains on derivative financial instruments	**140,711**	5,889
Gains from liquidation of a subsidiary	**1,564**	–
Reversal of provision for inventories write-down	**23,387**	–
Share of net gains of investments accounted for using the equity method	**699**	–
Charging		
Depreciation of property, plant and equipment	**808,830**	793,670
Depreciation of right-of-use assets	**54,201**	53,694
Amortisation of intangible assets	**30,822**	33,410
Employee benefit expense, including Directors' emoluments	**2,253,995**	2,134,375
Marketing and advertising expenses	**1,100,647**	1,067,215
Repairs and maintenance expenses	**180,377**	145,835
Losses on disposal of property, plant and equipment, intangible assets and other non-current assets	**28,399**	69,245
Utilities and various office expenses	**990,824**	867,427
Transportation and loading expenses	**1,156,571**	1,068,499
Short-term and low-value lease expenses	**49,412**	74,217
Net impairment losses on financial assets	**123,317**	19,231
Exchange losses from operating activities — net	**184,325**	912,865
Provision for inventories write-down	**–**	13,095
Share of net losses of investments accounted for using the equity method	**–**	13,574
Unrealised fair value losses on derivative financial instruments	**15,461**	31,348
Interest expenses on borrowing after deducting interest expenses of RMB14,985,000 (2021: RMB11,087,000) capitalised in construction-in-progress	**645,081**	466,638
Fair value losses on FVPL	**3,301**	–
Impairment charge on property, plant and equipment	**5,883**	–

Note: These represented government grants received from certain municipal governments of Mainland China as an encouragement of the Group's contributions to the development of the local economy.

4. Income tax expense

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	2023	2022
	RMB'000	*RMB'000*
Current income tax		
— Current tax on profits for the year	**644,021**	770,263
— PRC withholding income tax	**87,314**	176,016
Deferred income tax, net	**66,665**	(62,293)
Income tax expense	**798,000**	883,986

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

Certain subsidiaries were approved to be new and high-technology enterprises and are entitled to the tax rate of 15%.

(b) Hong Kong and overseas profits tax has been calculated at the rates of taxation prevailing in the regions in which the Group operates respectively.

(c) The profits of Mainland China subsidiaries 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 have been provided for in this regard based on the expected dividends to be distributed from the Group's Mainland China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

(d) OECD Pillar Two model rules

The Group has main operation in Mainland China, Hong Kong, Macao and Malaysia. It is within the scope of the OECD Pillar Two model rules. As of the reporting date, there is no public announcement in Mainland China and Macao. Hong Kong has announced that it plans to implement the Global Minimum Tax and HKSAR Domestic Minimum Top-up Tax starting from 2025 onwards but it is still under public consultation with the expectation that draft legislation will be published in the second half of 2024. Malaysia published the draft legislation in 2023, which introduced the Pillar Two rules with effect from 1 January 2025 and was expected to be enacted in 2024.

Since the Pillar Two legislations in the jurisdictions of Mainland China, Hong Kong, Macao and Malaysia were not effective at the reporting date, the Group has no related current tax exposure. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in November 2023.

In addition, since the Pillar Two legislation in the jurisdictions that the Group operates in was not enacted or substantively enacted as at the reporting date, and due to the uncertainty of the announcement of the legislation and the complexities in applying the legislation and calculating GloBE income, the Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect.

5. Earnings per share

(a) Basic

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

	2023	2022
Profit attributable to shareholders of the Company (RMB'000)	**2,800,533**	1,925,249
Weighted average number of shares outstanding (thousands)	**1,159,752**	1,162,121
Basic earnings per share (RMB)	**2.415**	1.657

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2023 and 2022, share option schemes is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

6. Dividends

	2023 *RMB'000*	2022 *RMB'000*
Interim, paid, RMB0.70 (2022: RMB0.70) per ordinary share *(Note)*	**813,485**	813,485
Final, proposed/paid, RMB0.70 (2022: RMB0.70) per ordinary share *(Note)*	**813,485**	813,485
	1,626,970	1,626,970

Note:

The dividends paid in 2023 amounted to RMB1,626,970,000 (2023 interim: RMB0.70 per share, 2022 final: RMB0.70 per share). The dividends paid in 2022 amounted to RMB1,626,970,000 (2022 interim: RMB0.70 per share, 2021 final: RMB0.70 per share).

A final dividend in respect of the year ended 31 December 2023 of RMB0.70 per share, amounting to a total dividend of RMB813,485,000 was proposed by the Board of Directors at a meeting held on 21 March 2024, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 17 May 2024. These financial statements do not reflect this dividend payable.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK$0.771588 per share using the exchange rate of HK$ to RMB on 20 March 2024, which is 0.90722.

7. Trade and bills receivables

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2023 and 2022, the aging analysis of the trade and bills receivables based on invoice date was as follows:

	2023	2022
	RMB'000	*RMB'000*
Within 30 days	**937,106**	961,667
31–180 days	**1,517,859**	1,724,960
181–365 days	**88,922**	189,311
Over 365 days	**175,111**	117,196
	2,718,998	2,993,134
Less: provision for impairment	**(165,641)**	(61,247)
Trade and bills receivables — net	**2,553,357**	2,931,887

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.

8. Trade and bills payables

At 31 December 2023 and 2022, the aging analysis of trade and bills payables based on invoice date was as follows:

	2023	2022
	RMB'000	*RMB'000*
Within 30 days	**1,686,381**	1,609,093
31–180 days	**1,051,641**	1,299,393
181–365 days	**7,775**	8,270
Over 365 days	**4,272**	3,929
	2,750,069	2,920,685

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

9. Borrowings

	2023	2022
	RMB'000	*RMB'000*
Non-current		
Long-term bank loans — unsecured	**330,250**	1,999,000
Long-term bank loans — secured	**180**	2,334
	330,430	2,001,334
Current		
Short-term bank loans — unsecured	**10,621,301**	14,319,923
Current portion of long-term bank loans — unsecured	**2,862,500**	415,433
Current portion of other borrowings — unsecured	**–**	84,800
Trust receipt bank loans	**421,293**	206,419
Current portion of long-term bank loans — secured	**2,101**	2,043
	13,907,195	15,028,618
Total borrowings	**14,237,625**	17,029,952

(a) Super short-term commercial papers

During 2023, following super short-term commercial papers were issued and matured:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, China further implemented and consolidated its policies comprehensively to stabilise the economy and expand domestic demand, which contributed to the sustained recovery of the Chinese economy. In 2023, China's gross domestic product ("GDP") grew 5.2% year-on-year. Consumer spending maintained a positive trend, with total retail sales of consumer goods increasing by 7.2% year-on-year, of which total retail sales of daily necessities increased by 2.7%. However, due to negative factors such as the complex and severe international political and economic environment and the tightening of monetary policies in developed countries, China's economic development faced many difficulties and challenges. Leveraging its comprehensive competitive advantages and effective profit-focused sales strategy, Hengan continued to expand its market share and further consolidated its strong business resilience.

During the year, Hengan tapped into the consumption potential released by the transformation of consumption patterns. Hengan continued to greatly expand the e-commerce platforms and new retail channels through effective price stabilisation strategies and product line upgrades and premiumisation. It also promoted sales in traditional channels and created its new growth points. The effectiveness of the development of the Group's omni-channel continued to improve. Benefitting from the ongoing omni-channel strategy and continuous enhancement of the brand image, revenues of the Group's three core business segments (tissue paper, sanitary napkins and disposable diapers) has maintained strong growth over the past two years, with a year-on-year growth of approximately 8.0%. For the year ended 31 December 2023, the Group's revenue increased by 5.1% to approximately RMB23,767,936,000 (2022: RMB22,615,878,000) as compared to last year. The Group's revenue is expected to maintain stable in 2024.

In 2023, the Group continued to step up its efforts in developing its e-commerce business and new retail market. In addition to promoting brands on traditional large-scale e-commerce platforms, it also strengthened penetration into other emerging e-commerce channels (such as Douyin ("抖音")). During the year, the Group further increased its proportion of e-commerce and new retail sales (including Retail Integrated ("零售通") and New Channel ("新通路")) to close to approximately 30.1% (2022: 26.9%), growing about 17.7% year-on-year including other new retail channels (including Retail Integrated, community group-buying, etc.) are progressing well with sales increasing by approximately 21.4% year-on-year and accounting for approximately 7.4% of the overall sales. The Group is also committed to developing premium products and optimising its product mix, actively enhancing its brand image to cater to domestic consumers' pursuit of high-quality and diversified products. The upgraded tissue paper series "Cloudy Soft Skin" (雲感柔膚), the premium disposable diapers series "Q • MO" and sanitary napkins series "Sweet Dream Pants" (萌睡褲) continued to be well-received by consumers and maintained a strong sales momentum during the year. The sales of various key upgraded and premium products also achieved a year-on-year growth of more than 10.0% and continued to increase its proportion over the sales. Moreover, the Group effectively promoted sales in traditional channels and created its new growth points during the year, achieving a year-on-year increase of more than 8.0%.

During the year under review, raw material prices dropped in the second half of the year, leading to intensified market promotions and price competition. In the face of fierce market competition, Hengan actively responded to the market changes, adhered to stable pricing, and focused on enhancing profitability, effectively further expanding its market share and consolidating its leading position in the market. The decline in the price of wood pulp, the main raw material for tissue paper, in the second half of the year compared to the first half of the year, coupled with the robust growth in the Group's upgraded products and premium product series resulted in a significant improvement in the gross profit of the tissue paper business. In 2023, the Group's overall gross profit increased by approximately 4.2% to approximately RMB8,010,688,000 (2022: RMB7,689,499,000). Although the gross profit margin was under pressure in the first half of 2023, the overall gross profit margin for the full year still recorded at approximately 33.7% (2022: 34.0%), almost consistent with last year. Gross profit the second half of 2023 even significantly improved to 36.5% (2022 second half 32.8%). It is expected that in 2024, the Group will prudently allocate promotional resources and premium high-margin products will continue to experience significant growth, leading to a continuous improvement in the gross profit margin.

During the year, operating profit increased significantly by approximately 38.6% to approximately RMB3,977,931,000 (2022: RMB2,869,154,000). Although the depreciation of the Renminbi against the US dollar and the HK dollar during the year resulted in an operating foreign exchange loss after tax of approximately RMB150.0 million, the loss was significantly reduced by about 83.6% compared with the operating foreign exchange loss before tax of approximately RMB901.2 million in 2022. Therefore, profit attributable to shareholders of the Company was approximately RMB2,800,533,000 (2022: RMB1,925,249,000), representing a significant year-on-year increase of approximately 45.5%. Excluding the operating foreign exchange loss after tax, profit attributable to shareholders of the Company increased by approximately 4.3% year-on-year, mainly reflecting the improvement in the Group's gross profit margin as a result of the decline in the cost of wood pulp and upgrades of products. Basic earnings per share was approximately RMB2.415 (2022: RMB1.657).

The Board of Directors declared a final dividend of 0.70 share (2022: RMB0.70 per share) for the year ended 31 December 2023, together with the interim dividend of RMB0.70 per share (2022 first half: RMB0.70 per share) already paid, total dividend for the year amounted to RMB1.40 per share (2022: RMB1.40 per share) or RMB1,626,970,000 (2022: RMB1,626,970,000), maintaining a stable dividend amount.

Sanitary Napkin

China has the world's largest feminine care products market. With the growing awareness of feminine care and increasing spending power in China, female consumers are paying increasing attention to product quality, material safety and added value of products, driving consumption upgrade and continuous expansion of the feminine care products market. However, the market competition is very fierce, many domestic and foreign brands adopted aggressive sales strategies to tap into the mid-to-high-end market and young consumers. Hengan has full confidence in its product quality and longstanding reputation among customers, and adheres to a rational and stable pricing strategy. In order to enhance the brand image and consolidate its leading position in the mid-to-high-end market and traditional sales channels, Hengan continued to promote product upgrades and premiumisation to meet consumers' demand for high-quality feminine care products, so as to maintain its leadership in the fierce market competition. The Groups' upgraded sanitary napkin products, such as the "Sweet Dream Pants" (萌睡褲) series and the new premium "Heavenly Mountain Cotton" (天山絨棉) series launched this year, were favoured by consumers due to their excellent quality and brand image, driving the sales growth of the overall sanitary napkin business.

The continuous rapid increase in the penetration of new consumption patterns has exacerbated the fragmentation of channels. E-commerce platforms and other emerging retail channels (including community group-buying) are thriving. The Group actively seized the opportunities of emerging consumption trends, vigorously expanded emerging sales channels, and consolidated its leading edge in traditional channels, which effectively boosted sales of sanitary napkins and maintained a leading market share. During the year, the Group achieved satisfactory sales in new retail channels, and products of the 七度空間 series achieved the leading position in the sales in many new retail channels. At the same time, the Group's sanitary napkin business continued to maintain its leading position in traditional channels and achieved stable growth. Therefore, despite fierce market competition and aggressive pricing and promotional strategies of other brands, the Group's sanitary napkin business still saw growth in its revenue. In 2023, the revenue of the Group's sanitary napkin business increased by approximately 0.4% to approximately RMB6,178,438,000 (2022: RMB6,156,060,000), accounting for approximately 26.0% (2022: 27.2%) of the Group's overall revenue, outperforming the sales performance in the overall sanitary napkin industry. Driven by the increasing proportion of upgraded and premium products and the continuous growth of traditional sales channels, it is expected that the Group's sanitary napkin business in 2024 will maintain steady growth in its revenue.

The Group adheres to a stable pricing strategy and prudent allocation of promotional expenses. Benefiting from brand premiumisation and the steady increase in the proportion of upgraded products, as well as the decline in the price of petrochemical raw materials, the main raw material for sanitary napkins in the second half of the year compared with the first half of the year, the gross profit margin of the sanitary napkin business stood at approximately 66.0% in the second half of 2023, representing an improvement from 61.8% in the first half of the year, while the overall gross profit margin in 2023 was approximately 63.8% (2022: 66.8%). Driven by product upgrades and premiumisation, the gross profit margin is expected to continue to improve in 2024.

The Group's sanitary napkin brand 七度空間 continued to launch upgraded and premium products and strived to enhance its brand image. In recent years, the Group launched upgraded products such as "Ultra-thin" (特薄), "Extra-long — Night Use" (加長夜用) and "Pants-style" (褲型) series, which received an overwhelming response from the market. The newly launched "Heavenly Mountain Cotton Series" (天山絨棉系列), which uses rare and pure long staple cotton from snowy mountains, aim to meet the demand of today's customers for high-quality products, and their sales are expected to gradually increase. The Group signed female artists with bright and positive image, including actresses Zhao Jinmai, as the brand ambassador of 七度空間, injecting youthful vitality into the brand. With the theme of "Freedom Without Limits", the Group launched a variety of promotional activities, such as brand ambassador live streaming, meetings and limited-edition gift sets, based on the preferences of young female customers and white-collar women to further enhance the brand image and attract young and white-collar customers. In addition, 七度空間 has upgraded the "Pink Wings" menstrual support program, in which pink symbolises the unity and support of women, and wings represent the protection from sanitary napkins and the freedom of women. The charitable program aims to voice women's rights and needs during menstruation and build a period-friendly society. On 8 March 2023, International Women's Day, 七度空間 held a special campaign called "Be Liberated, No More Black Pouches", encouraging women to be liberated and rejecting menstrual shame. The campaign actively promoted the attitude that "sanitary napkins, like any other daily necessities, do not need to be hidden" and encouraged women to abandon the habit of using a "black pouch" to carry sanitary napkins. During the campaign, the brand released a teaser video and promotional poster on its official Weibo account from 1 to 2 March 2023, and the topic "Is carrying sanitary napkins in a black pouch a bias or a concern" soared to the top of the real-time rankings. The positive response to the 七度空間 charitable campaign has helped promote the Group's products and enhanced the brand image. The widespread promotion of a liberated attitude for women also marked an important step for the Group to fulfill its corporate social responsibility.

In addition, the "Pants-style" series still has great growth potential with sales increasing over 73.4% year-on-year during the year. The Group will continue to vigorously promote the "Pants-style" series of products to consumers and launch an upgraded version of "Sweet Dream Pants" to attract more consumers and further increase market penetration.

The Group believes that the upgraded products of the 七度空間 series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group expand its market share and increase the revenue contribution of premium products. Meanwhile, the Group will continue to increase the sales proportion of new retail channels, strive to develop higher quality products, adhere to a stable pricing strategy, and maintain stable growth in traditional channels, thereby promoting the Group's long-term development and consolidating its leading position.

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

Tissue Paper

In 2023, the national economy and consumer market continued to recover, but the external environment was still full of challenges. The Group focused on improving profitability and responded to the cutthroat price competition with stable prices and an omni-channel sales strategy, driving the continuous double-digit growth of tissue paper sales. The Group gained more market share by virtue of its strong capital and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group adhered to a stable pricing strategy and effectively controlled sales promotions. During the year under review, the revenue of the Group's tissue paper business increased remarkably by approximately 12.2% to approximately RMB13,748,172,000 (2022: RMB12,248,011,000), outperforming the industry's average growth rate and maintaining a leading market share. The sales of the tissue paper business accounted for approximately 57.8% of the Group's overall revenue (2022: 54.2%). The Group will continue to upgrade its products and increase the penetration rate of premium products. It is expected that the revenue of the Group's tissue paper business will maintain rapid growth in 2024.

In the first quarter of 2023, the Group was still affected by the elevated price of wood pulp. However, in the second quarter of 2023, the price of wood pulp started to come down. After the Group consumed its high-cost wood pulp inventory, the positive impact of the decline in the cost of wood pulp was reflected in the results in the second half of 2023. Although the Group moderately increased promotions in the second half of the year, resulting in higher promotional expenses, it benefited from product upgrades and the increased proportion of high-margin products, as well as a drop in wood pulp costs. As a result, the gross profit margin for the second half of 2023 improved significantly from 17.7% in the first half of the year to 26.1% (2022 second half: 18.5%), while the gross profit margin for 2023 increased to approximately 21.7%, (2022: 20.7%). The Group expects that the gross profit margin of the tissue paper business will continue to improve in 2024.

Driven by the improvement of national health awareness and the growing demand for consumption upgrades, the Group's upgraded and premium tissue paper products achieved outstanding sales. Among them, the sales of the "Cloudy Soft Skin" series recorded sales of more than RMB1.30 billion, increased by around 26.6% and accounting for approximately 12.0% of the overall tissue paper sales. In terms of the Group's wet wipes business, the sales for the year were approximately RMB931,060,000 (2022: RMB842,354,000), recording a sales growth of nearly 10.5%, accounting for approximately 6.8% of the overall sales of the tissue paper business (2022: 6.9%). The wet wipes business has maintained strong growth in recent years, the Group will continue to increase its market share in the domestic wet wipes market and consolidate its market leadership. The Group actively responded to the fragmentation of channels and the efforts and resources invested in strategic deployment in the early years has entered the harvest period. The tissue paper business performed remarkably in e-commerce and new retail channels (including Retail Integrated, community group-buying, etc.), with a sales growth of approximately 26.1%, accounting for nearly 35.3% of the overall sales of tissue paper. In the future, the Group will continue its endeavours in expanding different sales channels, striving for the largest market share.

With the continuous enhancement of living standards and health awareness, the overall tissue paper market is full of opportunities. In the face of fierce market competition, the Group will develop more high-quality products to meet the diverse needs of customers, improve the cost-effectiveness of tissue paper production, and increase the production capacity of each production base, to fully grasp the business opportunities in the domestic tissue paper market and maintain its leading position in the tissue paper market. During the year, the Group's annual production capacity was approximately 1,470,000 tonnes. It is expected that in 2024, production capacity will be gradually increased in Hunan, Hubei, Guangdong and other regions to respond to market conditions and meet the demand for sales growth.

Disposable Diapers

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

The Group continues to develop high-quality baby and adult care products to meet customers' growing demand for product quality. During the year, sales of the flagship premium product "Q • MO" maintained good growth. It recorded a year-on-year growth of nearly 21.8%, and its proportion further increased to about 36.4%. In 2023, the Group strived to strengthen the development of new retail channels and maternity sales channels, with new retail channels and maternity sales channels accounting for approximately 52.8% and 16.6% of sales, respectively. Despite fierce market competition, benefitting from the enhanced brand competitiveness, the sales growth of the Group's premium product “Q • MO” and the improvement in sales resulting from the rebranding of the “Anerle” (安兒樂) brand to “Sports-style” (運動型) series effectively offset the decline in sales from traditional channels and mid-to-low-end products. On the other hand, benefitting from the growing domestic adult incontinence products market and the continuous increase in the penetration rate of the Group’s adult disposable diapers, the Group’s adult disposable diaper business recorded a growth of approximately 11.5% during the year, accounting for approximately 25.4% of the overall diaper sales. As a result, the sales of the Group’s disposable diaper business increased by approximately 4.3% to approximately RMB1,254,070,000 (2022: RMB1,202,347,000), accounting for approximately 5.3% (2022: 5.3%) of the Group’s overall revenue. The Group believes that the adult disposable diaper market has considerable development potential. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group’s disposable diaper business are expected to maintain sales growth in 2024. In terms of gross profit margin, the price decrease in petrochemical raw materials for disposable diapers in the second half of the year led to an decrease in costs of sales, coupled with the increase in the proportion of sales of the higher-margin “Q • MO” products and premium adult disposable diapers helped increase the gross profit margin to more than 40.0% in the second half of 2023, which is a significant improvement from 36.0% in the first half of the year. The gross profit margin of the diaper business in 2023 rose to approximately 38.1% (2022: 36.9%). The gross profit margin of the diaper business is expected to remain stable in 2024.

During the year, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding the baby diaper business, the Group continued to rebrand the “Anerle” brand, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today’s consumers, effectively driving an increase in sales. On the other hand, “Q • MO” magic breathing diapers, which have 3.6 times more vents than traditional diapers, are very popular in the market. The Group will continue to optimise “Q • MO” products to instill growth momentum into the Group’s future development. With the dual-brand strategy, the Group expects the sales of the baby diaper business will maintain a steady growth in 2024.

In addition, as China pays increasing attention to the development of the elderly care industry, there will be huge room for development in the field of domestic adult care products. As a dedicated brand in the Chinese adult diaper market, “ElderJoy” (安而康) actively educates the public on elderly care and advocates the brand proposition of “bringing peace and joy to the elderly”. On 20 March 2023, “ElderJoy” collaborated with the renowned actor Hu Jun and his family to release a public welfare short film titled “This Time, Love Will Not Be Late”, which called for societal attention and awareness of the “unspoken difficulties” of the disabled elderly, received widespread attention and created resonance. The short film received over 100,000 likes and was trending on Weibo. In May, leveraging the occasion of Mother’s Day, the short film gained even greater popularity. “ElderJoy” joined hands with the China Social Welfare Foundation to donate adult diaper products worth nearly RMB200,000 to five hospitals, nursing homes, and 23 local villages in Jiangxi and Jiangsu provinces, aiming to demonstrate care for the elderly and educate the public about assisting and showing love to the elderly through concrete actions, actively fulfilling the Group's social responsibility. The Group will invest more resources in the development of adult care products, so that the "ElderJoy" brand and its products can fully penetrate the domestic market and at the same time expand market share in Southeast Asia. In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will vigorously develop new retail channels and also increase cooperation with maternity stores, nursing homes and hospitals. On the one hand, it will seize new business opportunities brought by new retail. On the other hand, through the cooperation with maternity stores, nursing homes and hospitals, it will expand the Group's potential customer base, and provide a one-stop product sales chain, bringing sustainable growth momentum to the disposable diaper business, supporting the long-term development of the adult care business and continuing to tap the growth potential of the adult care market.

Other Income and Household Products

Regarding other income and household products, the Group's revenue for the year, which mainly includes revenues from raw material trading business, household products business, and Wang-Zheng Group in Malaysia, decreased by approximately 14.0% year-on-year to approximately RMB2,587,256,000 (2022: RMB3,009,460,000). The decline was mainly due to the Group's preference to reserve raw materials for the manufacturing of products and ensure reasonable profits from its raw material trading business. As a result, revenue from raw material trading business dropped significantly by approximately 13.6% to approximately RMB1.4 billion (2022: approximately RMB1.6 billion).

During the year, revenue from the household products business was approximately RMB249,589,000 (2022: RMB325,962,000), representing a year-on-year decrease of approximately 23.4%, accounting for approximately 1.1% of the Group's revenue, which was mainly due to the decline in the export business of household products.

In 2023, the Group greatly expanded the product range of its brand, "Hearttex" (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will continue to take advantage of these overseas sales network to bring Hengan's high-quality products to overseas markets.

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 2023, turnover of overseas channel (including Wang-Zheng Group business) was approximately RMB1,950,955,000 (2022: RMB2,086,791,000), accounting for approximately 8.2% of the Group's overall sales (2022: 9.2%).

During the year, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approximately 6.3% year-on-year to approximately RMB437,699,000 (2022: RMB411,704,000) accounting for approximately 1.8% of the Group's overall sales (2022:1.8%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, and tissue products, cotton products and processed papers. Its brands include "P Love" disposable adult diapers and "Carina" personal hygiene products. The Group leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's tissue and adult disposable diapers products into the Southeast Asian market.

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

E-commerce and New Retail Channel Strategies

New consumption patterns and new forms of business that integrate online and offline channels are developing at an accelerated pace, and the online shopping market is expanding, thereby continuously unleashing consumption potential. According to statistics, the national online retail sales of physical goods reached RMB13.0 trillion in 2023, representing an increase of 8.4%, of which the online retail sales of daily necessities increased by 7.1%. In order to meet the ever-upgrading needs of consumers, the Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities. During the year, the Group carried out higher quality product promotions for various brands in new channels, and its stable pricing strategy received positive responses from the market, thus further enhancing the Group's brand awareness and market share in online and other new retail channels.

In 2023, the Group's e-commerce and new retail channels (including Retail Integrated and New Channel) maintained a robust development momentum and sales for the year soared over 17.7% to approximately RMB7.16 billion (2022: RMB6.1 billion), bringing the proportion of e-commerce sales up to approximately 30.1% (2022: 26.9%) of the Group's overall sales. During the year, new retail channels contributed approximately

35.3%, 26.5% and 52.8% of contribution to the sales of tissue paper business, sanitary napkin business, and disposable diaper business respectively. It is expected that the proportion of sales in new retail channels will be further increased in the future.

In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin) and improve data analysis capabilities for end customers.

To cater for the new consumer trends, the Group interacted with consumers through livestream sales and other community activities, and strengthen the connection with young consumers. The Group also appointed Xiao Zhan, a popular artist, as the global brand ambassador of "Hearttex" to further enhance the brand influence. The Group will continue to increase its market share in e-commerce and new retail channels to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

As the Group moderately increased its online marketing investment to capture market opportunities and promote the Group's key selling products, the Group's selling and administrative expenses for the year amounted to approximately RMB5,068,887,000, representing a year-on-year increase of approximately 3.7%. The proportion of the Group's selling and administrative expenses to the total revenue for the year slightly dropped to approximately 21.3% (2022: 21.6%). The Group believes that the total revenue is expected to continue to increase in the coming year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi. During the year, due to the depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group recorded an operating exchange loss of approximately RMB180.0 million, representing a substantial narrowing of exchange loss by approximately 79.9%. This was mainly due to significant decline in Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company, which mainly caused the recognition of operating exchange loss last year (2022: RMB912,865,000).

As at 31 December 2023, apart from certain foreign currency swap contracts and foreign exchange options contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2023, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB19,628,406,000 (31 December 2022: RMB21,563,284,000); and bank borrowings and other borrowings amounted to approximately RMB14,237,625,000 (31 December 2022: RMB17,029,952,000).

In December 2022, the Group successfully registered super short-term commercial papers in an aggregate amount of not more than RMB5.0 billion. From February to May 2023, the Group issued super short-term commercial papers in four batches of RMB5.0 billion in total with the coupon rates ranging from 2.39% to 2.4% per annum and tenors ranging from 178 days to 180 days. The four batches of commercial papers have been fully repaid by 31 December 2023.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.05% to 6.45% (2022: from 0.4% to 5.2%)

As at 31 December 2023, the Group's gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) significantly improved to approximately 69.8% (31 December 2022: 87.2%). This improvement was primarily attributed to the Group's commitment to maintaining a sound financial position and reducing high-cost debts. While the net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was approximately negative 26.4% (31 December 2022: negative 23.2%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio and maintaining a solid net cash position to ensure a sound financial position.

During the year, the Group's capital expenditure was approximately RMB1,843,888,000 (2022: RMB1,327,206,000), primarily allocated to increasing the production capacity of various manufacturing facilities. As at 31 December 2023, the Group had no material contingent liabilities.

Human Resources and Management

During the year, 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 31 December 2023, the Group employed approximately 23,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

Latest Awards

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

Awards/Honours	Organisation
Ingenious Product of China's Household Paper Industry in 2023	China National Household Paper Industry Association
Ingenious Product of China's Sanitary Products Industry in 2023	China National Household Paper Industry Association
All-Asia Executive Team 2023 rankings: Most Honoured Company: Hengan International and Best ESG	Institutional Investor
The Fifth China Best Managed Companies List	Deloitte China
"Standard Chartered Corporate Achievement Awards 2023" Sustainable Corporate (Environmental) — Leadership Award	Standard Chartered Bank

Corporate social responsibility

Hengan rigorously adheres to a green and sustainable development strategy. In June 2023, it established an ESG Committee at the board level to comprehensively manage the Group's sustainability initiatives, thereby instituting a robust four-tier ESG management framework. The Group has undertaken comprehensive initiatives across various fields such as quality and innovation, low-carbon environmental protection, talent cultivation, health and safety, and philanthropy. Through these sustainable practices, it aims to empower high-quality corporate development, steadily progressing towards the ambitious goal of "100.0 billion in 100 years".

In 2023, Hengan enhanced the transparency of its ESG disclosures and actively responded to domestic and international ESG ratings, resulting in a steady improvement in its rating performance. Notably, its MSCI ESG rating was elevated from BB to BBB, and its S&P Global CSA score surpassed that of 84% of its peers, earning it the title of "Industry Mover" in the S&P Global Sustainable Yearbook (China Edition) 2023. Furthermore, the Group has been incorporated into the FTSE4Good Index Series. In the same year, it was selected for the "2022 Forbes China Top 50 Sustainable Development Industrial Enterprises" and "2022 Wind ESG Hong Kong Stock Industry Best Practice Award (Daily Consumption)" list. At the Standard Chartered Corporate Achievement Awards 2023, the Group was honored with the "Sustainable Corporate (Environment) — Leadership Award".

In 2023, the Group continued to enhance its intrinsic motivation to fulfill social responsibilities, receiving accolades such as "Asia's Best CSR" by Corporate Governance Asia.

Quality and Innovation

Adhering to a consumer-oriented marketing philosophy, Hengan is committed to becoming "a global top-tier supplier of daily products through sustainable innovation and high-quality products and services". In the face of an ever-changing market environment, Hengan dares to innovate, using a comprehensive product development system and strict technical standards as the foundation for product innovation, continuously advancing technological iterations and strengthening the construction of an innovative talent team, thereby launching more high-quality personal and household hygiene products.

The Group places a strong emphasis on maintaining product quality, establishing comprehensive quality management processes and risk management systems, thereby laying a solid foundation for quality management. In 2023, we strengthened the digitalization of quality management by employing the "One-drag-Three visual inspection" system in coordination with metal detection and weight inspection systems. Thus, we conducted even rigorous and more precise product inspections on multiple parts of individual products, achieving further enhancement in product quality standards.

In response to the market trend of green consumption, the Group integrates ecological and environmental friendliness into its design philosophy, leveraging its innovation capabilities to explore the use of green raw materials. In 2023, it established a biodegradation evaluation system to accelerate the assessment of the biodegradability of new materials and conduct in-depth research on material degradation mechanisms. Additionally, the Group continues to develop biodegradable plastics through the sustainable development platform for plastics, applying green raw materials extensively in its products to enhance their health and environmental attributes and reduce their environmental impact.

Low-Carbon Environmental Protection

Hengan incorporates the concept of green and sustainable development into its operation, actively engaging in green, low-carbon planning and construction, developing more comprehensive climate change management strategies, and optimizing energy conservation, emission reduction, and biodiversity conservation measures. Hengan has promoted distributed photovoltaic power generation projects in factories and bases across the country to optimize the company's energy structure. By the end of 2023, Hengan had implemented distributed photovoltaic power generation projects in 9 factories and bases, with an installed capacity of 21MW. In 2023, Hengan's greenhouse gas emission intensity was 0.66 tCO2e/revenue in RMB10,000; the energy consumption per unit product of the papermaking sector was 0.31 tons of standard coal, far lower than the advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825–2015) (0.42 ton of standard coal/ton); the recycling of wastewater from paper production was greater than 99%, the water consumption per tonne of paper in the Hengan's papermaking segment was 5.77 tonnes, far lower than the national standard upper limit of water withdrawal per tonne of product specified in GB/T18916.5 Water Quotas Part 5: Paper Products (GB/T18916.5).

Hengan collaborates with various partners to explore and implement sustainable environmental policies. The Group has joined the All-China Environment Federation's "Belt and Road" Eco-industry Cooperation Working Committee as the vice-chairman, solidifying a new foundation for industrial cooperation in China's ecological and environmental fields. In its supply chain, the Group works with suppliers to promote the responsible and sustainable development of the pulp supply chain. In 2023, six of Hengan's paper companies achieved FSC-CoC certification, with 100% of pulp suppliers holding FSC or Programme for the Endorsement of Forest Certification (PEFC) system certificates.

In 2023, Hengan (China) Paper Co., Ltd. was awarded the "Green Factory" title by the Ministry of Industry and Information Technology, becoming the third national-level green factory within Hengan, following Hengan (Wuhu) Paper Co., Ltd., and Fujian Hengan Homecare Products Co., Ltd. Hengan also became the only case in the household paper industry to be selected for the All-China Environment Federation's "2022 Belt and Road Green Supply Chain Case".

Talent Cultivation

The Group regards its employees as the most invaluable asset, earnestly safeguarding their legal rights and interests and providing them with a comprehensive and reasonable compensation and benefits system, fostering mutual growth between employees and the corporation. Hengan actively implements the principle of equal employment opportunities, establishing a "Human Rights Policy" and an "Anti-Discrimination and Anti-Harassment Policy," to cultivate a diverse, equitable, and inclusive workplace environment. It adopts a zero-tolerance policy towards any form of discrimination against employees based on race, religious beliefs, gender, age, sexual orientation, disability, nationality, or other such grounds.

The Group continuously refines and updates its talent development framework and talent management mechanisms, offering employees multi-level and phased training in various skills and qualities, and creating more high-quality training projects through school-enterprise cooperation. In 2023, Hengan collaborated with Xiamen University on The Executive Development Program (EDP), aiding employees in deepening and elevating their work experience to lay a solid foundation for the future strategic implementation of the Group. Additionally, the Group has established an internal instructor team aimed at building a talent cultivation base for itself. The Group also focuses on long-term career development for employees, creating a "management + technology" dual-channel career development system to provide employees with clear promotion paths.

By the end of 2023, Hengan had approximately 23,000 employees, with women making up 56% of the workforce. The total training hours for employees exceeded 240 thousand hours, with 173 individuals being promoted to management positions, and 100% of employees joining the union.

Health and Safety

In 2023, the Group's "Three-Step" comprehensive safety development strategy entered its second phase, a critical period of effort towards becoming an industry benchmark in safety performance. It has established comprehensive safety management policies and objectives, standardizing robust management and established control procedures to provide solid guarantees for the construction of a safe working environment. The Group has established an ISO 45001 Occupational Health and Safety Management System and received certification, setting up a Safety Management Committee as the leadership and decision-making body for comprehensive safety management, establishing a full lifecycle safety management process, and implementing safety management projects to enhance the efficiency of safety management work while improving the level of production environment safety.

To strengthen employees' health and safety protection capabilities, the Group regularly organizes safety production knowledge training, fire drills, and first aid training, and has launched a safety production month campaign this year to comprehensively promote safety knowledge, emphasize the importance of safety precautions, and solidify employees' safety rescue skills. In 2023, the Group did not experience any work-related fatalities, had a zero percent occupational disease incidence rate, and lost 2,817 work days due to work-related injuries.

Hengan pays attention to employees' mental health, organizing psychological decompression lectures and other activities irregularly, and conducting a variety of cultural and recreational activities to help employees balance work and life. For families of employees in difficulty and disabled employees, the Group provides support and assistance, making employees feel the warmth of the collective.

Philanthropy

As a leading company in the industry, Hengan sets an example in promoting philanthropic and charitable causes, steadfastly fulfilling its social responsibilities step by step. It has established the Hengan Volunteers Association and the Hengan Charity Fund, taking concrete actions to empower sustainable social development.

The Group responds to the national rural revitalization strategy, assisting multiple villages such as Xinban Village in creating pathways to prosperity. Holding true to its initial commitment to caring for the health and growth of women, it has continuously invested in the "Spring Bud Plan" for five consecutive years. In 2023, it donated "Creating the Future" girl growth energy packs with a total value of RMB350,000 to the Ningde City Women's Federation. Additionally, the Group focuses on the current needs of the elderly, creating the public welfare short film "This Time, Love Will Not Be Late "to call for societal attention and understanding of the "unspoken difficulties" of the disabled elderly. Faced with sudden earthquake disasters, Hengan swiftly provided support to the affected areas, donating 1.2 million pieces of Space 7 sanitary pads and 210,000 pieces of Anerle diapers to the victims in Gansu Province, and donated goods worth 2 million yuan to women and children in the earthquake-affected areas of Syria and Turkey.

In 2023, the Group was honored with the "China Red Cross Special Contribution Award" among other accolades.

Outlook

Looking ahead to 2024, the escalating geopolitical tensions and cloudy prospects of the tightening monetary policies of the world's major central banks will continue to pose challenges to global economic growth and add to the uncertainties of domestic economic development. However, the long-term sound fundamentals of the Chinese economy remain unchanged. It is expected that China will continue to implement proactive fiscal policies and prudent monetary policies to further promote the high-quality economic development and expand domestic demand, thereby bolstering consumer confidence. The trend of upgrading daily necessities is expected to continue. The Group will continue to pay close attention to the domestic and international political and economic developments, as well as changes in market trends, respond flexibly and make prudent decisions.

With normal supply from wood pulp mills, the price of wood pulp is expected to remain stable, which will be beneficial to the Group's business operations. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other materials.

Despite the intensified competition in the domestic daily necessities market, with the continuous improvement of national environmental standard and the promotion of the carbon peak and carbon neutrality goals, it is anticipated that price promotion strategies in the industry may not be sustainable. The Group will adhere to its core strategy of "stable pricing", maintain a sound level of liquidity and capture the opportunities of industry consolidation. Hengan, leveraging its leading research and development and production capabilities and excellent brand image, coupled with its extensive nationwide distribution and diversified product portfolio, still demonstrated strong resilience in a challenging operating environment, successfully seized the opportunity of industry consolidation, and further expanded market share.

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

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

The Group will also continue to optimise the organisational structure, strengthen the development of young professional team, improve team efficiency, and allocate resources to technological applications in order to improve infrastructure and enhance supply chain efficiency. These efforts include enhancing supply chain management efficiency through the IBM Blockchain Platform (IBP) and the cloudification of the SAP system, which aim to improve the quality of the system, enable effective monitoring of operational data and improve operational visibility to facilitate the formulation of appropriate business strategies.

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

As a leading enterprise in the personal and household hygiene products industry in China, Hengan will continue to adhere to the mission of "Growing with You for a Better Life", and strive to become a supplier of high-quality, reliable and sustainable personal and household hygiene products, while also actively promote ESG development and contribute to building a green and sustainable world. The Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), enhance its brand image, seize the opportunities in the "new retail" era, take long-termism as the general direction for future development to further scale its business. At the same time, the Group will continue to take industry extension as the long-term development goal, actively expand and extend to feminine care, infant and child care, and elderly care business to continue to maintain its overall competitiveness, and gradually promote international development of Hengan's brand, striving to become a "global top-tier supplier of daily products".

PROPOSED FINAL DIVIDEND

The board of directors (the "Board") have resolved to recommend the payment of a dividend of RMB0.70 (2022: RMB0.70) per share to shareholders, whose names appear in the register of members of the Company on Friday, 24 May 2024 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Friday, 17 May 2024 (the "2024 AGM"), the Proposed Final Dividend will be payable on Friday, 31 May 2024.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2024 AGM

The 2024 AGM is scheduled to be held on Friday, 17 May 2024. For determining the entitlement to attend and vote at 2024 AGM, the register of members of the Company will be closed from Friday, 10 May 2024 to Friday, 17 May 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at 2024 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 9 May 2024.

(b) For determining the entitlement to the Proposed Final Dividend

The Proposed Final Dividend is subject to the approval of shareholders at the 2024 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2023, the register of members of the Company will also be closed from Thursday, 23 May 2024 to Friday, 24 May 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 22 May 2024.

REVIEW OF ACCOUNTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising another four independent non-executive directors, has discussed with management and reviewed the consolidated financial statements for the year ended 31 December 2023. The figures contained in the financial statements set out in page 1 to 16 of this announcement of the Group's results for the year ended 31 December 2023 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

Neither the Company nor any of its subsidiaries had purchased or sold or redeemed any of the Company's shares for the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES

The Group recognises the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders, and the Board is fully committed to doing so. The Board believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, achieve high standard of accountability and protect stakeholders' interests.

For the year ended 31 December 2023, the Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix C1 (formerly known as Appendix 14) to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for the Code Provision F.2.2 that Ms. Ada Ying Kay Wong, the chairman of audit committee, and Mr. Chan Henry, the then chairman of remuneration committee, were unable to attend the annual general meeting of the Company held on 22 May 2023 because they had other urgent business engagement.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 (formerly known as 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 noncompliance with the Model Code during the year ended 31 December 2023, and they all confirmed that they had fully complied with the required standard set out in the Model Code, except that Mr. Hui Ching Lau was in breach of Rules A.3 and B.8 of the Model Code on 22 March 2023 having inadvertently purchased 100,000 shares of the Company immediately after publication of the annual results announcement for the year ended 31 December 2022, which falls on the blackout period for Directors' dealings which lasts up to and including the day of the publication of the annual results announcement for the year ended 31 December 2022 (i.e. including 22 March 2023).

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

ACKNOWLEDGEMENT

The directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

BOARD OF DIRECTORS

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

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 21 March 2024