



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1044

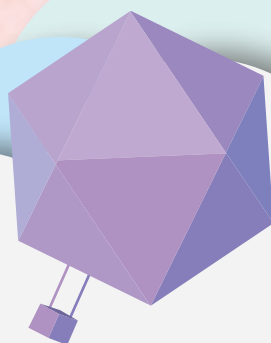
Environmental, Social and
Governance Report

2019



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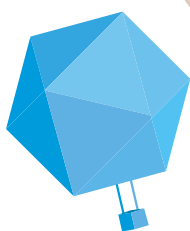
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Environmental, Social and Governance Report



I. 2019 ESG KEY PERFORMANCES

Areas	Indicator	Data
Environment	Proportion of production companies that have completed the three-system certification (ISO 45001, ISO 9001, ISO 14001)	100%
	Energy consumption of paper production lower than the upper limit of national energy consumption standard by	12%
	Water consumption of paper production lower than the upper limit of national water consumption standard by	79%
	Recycling of wastewater from paper production	>99%
Employee	Total employees	Approximately 25,000
	Percentage of employees joining labour unions	100%
Product	Percentage of chemicals suppliers with Material Safety Data Sheet (MSDS) certification	100%
	Proportion of procured wood pulp with forest system certification	>99%
	Percentage of the raw paper products with FSC certification	15%
Social	Total valid patent owned	166 pieces
	As of 2019, cumulative donations by Hengan Group and its major shareholders	More than RMB1.5 billion
	Volunteer hours in 2019	521 hours



Environmental, Social and Governance Report

II. FOREWORD

1. About the Report

Since the first Environmental, Social and Governance Report (ESG Report) was released in 2017, Hengan International Group Company Limited has issued ESG reports for four consecutive years. The Report elaborates the Group's sustainable development and social responsibility concepts and practices in 2019 from the environmental and social areas.

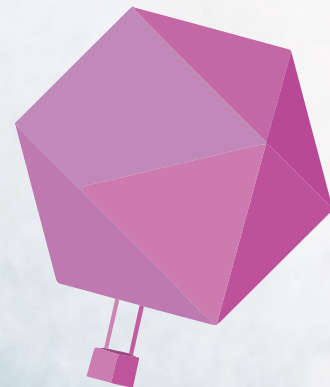
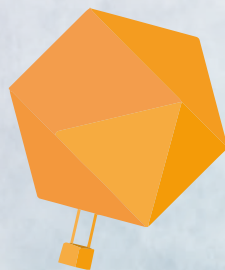
Details on corporate governance aspects such as risk assessment and internal control can be found in the Corporate Governance Report section in the 2019 annual report of the Group available on the website of the Hong Kong Stock Exchange or the Group's website this year.

Reporting scope

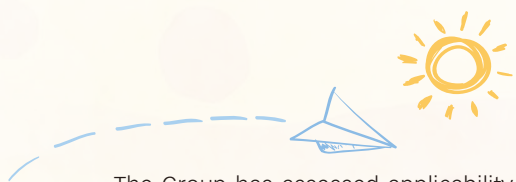
The Report covers 23 production companies¹ (27 production bases) for the three major business segments of the Group – paper production, post-processing of paper and personal hygiene products (including sanitary napkins and diapers) and Weifang Hengan Thermal Power Co., Ltd, ranging from 1 January 2019 to 31 December 2019 (the Reporting Period). As compared to the 2018 ESG Report published on 10 June 2019, the Group has not made any significant adjustment to the scope of disclosure. Revenue from other business segments of the Group accounts for a very small percentage of total revenue and has a slight impact on the overall performance of the Group, so it is not included in the scope of this Report.

References

The Report has been prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide 《環境、社會及管治報告指引》 (ESG Reporting Guide) 《ESG報告指引》 in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited 《香港聯合交易所有限公司證券上市規則》 and core option of the Global Reporting Initiative (GRI) Sustainability Reporting Standards (GRI Standards).



1 In 2019, the Group's Fushun Hengan Paper Co., Ltd. was merged into Hengan (Fushun) Daily Necessities Co., Ltd.



The Group has assessed applicability and materiality of relevant aspects and Key Performance Indicators (KPIs) according to the ESG Reporting Guide. The Report has complied with the disclosure requirement of “Comply or explain”, explained the disclosure rules inapplicable to the Group, and followed the ESG reporting Guide’s reporting principles:

- “Materiality”: The Group identifies key environmental, social and governance issues through stakeholder engagement and materiality assessment;
- “Quantitative”: The Report states the Group’s key environmental and social KPIs on a quantitative basis;
- “Consistency”: The relevant disclosure and statistical methods of the Report are consistent with those used in prior years without any material changes, which will remain unchanged in the subsequent years.

Environmental KPIs disclosed in the Report focused on the 23 production companies (27 production bases) and Weifang Hengan Thermal Power Co., Ltd., while other data are collected from the Hengan Group’s level.

Report availability

The Report is published in electronic edition, which is available on the HKEx website (<https://www.hkex.com.hk>) and the Group’s website (<http://www.hengan.com>). The Report is published in Chinese and English. If there is any discrepancy between the two texts, please refer to the Chinese text.

Reference description

For ease of expression, Hengan International Group Company Limited is also expressed as Hengan Group, Hengan or the Group in the Report.



2. About the Group

Hengan, established in 1985, is a manufacturer of packaged tissue paper and women and children hygiene products. Its headquarter is located in Hengan Industrial City, Anhai Town, Jinjiang City, Fujian Province, China. The Group was successfully listed on the Stock Exchange of Hong Kong on 8 December 1998. On 7 June 2011, it was officially admitted as a Hang Seng Index constituent stock. For more than 20 years since its listing, the Group is under sustained and sound development. Hengan owns three well-known trademarks nationwide: Anerle(安爾樂), Hearttex (心相印), Anerle (安兒樂) and its three leading products, women sanitary napkins, baby diapers and packaged tissue paper, take leading market shares in the domestic market. In 2019, Hengan completed sales of approximately RMB22.5 billion. By the end of 2019, the Group had RMB 43.2 billion of total assets.

Since 2002, Hengan has engaged world famous management consulting companies including Thomas Group of the United States, Booz & Company and International Business Machines (IBM) Corporation, for full-scale management reforms to enhance its core competitiveness for three times respectively. At the end of 2013, a third-wave management reform aiming at informatisation and platformisation, was started to create an information-based and visualised operation platform and promote the operation of a platform-based small team, so as to realise the strategic transformation, consolidate and enhance its core competitiveness.

In recent years, Hengan has introduced world-leading production equipment, and meanwhile driven capacity expansion in paper production bases for packaged tissue paper located in Jinjiang of Fujian Province, Changde of Hunan Province, Weifang of Shandong Province, Chongqing, Wuhu of Anhui Province and Changji of Xijiang Uygur Autonomous Region. Its packaged tissue paper production capacity has listed top of the industry. Driven by the implementation of “The Belt and Road Initiatives”, Hengan Group has also expedited its overseas business development by acquiring listed companies in Malaysia, investing and building plants in Indonesia and Russia. Those practices have further extended its industrial chain and layout in the international markets.



Mission of Hengan

To become China's top-tier supplier of daily products through ongoing innovations and provision of premium products and services.



Corporate Spirit

Integrity, Diligence,
Innovation and Dedication.



Business Philosophy

Growing with you
for a better life.



3. Major Honours in 2019

- Top 100 Chinese Corporate Social Responsibility Companies in 2019
- 2019 Chinese Enterprise ESG “Golden Responsibility Award”
- The 8th place and the quality benchmark in the top 50 private enterprises in Fujian province in 2019
- Harvard Business Review 《哈佛商業評論》 Strategic Transformation Award
- 70 Brand in the new China 70th Anniversary
- Innovative Companies in the Paper Industry in 2019
- 2019 Chinese Private Enterprise Excellent Management Company
- Hengan Group’s sanitary napkins/wet wipes were awarded “Enterprise Standard ‘Leadership’”
- Top 10 Leading Brands of China’s Paper Industry in 2019



III. ESG STRATEGY AND GOVERNANCE

1. Sustainable development commitments

Keep changing has always been a norm for Hengan. From product upgrading and innovation to industrial chain extension, from enterprise management transformation to international market layout, Hengan is continuously transforming and striving for innovation. As sustainable development begins to receive attention from regulators and capital markets, the green and low-carbon economy becomes a new trend, enterprises and social groups have changed their perceptions on the environment and society, promoting global climate action actively instead of passively. As the leader of China's paper industry, aiming at accelerating green transformation, Hengan actively responds and takes the initiative to explore sustainable development paths and continuously optimize the Group's ESG management level.

Hengan's purpose and values

For customers

Consumers are the primary target of Hengan's services. Hengan must provide consumers with healthy and premium products, and meet consumers' current and potential needs through continuous innovation.

For partners

The development of Hengan is inseparable from the support and help of upstream and downstream partners. Hengan must establish long-term and stable interest communities and strategic cooperative relationships with partners, and continue to cooperate with partners to develop, grow together and share success.

For employees

Hengan regards employees as valuable assets, fully respects their rights and interests, and provides a platform for all employees to display their talents and realize their aspirations, so that employees can grow together with the company and share the fruits of development with the company.

For society

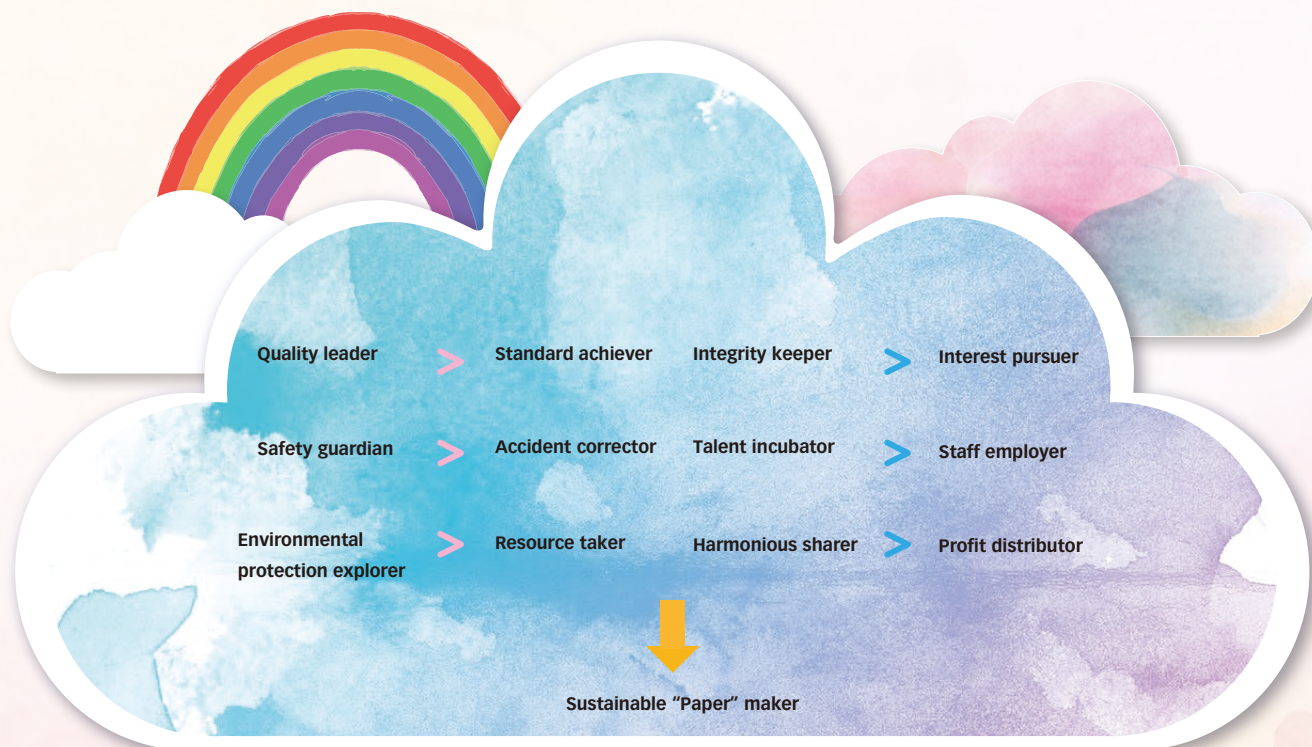
Hengan is a model of corporate citizenship, actively fulfils corporate citizenship obligations, undertakes social responsibility, and promotes the harmonious development of society.

For investors

Hengan is responsible for all investors, and strives to make investors obtain reasonable, continuous and stable returns.



Taking environmental and social sustainability as its responsibility, based on the United Nations Sustainable Development Goals (UN SDGs), Hengan integrates sustainable development into management and daily operations of the Group through continuously improving the enterprise strategy and governance structure. With its self-positioning, development philosophy updating and continuously raw material structure optimizing, forest system construction accelerating, and product standards improving, the Group is committed to developing green products and cultivating high-level talents to promote human health and well-being, and finally sets becoming a sustainable “Paper” maker as the development goal.

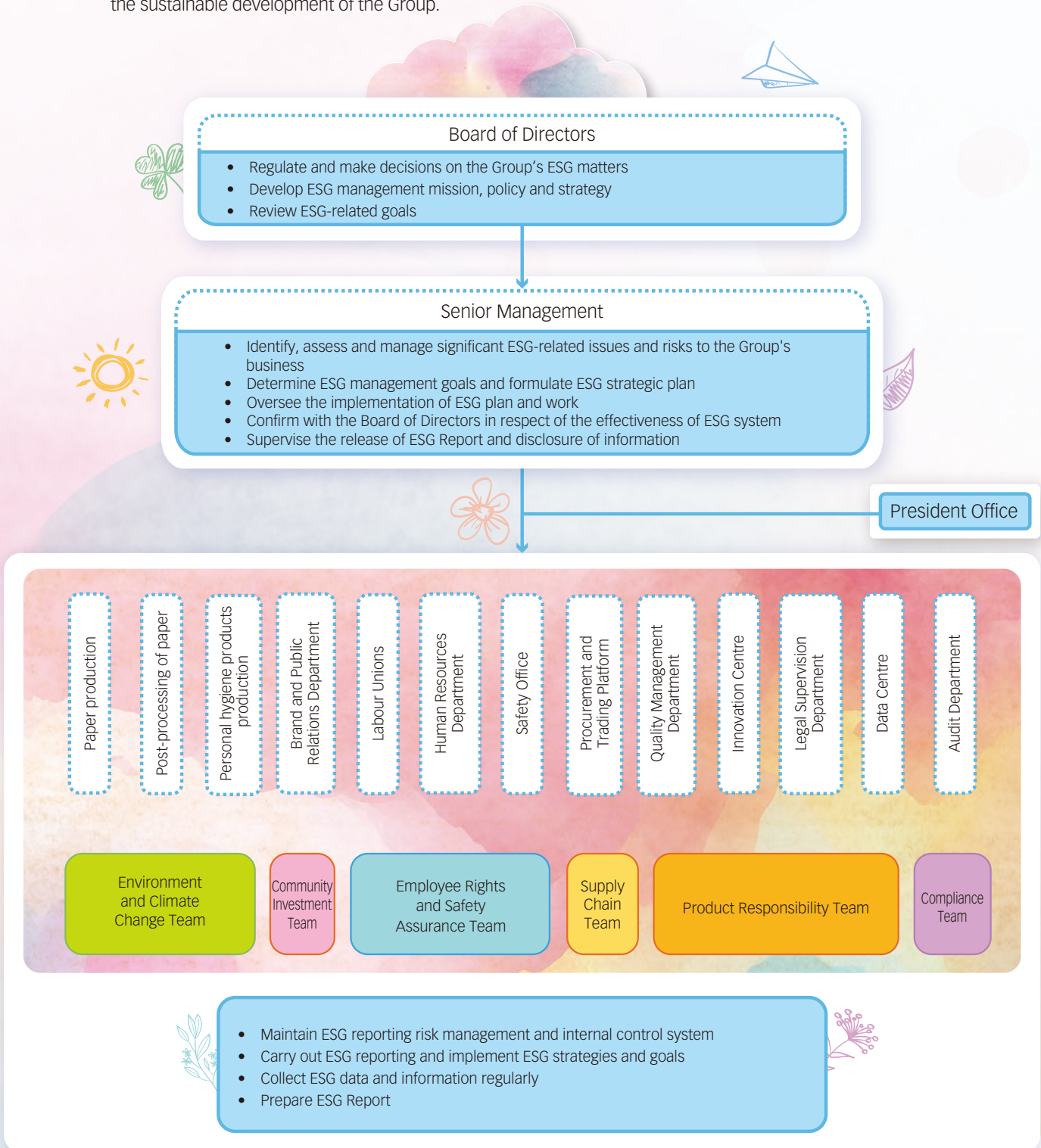


In addition, by actively responding to questionnaires such as the CDP questionnaire, MSCI ESG Ratings, Dow Jones Sustainability Indexes (DJSI), FTSE Russell ESG rating system, as well as Hong Kong Quality Assurance Agency’s (HKQAA) Sustainability Rating, the Group also improves the transparency of information on ESG, and conveys the Hengan’s concept and practice of sustainability development.

In the future, Hengan will seize the opportunity of sustainable low-carbon and respond to the demands and expectations of stakeholders. Furthermore, through technological innovation, optimisation and upgrading, diversified reduction of emissions and wastes, building a green supply chain, Hengan will also tap new competitiveness, and take into account of social benefits, fully implementing sustainable development.

2. ESG governance framework

The Group's Board of Directors, the supreme regulatory and decision-making organisation for Hengan's ESG matters, reviews ESG policies and strategies, daily affairs, progress in goal achievement, and ESG information disclosure every year; Management reports ESG opportunities and risks to the Board, and oversees implementation of ESG goals and work; and ESG working group, composed of heads of various relevant departments, is responsible for implementing ESG plans, executing ESG affairs, reporting on the operation of the ESG system, and helping to promote the sustainable development of the Group.





3. ESG risk and response

Risk	Risk analysis	Risk response
Tightened environmental protection policies	With increasingly stringent environmental laws, regulations and standards related to the national and local paper industry, and further tightened discharge control indicators, China's paper industry is actively exploring a sustainable path of clean production, energy-saving and emission-reducing, and high resource utilisation. At present, with the "13th Five-year Plan" entering the final stage, it is expected that during the "14th Five-year Plan" period, China will continue to follow basic principles of underlined ecological conservation and green development, and put forward higher requirements for the paper industry to promote clean production, energy-saving and emission-reducing, and resource utilisation. Immediate efforts shall be made in carbon and pollution reduction, technology and efficiency improvement, and acceleration of the Forest Certification System construction among others.	<p>The Group expedites unified certification of the three systems (ISO 45001, ISO 9001, ISO 14001). In 2019, all the 23 production companies within the scope of the Report have completed system certification.</p> <p>As a member of China Paper Association and Fujian Paper Association, the Group actively participates in industry communication, looks out for new trends in environmental protection policy, cutting-edge technologies, sustainable development etc., and is involved in formulating and amending regulations and standards.</p> <p>The Group's Standard Committee and Safety Management Committee monitor environmental issues to ensure environmental compliance and improve environmental performance.</p>
Rapid development of the market	<p>Consumption upgrading: Consumers are pursuing high-end, high-quality and high-performance products. If the proportion of high-end products in the overall product portfolio is not adjusted in time, the Group will fail to keep up with the pace of consumption upgrading.</p> <p>Healthy and green: China's green consumption is in its infancy, with huge potential. More and more consumers are willing to pay more for natural, safe, degradable and low-carbon products. Failure to grasp changes in consumer attitudes and improve the environmental sustainability of products in a timely manner will result in the risk of losing a large number of high-quality consumers with environmental protection awareness.</p> <p>Retail transformation: In recent years, retail transformation has continued to ferment, consumption habits have changed drastically, and retail sales have developed from off-line to on-line and then to on-line and off-line integration. As a result, traditional channels cannot satisfy all consumer groups.</p>	<p>The Group continues to implement the model of "Operation of a platform-based small team" (i.e. Amoeba with Hengan characteristics), focuses on functionality of the products, introduces new packaging and upgrades products.</p> <p>The Group remains highly keen on market and consumer demands. Relying on its production scale and technological advantages, the Group is committed to developing green products and technologies which are sustainable and environmental friendly.</p> <p>The Group strives to carry out "Omni-channel sales", expand the coverage of e-commerce channels, and introduce specific goods for e-commerce. As of the end of 2019, contribution of the Group's e-commerce channel turnover (including new retail) to the overall rose to 19.8%.</p> <p>The Amoeba strategy has been implemented in all units of the Group. With the rapid response of the Amoeba team established at various links in the supply chain to the market, Hengan continues to improve sales, production and administrative efficiency, and has launched products that best meet consumer needs.</p>
Lacking of high-quality raw materials	China lacks raw materials for papermaking and relies heavily on imports of paper pulp. Hengan is committed to the development of green and low-carbon products, adheres to responsible procurement, and constantly optimises the structure of raw materials. Its stringent requirements on raw materials in terms of safety, environmental protection and sustainability have posed higher risk of supply continuity.	Group continuously optimizes supply chain management and guarantee the quality and continuous supply of raw materials for papermaking.

Risk	Risk analysis	Risk response
<p>Intensified climate change</p>	<p>Climate change compliance: China's National Plan on Climate Change (2014-2020) 《國家應對氣候變化規劃 (2014-2020年)》 emphasises that addressing climate change is an inherent requirement for China's sustainable development. China continues to implement stricter measures and improve policies and regulations to fulfill its promise of reducing carbon dioxide emissions per unit of GDP by 40% to 45% from 2005. Regarding the paper industry, China is committed to, by 2020, reducing carbon dioxide emissions per unit of industrial added value by about 50% from 2005, and emphasises that the paper industry shall promote forestry-paper integration, increase comprehensive utilisation of waste papers, and make use of non-wood fibres scientifically and reasonably. China moves forward to improve regional policies for addressing climate change; formulate departmental rules and local regulations to address climate change; establish a low-carbon standard system; deepen trading pilots of carbon emissions; set up a national carbon emission trading market; and form a carbon emissions certification system, etc., all of which will bring climate change compliance risks to Hengan.</p> <p>Extreme weather and sea level rise: Climate change will cause sea level rise, and coastal areas will be more severely affected by natural disasters such as floods and storm surges; it will also have adverse effects on economic and social activities such as agriculture, forestry, animal husbandry and fishing. These will bring risks to production operations and raw material supply of Hengan.</p>	<p>The Group has established a sustainable development team to take into account climate action, one of the UN's sustainable development goals, pay attention to relevant policy and regulatory trends and carbon emissions trading information, and timely modify relevant internal systems; to regularly assess risks and opportunities related to climate change compliance, and implement corresponding measures; to promote forest certification of products, maintain the high proportion of certified raw materials procured, and gradually push forward "Forestry-pulp-paper integration" to protect natural forests.</p> <p>Hengan promotes utilisation of renewable energy, energy conservation and consumption reduction, carbon dioxide emissions reducing.</p>
<p>Latest technology development</p>	<p>Production technology: The paper industry is a technology-intensive industry involving plant chemistry, microbiology, materials science, chemical engineering, machinery and automation, etc. It is interdisciplinary, multi-disciplinary and cross-cutting. Papermaking equipment is also developing towards informatization, datamation and intelligent, so as to achieve high reliability and product quality performance. Being conservative and complacent, Hengan will stagnate and lag behind in the transformation of traditional industries.</p> <p>Environmental protection technology: As China attaches great importance to environmental protection and climate change, papermaking process and equipment also need to meet the requirements of energy conservation and environmental protection.</p>	<p>With the firm belief that "The more complicated the matter is, the simpler we shall handle it", Hengan has realised the all-round AI intelligence in self-production process, supply chain system and digital construction, etc. Since 2010, manual packaging has been upgraded to intelligent automatic packaging, achieving an overall intelligence for equipment. The entire industrial system has entered the era of intelligent automation, ranging from the source covering data entry, warehouse management and output.</p> <p>To build a team of technical talents, Hengan attracts, retains and trains high technical talents through double channels of career development, training system, Hengan management college, and school-enterprise cooperation.</p> <p>Hengan innovates continuously by utilising energy-saving and emission-reducing technologies, adopting global advanced technologies and equipment such as frequency conversion power-saving technology and turbine technology, and actively carrying out technological transformation projects such as low-nitrogen combustion transformation technology.</p>



4. Stakeholder communication

The Group’s major stakeholders include shareholders, employees, government and regulators, customers and consumers, partners, communities, environment and media, etc. The Group attaches great importance to its communication with stakeholders, and has established effective channels to understand stakeholders’ expectations and to discuss and respond to their concerns on ESG matters.

Stakeholders	Communication mechanisms	Communication frequency	Stakeholders’ expectations
Government and regulators	Daily management Meetings Monitoring and inspections Policy consultation Reporting of situation	Multiple per year	Abide by laws Pay tax in accordance with law Support local development
Shareholders	Shareholders’ general meetings Information disclosure Investor relations activities	Multiple per year	Guarantee reasonable and stable income Safeguard right to know Improve corporate governance Improve risk control
Customers and consumers	Service hotline Company official websites Brand promotion activities	Daily	Provide healthy and premium products Continue to innovate Offer premium services
Employees	Labour unions Employee training Staff activities	Multiple per week	Protect rights and interests Promotion and development Guarantee work safety Equal opportunities Democracy and communication
Media	Interviews about business operation Corporate culture publicity Thematic activities	Multiple per year	Understand the Company’s fulfilment of corporate social responsibility Understand the Company’s major events
Partners	Negotiation and communication Supplier inspection and evaluation Open bidding and tendering Communications and exchange visits	Multiple per month	Keep promise Advocate openness and fairness Promote cooperation and development Share success
Communities	Charitable donation Cultural and sports support Voluntary service Publicity for environmental protection	Multiple per year	Support for local employment Promote social harmony Drive sustainable development
Environment	Regulators’ monitoring and inspection result Third-party inspection bodies’ inspection result ESG report	Multiple per year	Reduce emissions Conserve energy Protect forests Adapt to climate change

5. Materiality assessment

In order to better understand issues of the stakeholders' concern, and guide the implementation of ESG work and the preparation of the Report, the Group has conducted stakeholder assessment to clarify issues of importance to the Group's business and stakeholders:

➤ Identify relevant issues

The Group mainly considers the following factors to identify relevant issues:

- Stakeholders' expectations;
- Industry characteristics and hot issues;
- Business-related risks and opportunities;
- Focus of rating agencies and related ESG Reporting standards.

➤ Score and sort

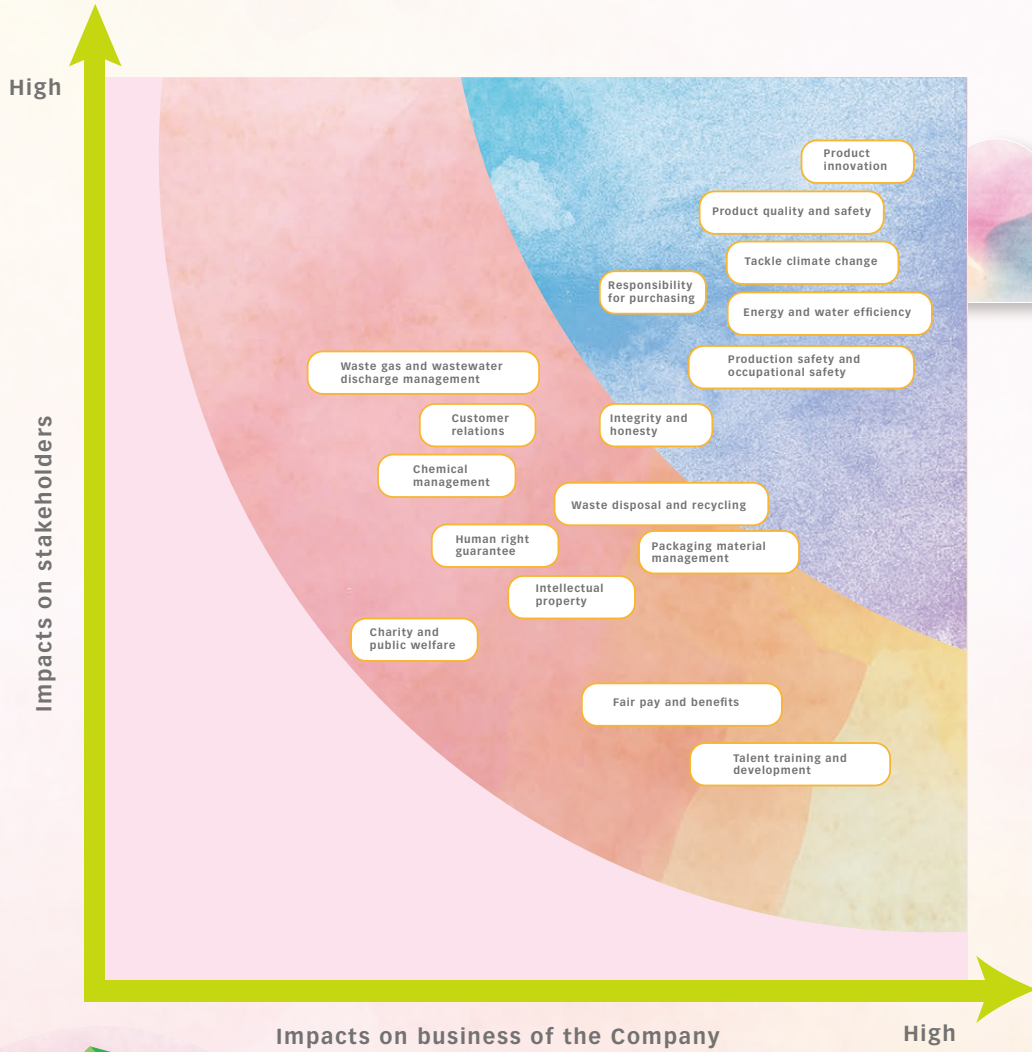
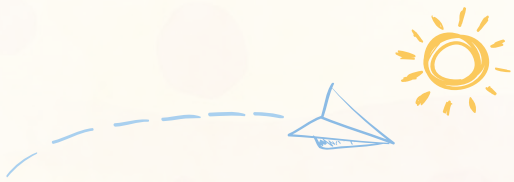
The Group adopts the following methods to score and sort the identified relevant issues, so as to determine the issue that has significant impact on the Group and stakeholders, as well as the strategic focus of sustainable development and improve sustainable development governance:

- Identify laws and regulations, industry standards, etc.
- Understand stakeholders' concern through questionnaires, etc.;
- Understand key performance indicators to which rating agencies and related standards pay attention;
- Analyse challenges and opportunities based on our own business.

The Group draws a materiality assessment matrix based on the selected key issues to obtain the preliminary assessment results.











➤ Verify assessment results

The Group submits the preliminary results to Senior Management and the ESG working group for discussion and confirmation to get final results of the materiality assessment.



6. Response to the sustainable development goals (SDGs) of UN

Hengan has adhered to the philosophy of green, low-carbon and sustainable development. As an industrial leader, Hengan is committed to being a model of sustainable development. It actively responds to the UN SDG, protects the global environment, promotes social progress, and protects human healthy life.

SDGs	Environmental Protection	Product Responsibility	Employee Care	Community Investment	Supplier Management	Compliance Operation	Countermeasures
		★		★			<ul style="list-style-type: none"> Improve female hygiene and health Strengthen chemicals management
			★				<ul style="list-style-type: none"> Eliminate gender discrimination and protect woman rights
	★						<ul style="list-style-type: none"> Recycle water resources Enhance source management of wastewater
	★				★		<ul style="list-style-type: none"> Increase the utilisation rate of clean and renewable energy
			★		★		<ul style="list-style-type: none"> Adjust salary reasonably to ensure decent living
			★				<ul style="list-style-type: none"> Implement a fair remuneration and welfare policy Ensure equal education opportunities
	★	★			★		<ul style="list-style-type: none"> Optimise the structure of raw materials Accelerate the Forest Certification System construction Utilise degradable materials
	★	★			★		<ul style="list-style-type: none"> Manage carbon footprint of products Improve risk resilience of the supply chain to climate change
					★		<ul style="list-style-type: none"> Accelerate the Forest Certification System construction
						★	<ul style="list-style-type: none"> Strengthen integrity supervision Provide anti-corruption training to the Board of Directors and employees



IV. QUALITY LEADER

Following the policy of “Pursuing human health and happiness and producing personal hygiene, comfortable and high-quality articles of daily use”, Hengan provides consumers with healthy and high-quality products, carries out consistent innovation and reform to improve its offerings, meets current and potential needs of its consumers, and promotes the healthy and sustainable development to realise the common progress of society, enterprises, customers, shareholders, employees and partners.

1. Product research and development (“R&D”)

1) Innovation capability

Over 34 years, Hengan Group has always maintained vigorous momentum of technological innovation and product improvement. It keeps investing in R&D, formulating advanced enterprise standards, and introducing internationally advanced production equipment to raise its technical and product levels, and retain the leading edge in the long-term competition against international renowned brands.

In terms of product innovation management, the Group has established a complete product innovation system and organisational structure to drive the internal product management: The Group has established product management committee composed of senior management, which is responsible for coordinating the management of product planning and development; and set up marketing and product planning team, product development team and technical experts committee to carry out specific product planning and development work.

In terms of standard innovation, the Group has set up standard committee to develop and publish unified standards and normative processes. The technical standard team subordinate to the committee, based on an innovation centre, is divided into material team, finished product team, equipment team and others. It tackles the full life cycle management, including organising and coordinating build-up of technical standard system, and the review, issue and update for technical standards content.

With regard to pattern innovation, the innovation centre adopts project system for operation and evaluation, and manages projects according to work flow. The product development project applies performance appraisal method and incentive method aiming at promoting effective collaboration among team members to maintain its high efficient operation.

The Group has established an Innovation Centre and actively carried out communication and cooperation with domestic and foreign research institutions, professional colleges, suppliers and other partners. In 2019, the Innovation Centre continued to strengthen internal and external collaboration management functions, and effectively promoted cooperation on technology accumulation and technology/product development. In addition, it has also built an industrial system ecology, and created upstream and downstream collaboration and alliances in the industrial chain, including joint development of a series of materials with excellent performance and unique design with well-known raw material suppliers; intelligent manufacturing projects with automation research enterprises.

Hengan Innovation Centre comprehensively carries out product innovation from four dimensions of technical research, product innovation, product development, and innovation management. In 2019, the Innovation Centre consists of an efficient innovation team, including over 100 full-time R&D personnel, 78 of them with bachelor degree or above, 30 with master degree or above, 6 advanced R&D certificate holders (excluding management and economics categories), and 11 intermediate certificate holders, majored in paper production, chemistry, materials, electromechanical and other disciplines.

2) **Green products**

As national environmental policies on protection and governance have been strengthened in recent years and consumers' awareness of environmental protection is being enhanced, the Group gradually introduces the concept of green environmental protection and sustainable development into the process of brand strategy evaluation and design for products, so as to promote consumers' sustainable development concept to guide consumers' green lifestyle.

Based on the Green Product Assessment: Paper and Paper Products (GB/T 35613-2017)《綠色產品評價紙和紙製品》 that the Group has helped drafting, Hengan vigorously develops green products. From raw materials, manufacturing, transportation/logistics and disposal/recycling, Hengan takes products' ecology and environmentality as the starting point of design, considers products' safety and health and recyclability, energy saving and reusability, and strives to reduce environmental impact, providing consumers with safe, harmless, and green products:

Raw materials

- Responsible procurement: Prioritise the use of green, high-quality materials, as well as materials from sustainable forests or under regulation;
- Green supply chain: Promote value chain management of sustainable development and low-carbon green practices of the suppliers;
- Saving packaging: Promote automation and economic use of packaging materials;
- Chemicals management: Strictly control the use of chemicals and regularly phase out hazardous chemicals.

Manufacturing

- Implement strict environmental protection standards;
- Adopt advanced wastewater treatment and reclaimed water system to reduce emissions;
- Use clean energy such as natural gas and solar energy;
- Apply advanced equipment to improve thermal efficiency and reduce production electricity consumption;
- Manage solid waste in diversified ways;
- Recycle packaging;
- Use pure cotton non-woven fabrics for sanitary napkins, cotton soft towels, etc. to replace traditional woven fabrics, thus reducing energy consumption, and occupation of labour and equipment.

Transportation/Logistics

- Optimise logistics efficiency and apply multiple transportation tools to reduce greenhouse gas in transportation and logistics.

Disposal/Recycling

- Develop natural plant fibres such as bamboo and soybean fibre non-woven fabrics;
- Develop water washable products, improve materials and technology, and increase the proportion of wood pulp in wood pulp spunlace wipes;
- Research and develop food-grade medicinal solution for baby wipes;
- Use packaging label to indicate consumers the proper ways of packaging and waste disposal.



3) **Protection of intellectual property rights**

The Group implements the Trademark Management Policies of Hengan Group 《恒安集團商標管理制度》 to regulate the design, application and use of trademarks and manage and maintain trademarks in an effective way, so as to make scientific and efficient use of trademark resources and prevent and strike any infringement of the Group's trademarks.

Hengan has formulated the Anti-counterfeit Management Policy of Hengan Group 《恒安集團打假管理制度》 to crack down on the production and distribution of counterfeited products, so that "Every case is investigated, and every case has result". The anti-counterfeiting office of the Group's headquarters is responsible for cracking down on nationwide infringement acts of manufacturing and selling counterfeit products, and implements the policy of assigning "Anti-counterfeiting commissioner" to coordinate anti-counterfeiting activities in the local market under the unified command of the anti-counterfeiting office at the headquarters. If products with counterfeit trademarks of the Group are found circulating in the market, the anti-counterfeiting team will take actions to safeguard the Company's rights so as to control and minimise consequence of infringement. For the whistleblowers, as long as their reports are verified to be true and reliable and contribute to the Group's investigation and punishment on producers and sellers of counterfeit products, Hengan will give them certain rewards.

In May 2019, the public security officers seized 11 large dens of manufacturing and selling counterfeits spots of Space 7 sanitary strips, finished products, packages, as well as "Hearttex" tissues and packaging boxes in Fujian, Shandong, Hebei, Zhejiang, and Henan provinces, etc. Found on the spot were 14 production lines, 1 printing press, 11 edge sealers, 6 bag making machines, 97 counterfeit moulds, 1,606 boxes of finished tissues, about 40,000 cartons, about 80,000 plastic cartons, about 30 tons of paper, about 1.5 million counterfeit trademark marks, 2,243 boxes of sanitary pads, about 850,000 sanitary strips, and a large number of fake production raw materials. The main criminal suspects of each den have been detained by public security bureau for further investigation.



Anti-counterfeiting action on the spot

The anti-counterfeiting incident safeguarded the Group's trademark and credibility, and protected the rights and interests of consumers, which is another manifestation of Hengan's anti-counterfeiting force.

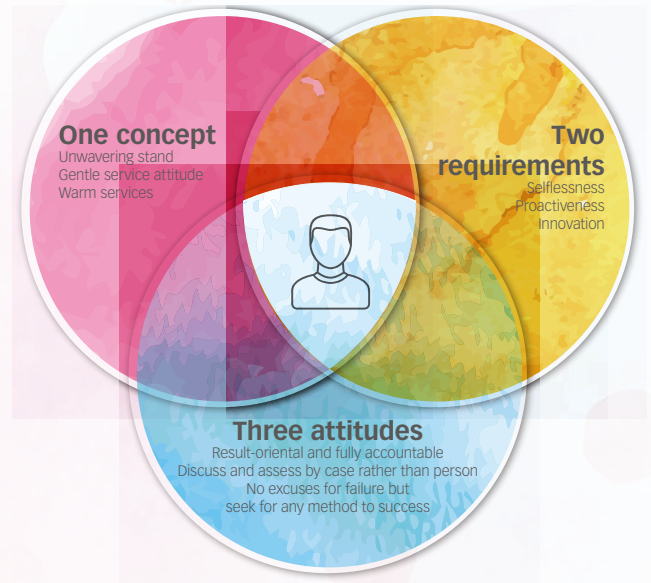
As of 2019, the Group had 166 valid patents, including 41 invention patents and 125 utility model patents. Hengan actively protects the Group's intellectual property rights. As at 31 December 2019, more than 500 confirmed acts of infringing on the Group's property rights were effectively settled through legal means.

2. Quality assurance

1) Quality management

Quality culture building

For the long-term quality management, Hengan will always follow the principle of “Realising first-class quality, consistent improvement, striving for excellence and leading the standard of personal hygiene product industry”. It will vigorously absorb advanced ideas from others and incorporate scientific quality management methods and successful experience into its management system to enrich its quality culture and to form “123” quality culture with the Group’s identities and “123” culture in quality management team.



“123” culture in quality management team

Quality assurance operation

Hengan strictly complies with the legal and regulations, requirements of Product Quality Law of the People’s Republic of China 《中華人民共和國產品質量法》. The Group maintains complete quality control system and safeguards the quality level and quality compliance for its products by integration of three management systems, comprehensive quality management, standardisation, introduction of management by objectives as well as regular quality training and identification of laws and regulations.





The Group made remarkable achievements in product quality management in 2019:

- ✓ With its advanced sanitary napkins and wet wipes enterprise standards, the Group has been listed as a “Leader” in enterprise standards in key industries designated by the State Administration for Market Regulation;
- ✓ Intelligent quality management for the Group’s intelligent manufacturing of personal hygiene products: MES, ERP, automatic storage and other systems are integrated and coordinated to realise automation and digitalisation in the whole process from raw material purchase to quality management, and the whole process control of R&D, marketing, procurement, production, warehousing and logistics, and service is in place to meet the requirements of comprehensive quality management. This typical practice has injected new energy to the traditional industry and has been named as “2019 Provincial Quality Management Benchmark” by Fujian Provincial Department of Industry and Information Technology.



As of 2019, a total of 23 production companies of the Group have established and passed ISO 9001 system certification, and the certification percentage is 100%.

2) *Chemicals safety*

The Group does not allow chemicals to be added to products casually. Strictly following normative documents including Administrative Measures for Oils and Chemicals 《油類、化學品管理辦法》, Material Safety Index List 《材料安全指標清單》 and Additive Limitation List 《添加物限度清單》, the Group has made improvement on chemicals procurement, storage, usage and disposal to meet international, national and industry standards and requirements.

❖ Chemicals procurement

When the Group purchases chemicals, it requires:

- Give priority to non-toxic and non-hazardous chemicals that cause less pollution;
- Apply strict standards on supplier selection, request them to offer qualified business license and related “Safety production license” or “Business permit”;
- Related Material Safety Data Sheet (MSDS) should be provided;
- Suppliers of chemicals directly related to paper products are required to present certificates of non-toxic and non-hazardous chemicals issued by authoritative testing institutions or provincial centres for disease control and prevention.

During the reporting period, 100% of suppliers of the Group met the requirements above.

❖ Chemicals management

With regard to daily chemicals management, the Group has set up specific storage warehouse equipped with corresponding facilities and appointed responsible staff. Hazardous chemicals for temporary storage must be put in a fixed location, and the storage method and quantity must conform to the national standard Rules for Storage of Hazardous Chemicals (《用化學危險品貯存通則》), and daily inspection must be conducted. Hazardous chemicals must be offered according to a strict quota and the record must be kept. When storing, transporting, packaging and labelling hazardous chemicals, Provisions on Hazardous Chemicals Warehouse Management (《危險化學品倉庫管理規定》) must be obeyed.

❖ Chemicals usage

The Group's safety standards for chemicals meet or exceed national and industry standards, as well as other authoritative international standards, such as REACH, a regulation of EU. Some chemicals the Group uses are also listed as highly focused in the REACH regulation List. The concentrations (weight ratio) of these chemicals in the Group's products are all lower than 0.1% as stipulated in the regulation.

Based on international standards, the Group has established internal Material Safety Index List (《材料安全指標清單》) and Additive Limitation List (《添加物限度清單》), and enhanced the inspection for chemicals in raw materials and products:

- 1) Use of hazardous substances is prohibited in the production process;
- 2) The chemicals applied must meet with the relevant national security indicators, and upstream suppliers are required to comply with Material Safety Index List (《材料安全指標清單》);
- 3) Transportation vehicles must be hygienic and safe;
- 4) Chemical additives must abide by Additive Limitation List (《添加物限度清單》). Use of chemicals that are harmful to human being are strictly forbidden by the Group. For example, raw materials produced by the Group are prohibited from containing NPE.



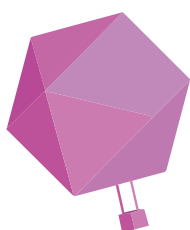
❖ Chemicals phase-out

The Group takes the initiative to obtain external information such as industry standards, EU standards and the elimination of hazardous chemicals by external institutions, and conducts daily records and regular meetings to develop and update Hazardous Chemicals List 《危險化學品清單》, specifying identified highly toxic chemicals, highly irritating and corrosive chemicals, inflammable and explosive chemicals and general hazardous chemicals. According to the information above, it phases out chemicals and seeks for safer alternatives.

❖ Safety test

In accordance with Material Safety Index List 《材料安全指標清單》, GB15979-2002 Hygienic Standard for Disposable Sanitary Products, GB/T2912.1-2009 Textiles – Determination of formaldehyde – Part 1: Free and hydrolysed formaldehyde (water extraction method), Hygienic Standard for Cosmetics (2007) 《化妝品衛生規範》(2007年版), ISO 10993-10: 2010 Biological evaluation of medical devices – Part 10: Irritation and persistent allergy test, European Pharmacopoeia (EP), United States Pharmacopoeia (USP) and other domestic and foreign testing standards, the Group conducts tests regarding biosafety, physical safety, human stimulus sensitisation safety and chemical safety indexes, and issues corresponding safety reports. Meanwhile, the Group requires suppliers to entrust authoritative testing institutions to test chemicals and offer test reports following testing standards, such as Safety Technical Specifications for Cosmetics (2015) 《化妝品安全技術規範(2015年版)》 and GB/T21603-2008 Acute Oral Toxicity Test Methods of Chemicals.

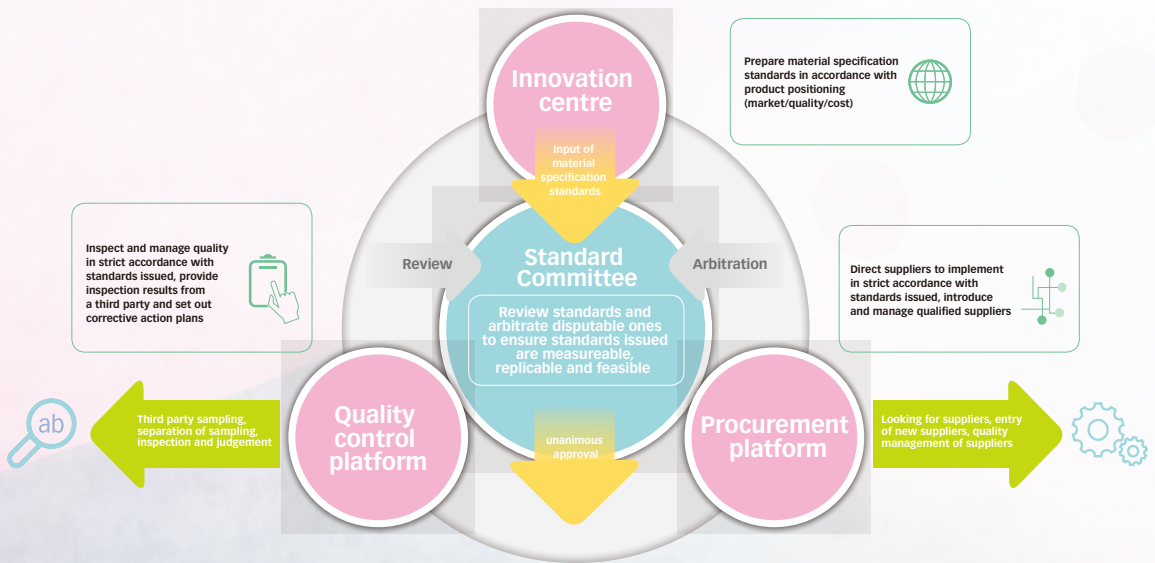
The Group's Quality Management Department assumes responsibility of regular inspection and evaluation of raw materials and products, and management and control of defects. If any defects are found, the Quality Management Department will notify warehouse staff of the test result for isolation and marking, and dispose of the unqualified materials according to the Accidents, Incidents, Non-Conformance to Control Procedures 《事故、事件、不符合控制程序》.



3. Responsible procurement

1) Supply chain management

With the continuous progress of the 3rd management reform for the Group and the establishment of platform strategy, Hengan has set up a procurement platform committed to providing end-to-end, fair and transparent procurement services. The Group has formulated Procurement Platform Management Regulations 《採購平台管理規定》, which is based on the positioning and business targets of the procurement platform and aims at setting standards for procedure connection, function orientation, organisational structure, code of conduct and implementation assurance. It is committed to establishing standard business modules to ensure the standardisation, specialisation and visualisation of the procurement platform.



**Separation of three powers among Standard Committee
Quality control platform and Procurement platform**



Supplier management

In terms of supplier management, the Group classifies suppliers into transactional suppliers, cooperative suppliers and strategic suppliers according to materials importance and supplier dependency, and according to suppliers' annual performance ratings (poor, good, excellent), it further divides them into four levels, i.e. to-be-eliminated suppliers, to-be-cultivated suppliers, optimal suppliers and core suppliers, laying the foundation for differentiated supplier management.

With regard to supplier approval, the Group complies with Suppliers On-Site Inspection Management Measures 《供應商現場考察管理辦法》 to require suppliers to provide the following information, documents and records: factory status, quality policy and objectives, organisational structure and personnel allocation, production process, hardware facilities, customer composition, enterprise qualification, quality management system, production process management, traceability process and recall management, fire control management and pest control and prevention, chemicals and waste management. The Group will carry out assessment upon quality management, environmental and social risk, technology R&D and service management, etc.

Hengan has the following ESG requirements for suppliers:

- ✓ Environment, safety and quality standards
- ✓ Environmental protection
- ✓ Anti-discrimination
- ✓ Occupational health and safety
- ✓ Commercial ethics
- ✓ Compliant employment

Supplier approval criteria mainly include:

- ★ Environment, safety and quality standards: certificate of environmental impact assessment, certificate of work safety standardisation, pollutant discharge permit, fire safety permit, ISO 9001, ISO 9002, ISO 14001, SA 8000, ISO 45001, UL, VDE, EMC, CCEE and CE;
- ★ Special qualifications required by special business: printing business license required by prints, relevant construction class qualification certificate required by civil engineering and construction, pressure vessel class certificate required by pressure vessels, explosion-proof qualification required by explosion-proof business, and firefighting qualification required by firefighting industry;
- ★ Agent, trader or service provider must provide relevant distribution authorisation certificate, and manufacturers' qualification certificate for production and operation, production or business scope and main products and commodity catalogue;
- ★ Documents that prove chemicals are toxic-free.

The Group's Quality Control Platform and Procurement Platform conduct supplier on-site assessment jointly. During the process of assessment, the Group involves environmental and social risks into assessment indicators and focuses on whether suppliers have passed Environment Management System Certification, whether environmental and sanitation conditions are qualified, whether regulations conform to the requirements of relevant laws and regulations, and any incidents of environmental pollution, gender discrimination or child labour occurred in recent three years.

The Group conducts monthly performance evaluation on suppliers and promotes continuous improvement on suppliers' performance based on the evaluation results. The Group carries out annual on-site audit of qualified OEM suppliers, and conducts daily inspection on qualified suppliers with quality/delivery issues to control its quality and supply risks and assists suppliers in continuous improvement.

The Group will initiate the freezing/withdrawal procedure against suppliers that fail daily inspection/on-site annual review and monthly/annual performance evaluation, that present serious quality issues, behave illegally, etc. These suppliers will be removed from the list of qualified suppliers and must be subject to the entry procedure prior to being putting back again on the list. The Group eliminated 34 suppliers in 2019 to maintain its suppliers' quality.

Under the premise of ensuring the quality of production materials, the Group prefers local suppliers.

Hengan requires suppliers to comply with laws and regulations, such as Anti-Unfair Competition Law of the People's Republic of China 《中華人民共和國反不正當競爭法》, and fights against commercial bribe and other unfair commercial practices. Hengan signs Integrity Agreement 《廉潔協議書》 with its suppliers with coverage of 100%.

Hengan prefers suppliers that perform well in energy conservation and environmental protection, and encourages suppliers to increase the use of environmentally friendly products and services. For example, one chemicals supplier of Hengan has good water-saving and emission reduction practices, develops recycling technique to improve water recycling efficiency; adheres to the concept of "Reduction from the source – reuse – recycling – end treatment – terminal disposal", and adopts environmentally friendly design in essence to ensure a substantial reduction from the source and zero emission. Hengan will continue to expand such partners who actively practice environmental protection and low carbon, and pass the concept of sustainable development to more partners, so as to prompt them to improve environmental performance.

Communication with suppliers

The Group delivers ideas and experience of sustainable development on the supply chain by supplier conferences, supplier visits and on-site investigation and exchange. It also vigorously learns from advanced experience and latest technologies at home and abroad to keep pace with the times.

Supplier conference

In 2019, Hengan continued to deepen cooperation and exchanges with suppliers to create greater values and facilitate innovations and win-win situations.

On 11 January 2019, Hengan held 2018-2019 Supplier Communication Conference themed "Innovation and Win-win Cooperation with Concerted Efforts". At the conference, Hengan shared the topic of "Hot Issues on Sustainable Development" with its partners. Participants had a heated discussion on tissues of sustainable development and innovation for future.



On 5 December 2019, Hengan held 2019-2020 "Cooperation and Innovation for Win-Win Development" Global Supplier Communication Conference in Jinjiang to discuss industry trends, new products and new technologies, enhancing mutual trust and cooperation, and promoting innovation and win-win development.





Communication with suppliers
 On 27 September 2019, Hengan communicated with a plastic supplier from Shanghai on the social issues of plastic packaging, new plastics economy and sustainable development plan of plastics.



In September 2019, leading by the Chief Executive Officer of Female Care Business Development Department and director of the innovation centre, Hengan team conducted in-depth technical communication with a TPU (thermoplastic polyurethane elastomer rubber) supplier.



2) **Forest policy**

Hengan adheres to the principle of “Sustainable use of resources and strict control; protecting the environment and benefiting our society”, and strictly follows the FSC/COC Implementation Manual (《FSC/COC 執行手冊》) prepared according to FSC/COC certification requirements, in order to improve FSC certified materials and material content. The Group controls the production process and ensures that certified and non-certified products are clearly identified and isolated during the process of reception, storage, processing, transportation and sales. The Group further executes its business policy, targets and commitment by means of publicity and training, establishing a document-based COC supervision system, and assigning special personnel to maintain effective operation of system.

The paper products of the Group won the forest certificate by Forest Stewardship Council (FSC) in 2010, and passed 3rd parties’ certification audit every year. More than 15% of raw paper products manufactured and sold by Hengan were FSC-certified in 2019. In the future, the Group will increase the percentage of FSC-certified products catering to client requirements, government regulations or market trend, etc.

Hengan is committed to helping suppliers promote forest certification, requires suppliers to abide by the Group’s paper pulp purchase standards and encourages them to adopt FSC standards. Regular on-site supplier visits are arranged to promote sustainable forest stewardship. The Group’s suppliers establish relevant internal policies and procedures to guide sustainable forest management and harvesting practices, tracing and verifying the origin and legality of all wood raw material worldwide. In 2019, more than 99% of wood pulp Hengan purchased has obtained the forest certificate.

The company prohibits the use of materials produced from wood obtained from:

- ✗ Illegal logging or illegal timber trading or forest products
- ✗ Forestry business violating tradition and human rights
- ✗ Destruction of high conservation value forests
- ✗ Significant usage conversion of forest plantation or non-forest land
- ✗ Introduction of genetically modified organisms into the forestry business
- ✗ Violation of the basic principles and declaration of rights of the International Labour Organisation

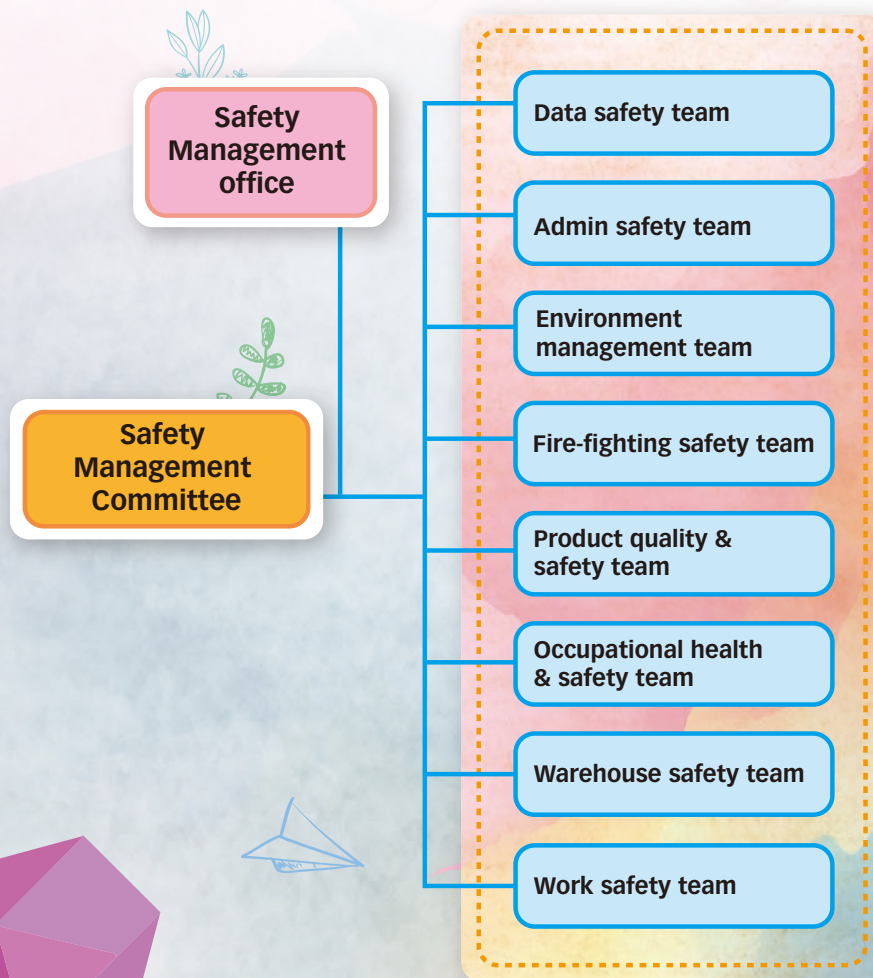



V. SAFETY GUARDIAN

Hengan is committed to providing employees with a healthy, safe and comfortable working environment, and has established safety teams within many operating companies to protect employees' health and safety issues, such as training employees on safety regulations, purchasing appropriate safety protection tools, and arranging employees to conduct health check-ups, etc. Hengan abides by laws and regulations such as the Labour Law of the People's Republic of China 《中華人民共和國勞動法》, the Work Safety Law of the People's Republic of China 《中華人民共和國安全生產法》, and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases 《中華人民共和國職業病防治法》, as well as internal regulations on Employee Occupational Health Management 《員工職業健康管理辦法》, and has passed relevant system certification. In order to standardize the management of occupational health and safety, the Group actively promotes the construction of occupational health and safety management systems and uses standardized management methods to ensure the health and safety of employees. As of 2019, 23 production companies of the Group had established and passed ISO 45001 Occupational Health and Safety Management System certification, and the certification percentage is 100%.

1. Work safety

The Group regards safety management as a major consideration of Hengan, implements relevant work safety regulations, and cooperates with local government departments to conduct work safety training and practice for each employee.

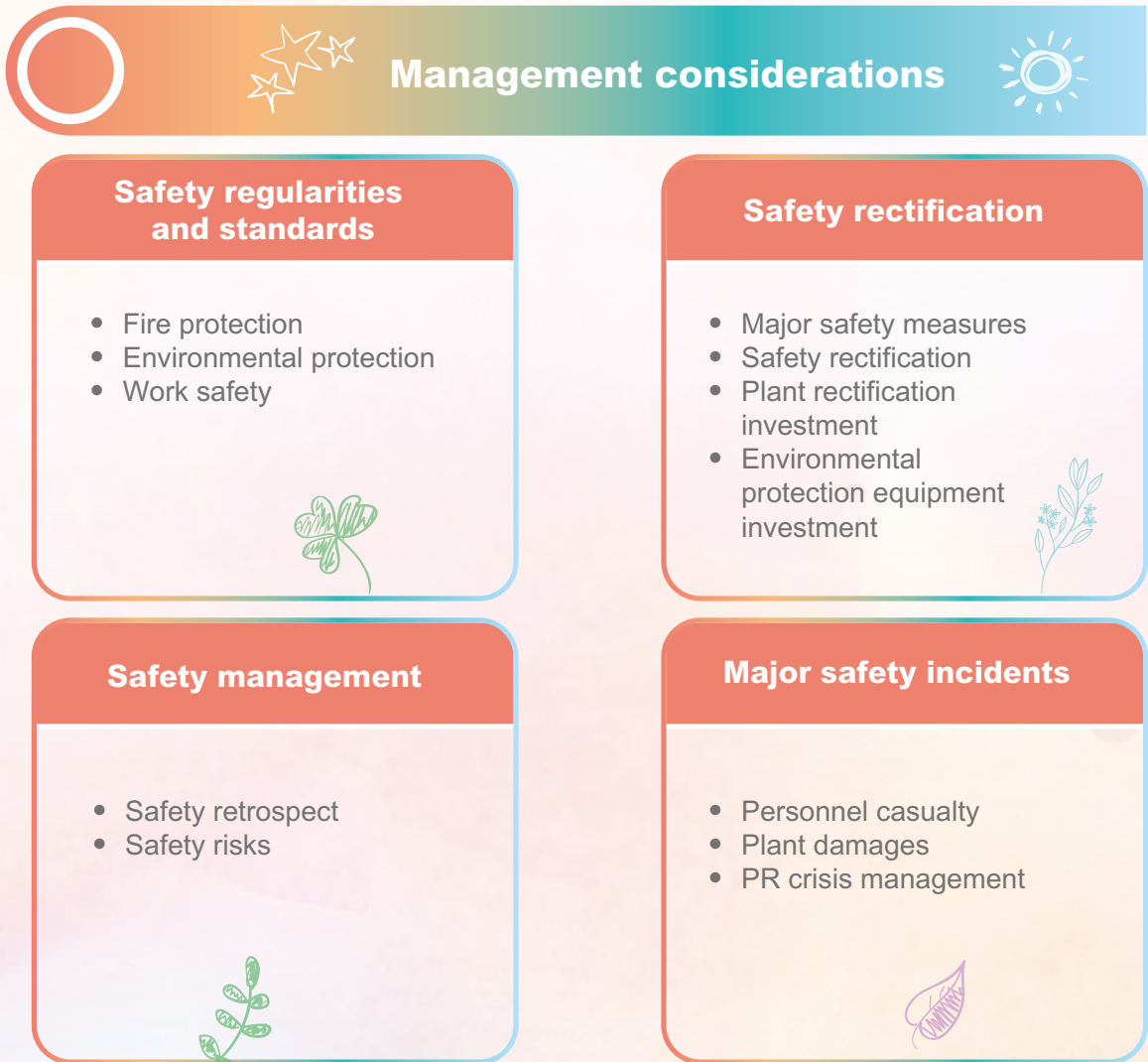


Safety Management teams 



1) **Safety management committee**

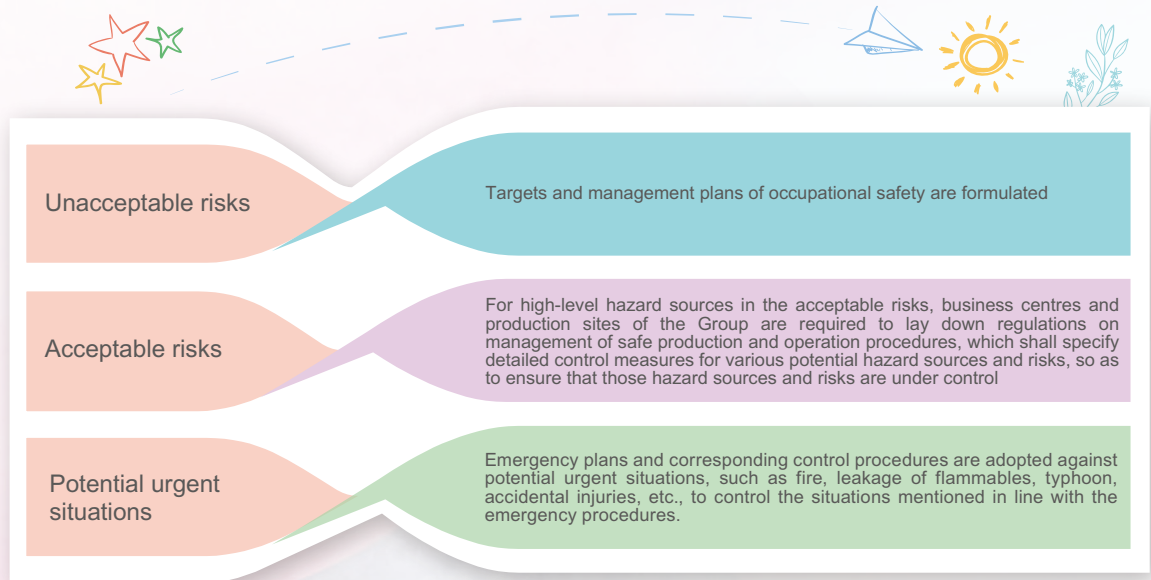
The Group established a Safety Management Committee, and sorted out the four major roles of the safety management system and five main activities, namely, safety decision-making, safety system policies, safety organisation and coordination-safety supervision-safety implementation, forming a safety management pyramid with layer-by-layer advancement and control, so as to reduce group security risks. The Safety Management Committee makes decisions on major safety incidents, major safety rectifications of plants, etc.



The Safety Management Office is responsible for organising monthly safety meeting and annual and semi-annual safety report meetings on which the overall safety status will be reviewed, the reporting units will report safety status including safety indicators, safety rectification implementation, safety risks and safety management solutions; relevant personnel will make assessments, give suggestions, propose rectification measures, accountable units responsible for safety issues, and instruct follow-up safety work so as to control security risks.

2) **Safety risk identification**

The Group classifies the equipment, facilities, working environment and hazardous matters at the workplace into physical, chemical, biological and social psychological hazard sources and adopts corresponding control measures as follows:



3) **Education on safety**

Hengan assigns the responsible person of each department for work safety, and carries out different safety education and trainings to strengthen the safety awareness and self-protection capabilities of all employees.



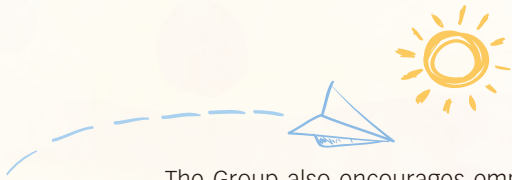
Training on mechanical injury, 19 July 2019



Training on traffic safety, 27 July 2019



Training on employee safety behaviour manual, 20 August 2019



The Group also encourages employees to be acquainted with corporate culture, safety and management knowledge in their fragmented time. For example, Hengan Household Articles Company installed a TV set next to the elevator, and plays various safety education videos when employees entering and leaving the hall, enhancing the safety awareness of the company's employees and external personnel.



Play safety education videos

4) *Fire safety*

The Group has established a safety team responsible for organising training on safety regulations, firefighting training and drills, and strengthening the safety awareness and self-protection capabilities of all employees. In 2019, the Group carried out a series of firefighting drills and emergency drills.



Training on fire safety and evacuation drill on 20 May 2019



Fire evacuation drill and safety training on 29 July 2019

2. Occupational health

It is regulated by the Group that existing vulnerabilities at the current workplace shall be identified and risk evaluation be carried out; necessary control measures are taken to eliminate and reduce risks.

In 2019, there were no occupational disease cases in Hengan.

Hengan will annually:

- Provides a yearly medical examination for employees and reimburses the expenditure based on employee ranks;
- Based on the needs of each post, different types of personal protective equipment are provided to employees regularly, with instructions on correct wearing and use for employees to observe;
- A third-party testing agency is entrusted to test the air and noise in the factory premises yearly; dedusting and exhaust devices are installed in facilities that generate dust and exhaust gas; for devices that generate excessive noise, the priority is to eliminate or reduce the noise sources, second is to control the noise transmission, and last is to require employees to wear protective appliances.



Staff gym at the Group headquarter

Hengan is well aware that employees' health is worth the greatest investment. In 2019, Hengan set up a new gym at its headquarters for employees to work out and improve their health.

In 2019, the number of lost days due to work injury in the Group is 3,309 days.

3. Customer services

Hengan strictly abides by Law of the People’s Republic of China on Protection of Consumer Rights and Interests 《中華人民共和國消費者權益保護法》 and other laws and regulations, and follows the enterprise spirit of “Integrity, Diligence, Innovation and Dedication”. It is committed to the mission of “Growing with you for a better life” and continues to upgrade its services to fulfil customers’ needs.

1) Product information

According to Administrative Measures of Packaging Design 《包裝設計管理辦法》 and Product Packaging Layout Review Process 《產品包裝版面審核流程》, the Group will stringently review the following information on the package: product name, producer name, address, product performance standard, hygiene standard, product grade, bar code, hygiene license number, trademark, specification, quantity, production batch number and expiration date, certification mark, consumer service telephone and other information, in order to provide accurate information to consumers.



Product packaging layout review process

In accordance with FSC/COC Implementation Manual 《FSC/COC執行手冊》, the Group strictly regulates the use of FSC marks and effectively controls the usage of FSC marks in the process of printing, publicity and product marking to ensure that the usage of marks complies with FSC requirements and consumer’s right to know.

The Group actively carries out brand promotion and also educates consumers on health and hygiene, and personal care while promoting Hengan brand.

On 22 March 2019, Elderjoy of Hengan carried out new product promotion activities - "Enjoying Good Health and Spring Days", of which the main activity "Snapshots in Spring" delivered the brand concept of "Care for your loved one at a peaceful night". The Group has passed on to consumers that Hengan always commits to alleviating troubles for incontinent patients, and striving to bring love, affection and care to people with mobility problems, helping them enjoy the beauty of life.



2) Customer satisfaction

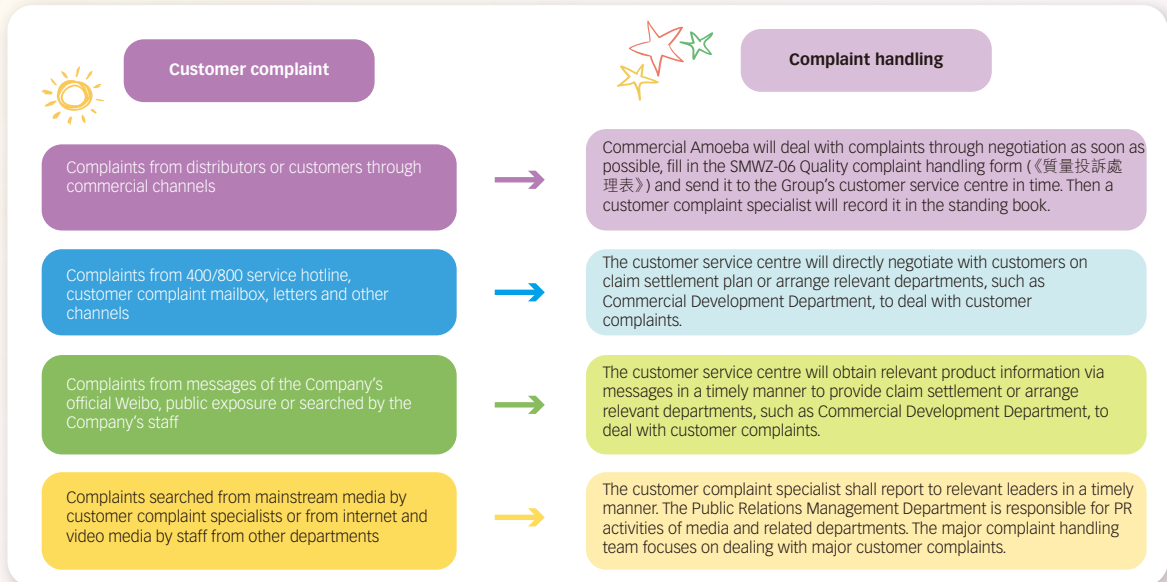
Based on internal policies, such as Customer Satisfaction Survey Control Procedures 《顧客滿意度調查控制程序》, Hengan uses the Company's various information channels to measure and analyse customer (client and consumer) satisfaction, to see whether the Group correctly understands and meets customers' needs and expectation, and evaluates the conformity of the quality management system with customer requirements:

- Product Category Development Department is responsible for consumer/customer satisfaction related work. It collects consumer/customer information of each area by survey or other means, mainly including quality, usage requirements and suggestions for improvement, which finally forms the customer satisfaction report;
- Commercial Development Department is responsible for client satisfaction related work. It collects clients' information of each area by survey or other means, mainly including delivery time, price and service, which finally forms the client satisfaction report;
- Quality Management Department is responsible for handling, summarising and analysing customers' complaints for sanitary napkin products (including pantyliners), diaper products (including nappies/pads), paper products and wet wipe products, delivering them to relevant departments, and tracking and verifying the effect of corrective measures put forward by relevant departments.

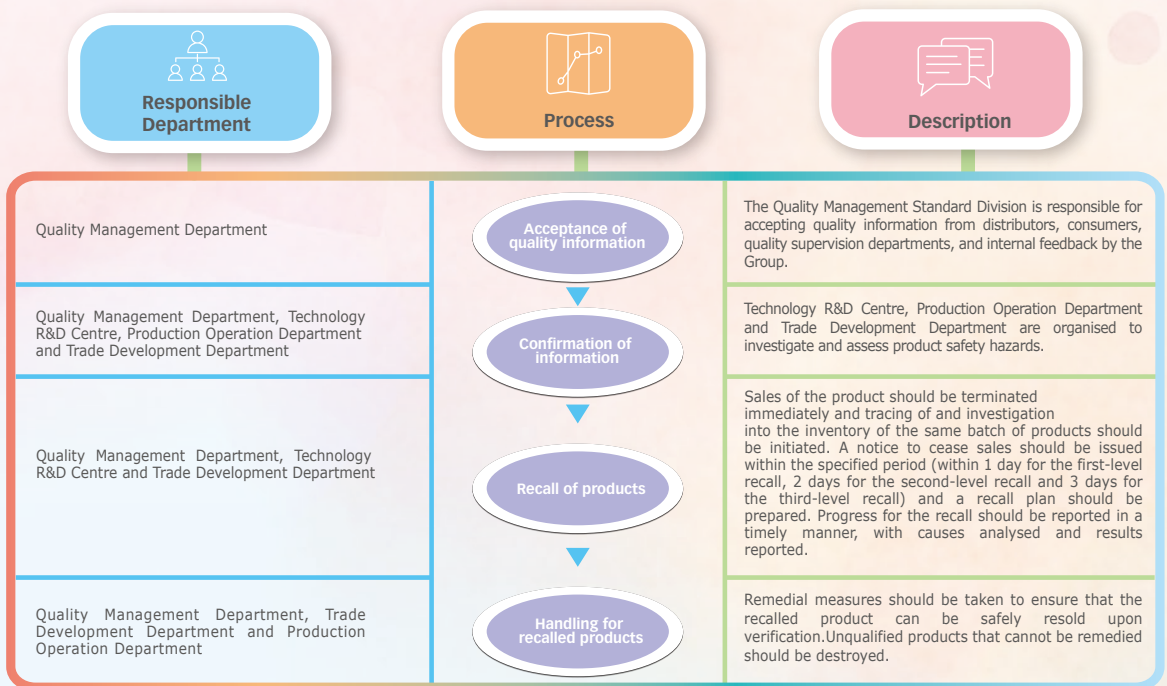
Based on the results of the survey, the Group identifies deficiencies for continuous improvements and defines its direction to constantly improve customer satisfaction.



Hengan implements Customer Complaint Control Procedures (《顧客投訴控制程序》), Customer Service Standards (《客服崗位服務標準》), Customer Complaint Handling Records (《客訴處理履歷》), Return Visit Policy for Customer Complaint (《客訴回訪制度》), Information Analysis (《信息分析》) and Employee Liable for Specific Quality Issue (《質量問題責任落實到人》) and other policies to resolve customer complaints from multiple channels rapidly and effectively:



The Group implements Accidents, Incidents, Non-Conformance to Control Procedures (《事故、事件、不符合控制程序》), Product Quality Problem Recall Management Policy (《產品質量問題召回制度》) and other processing procedures to actively disclose information to relevant parties in a timely manner, inform to stop the production and sales of the product and recall defective products in circulation when products fail to meet with safety standards or defective products appear in the market.

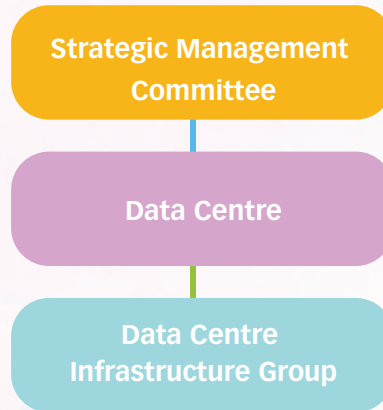


Recall Process

The Group did not engage in any product recall for safety or health reasons in 2019.

3) **Information security and customer privacy**

Under economic globalisation, the production and operation of enterprises are more and more closely connected with computer network, and no business of any enterprise can last without support from information technology. As the executive department of the Group's information security, the Data Centre reports to the Strategic Management Committee of the Board of Directors. In 2019, Hengan formulated Management Manual 1.0 for Data Centre 《數據中心管理工作手冊1.0》 to standardise the data centre's data digitising planning, data services, demand management and promotion, IT support services, information construction and operation and maintenance, infrastructure management, and strengthen information security management.



Hengan Information Security Governance Structure

In terms of information security operation, Hengan stipulates that the Group's IT equipment shall be uniformly installed by the Group's data centre with anti-virus software designated by the Group, and the server of anti-virus software shall be managed by a specially-assigned person from the Group's Data Centre. The Group regularly tracks the server and virus logs to make relevant log records, and offers pre-warning by audit on the collected log records according to the three stages of underlied, induced, occurred. Based on the needs of various departments, the Data Centre conducts network information security management training from time to time.

In terms of information security management, Hengan classifies company secrets, personnel files and customer information as confidential information, drafting, circulation, verification, storage, transfer and destruction of such information require strict registration procedures, so as to ensure that such information is circulated from top down rather than across different functions in an accurate, timely, effective and confidential manner. Meanwhile, confidential information is encrypted and access to the information is controlled, with accounts and passwords of all information systems under unified authentication management. Application for releasing information to the public shall be submitted to the relevant leaders of corresponding department for approval according to the management regulations of such department and the person who releases the information shall guarantee its security. A Server Emergency Plan 《服務器應急預案》 is in place so that the emergency operations are in strict compliance with the corresponding failure emergency plans under the Plan in case of sudden failure of the server, and a detailed troubleshooting report is drawn up for archiving thereafter.

Hengan classifies customer information as highly confidential information, and thus keeps the personal information collected from customers strictly confidential based on the Law of the People's Republic of China on the Protection of Consumer Rights and Interests 《中華人民共和國消費者權益保護法》 and its internal policies. No employees shall disclose any confidential commercial information concerning business, production formula, technology and document of the Group as stated in the Hengan Group Personnel Management Policy 《恒安集團人事管理規定》. Any intentional disclosure of confidential information about business and technology of the Group, resulting in losses that the Group has suffered or will suffer, is deemed as serious violation of the rules and regulations of the Group, and employment contracts of employees involved shall be terminated.

In 2019, the Group received no complaint from consumers for privacy leakage, and had no information security incident in the past three years.



VI. ENVIRONMENTAL PROTECTION EXPLORER

Hengan has been promoting green, low-carbon and sustainable development for 34 years, which is consistent with its corporate mission of “Growing with you for a better life”. Hengan keeps exploring and practising the application of energy-saving and emission reduction technology for green and low-carbon production in traditional industries, and has become the first in the world to adopt the boot-pressing technology to produce packaged tissue paper. It has vigorously promoted green initiatives such as recycling of exhaust from high-temperature gas hood, use of frequency-conversion energy-conservation technology, solar power generation and zero discharge of waste water, and thus its water and power consumption and other indicators are far lower than the industry average.

Hengan is committed to clean production to reduce the environmental impact caused by waste water, waste gas, greenhouse gases, hazardous and non-hazardous wastes during the production and operation of the Group. The Group strictly follows the Environmental Protection Law of the People’s Republic of China 《中華人民共和國環境保護法》, Law of the People’s Republic of China on Prevention and Control of Atmospheric Pollution 《中華人民共和國大氣污染防治法》, Law of the People’s Republic of China on Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》, Law of the People’s Republic of China on Prevention and Control of Environmental Pollution by Solid Waste 《中華人民共和國固體廢棄物污染環境防治法》 and other laws and regulations. It identifies and controls essential environmental factors in accordance with the internal policies such as Identification Control Procedure of Environmental Factors 《環境因素識別控制程序》 and Monitoring and Measurement Control Procedure of Environment, Safety and Health 《環境安衛監視與測量控制程序》 to minimise the impact of production and operating activities on the environment and unleash the development potential of recycling economy. During the reporting period, no significant environmental pollution events occurred in the Group.

Since 2003, Hengan has established and implemented the ISO 14001 environmental management system, and accepted the supervision and review by third party certification institutions and regulatory departments every year. As of 2019, a total of 23 production companies of the Group have established and passed the ISO 14001 Environmental Management System certification, the System certification percentage is 100%.

1. Energy management and climate change

As an initiator of the “Carbon footprint” course of China’s paper industry, Hengan Group has a long-term scientific strategic plan for low-carbon and sustainable development. It has established a complete ecological chain featuring green, low-carbon and sustainable development, covering green and pollution-free raw materials, the world’s leading green production process, products and services. Hengan communicates and interacts with large multinational pulp companies in Europe on sustainable development and carbon footprint management every year, and employs EU’s ecological standards as self-regulatory requirements, striving to build a leading national brand through transnational cooperation and competition.

1) *Tackle climate change*

Hengan pays close attention to climate change, and takes climate action, one of the UN SDGs, into consideration in its daily business activities. It evaluates the risks and opportunities brought by climate change to the Group as follows:

Type	Climate-related risk	Potential financial impact	Type	Climate-related opportunity	Potential financial impact
Transition	Update of laws and regulations	Operating costs ↑ Assets ↓	Energy sources	Involvement in carbon trading Adoption of clean energy	Operating costs ↓ Revenue ↑ Financing ↑
	Energy conservation and emission reduction technology	Capital investment ↑ R&D expenses ↑ Assets ↓	Resource efficiency	New R&D activities and development of new process	Operating costs ↓ Revenue ↑
	Change of customer needs	Operating costs ↑ Revenue ↓ Production costs ↑	Market	Acceleration of forest certification Development of low-carbon products	Revenue ↑ Assets ↑
	Development of low-carbon economy	Operating costs ↑ Assets ↓	Market	Forestry-pulp-paper integration Expansion of foreign markets	Operating costs ↓ Revenue ↑
	Reputation	Revenue ↓ Financing ↓ Operating costs ↑ Value ↓	Products/ services	Promotion of low-carbon products Delivering the concept of sustainability	Operating costs ↓ Financing ↑ Revenue ↑
Physical	Acute: Extreme weather	Revenue ↓ Operating costs ↑ Assets ↓	Climate resilience	Engagement in renewable energy projects Improvement of energy efficiency	Operating costs ↓ Assets ↑ Revenue ↑
	Chronic: Sea level rise	Revenue ↓ Operating costs ↑ Assets ↓			



Countermeasures

- Improving the framework of the sustainable development team, and splitting the 17 SDGs of the UN to the Group's businesses for implementation;
- Giving priority to the use of clean energy, upgrading equipment and improving energy-saving technologies;
- Developing recycling economy by promoting waste recycling, saving packaging materials and using degradable, recyclable packaging materials;
- Improving the supplier sustainable management policy and process, and establishing the identification and management policy of environmental and social high-risk suppliers;
- Developing green products to meet market trends and customer needs, so as to relieve environmental pressure;
- Identifying the latest laws and regulations, relevant policies and standards, and updating and revising internal policies and standards in a timely manner;
- Promoting forestry-pulp-paper integration to realise the transformation to responsible forest management and sustainable papermaking.

2) *Energy saving and carbon reduction*

The major greenhouse gas emission of Hengan results from the energy consumption, including coal, natural gas, electricity and steam, during the production process. The Group strictly complies with the rules in the Work Plan for Greenhouse Gas Emission Control during the 13th Five Year Plan Period (《[十三五]控制溫室氣體排放工作方案》) and the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》), issued the Hengan Group Energy Saving and Consumption Management Policy (《恒安集團節能降耗管理制度》), and is committed to improving equipment energy efficiency and reducing energy consumption, the use of clean energy, refined management of products, etc., so as to achieve the purpose of reducing energy consumption and greenhouse gas emissions.

Hengan actively responded to the State's policy of implementing energy conservation, emission reduction and elimination of backward production capacity, and continuously improved energy efficiency, so that the Group's energy and resource consumption reached the domestic leading and international advanced level. The energy consumption per unit product of the papermaking sector of the Group is 12% lower than the advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking (《制漿造紙單位產品能源消耗限額》) (GB31825-2015) ($\leq 420\text{kg}$ standard coal/ton), which is at the leading level in the industry.

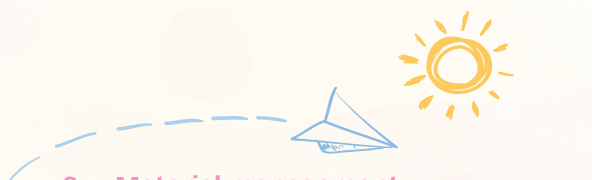
In 2019, the Group has taken a series of actions in energy conservation and carbon reduction:

- Installed a waste heat boiler in the production workshop to recover the heat of the exhaust gas after natural gas combustion for steam production, which greatly reduced the amount of purchased steam, producing 14,688 tonnes of steam and reducing CO₂ emissions by 4,500 tonnes per year;
- The Group possesses the world's leading boot-pressing technology imported from Finland that increases the dryness of the paper by 2% and greatly reduces the drying energy, saving about 8% of the drying energy consumption, and reducing CO₂ emissions by about 2,100 tonnes per year;
- German-imported end cap insulation and energy saving system are adopted to all machines, saving 50,000 tonnes of steam and reducing carbon dioxide emissions by about 15,000 tons per year;
- The Group adopted steel Yankee dryers and dryer end covers to reduce heat loss and improve thermal efficiency. Hunan Hengan Living Paper Products Co., Ltd implemented PM17 & 18 dryer steam system transformation to significantly reduce steam consumption;
- The Group widely uses variable frequency motor technology and vacuum turbine systems to reduce production power consumption. All motors are required to reach the national energy efficiency level above the secondary energy efficiency level. Most of the motors use advanced frequency conversion power saving technology, and the vacuum pumps are the most advanced in the world Turbine technology, saving more than 20% of electricity;
- The Group adopts a combined heat and power plant design and self-built 110kv substation and photovoltaic power station to provide electricity, heat and steam to improve energy utilization;
- By using the roofs of plants and warehouses to run the green solar photovoltaic power generation, the Group's annual power generation reaches about 2 million kWh, and each large machine's power consumption per tonne of products is 700-800 kWh, which is far ahead of the peer level of 1,000-1,200 kWh.

2. Water resource management

Hengan's water consumption is mainly from production and domestic water. With tap water and reservoir water as water source, there is no issue in sourcing water that is fit for purpose. The Group strictly abides by the provisions of laws and regulations such as the Water Law of the People's Republic of China 《中華人民共和國水法》 and continues to evaluate and apply water-saving technologies to reduce water consumption. To improve the water conservation awareness of all employees, water conservation labels are set in workshops and living areas.

Pulping and papermaking require plenty of water. In order to reduce the consumption of fresh water, Hengan reuses water in different paper production procedures based on the water quality; excess discharged water, after treatment, can be used for other purposes, for example, Hengan (China) Paper Industry Co., Ltd. recycles the sewage with filter screens to water the vegetation through pipelines laid across the plant and to flush toilets in the workshop, so as to reduce the consumption of clean water and recycle water resources. The water consumption per ton of paper in the Hengan papermaking segment is 79% lower than the national standard upper limit of water withdrawal per ton of product specified in GB/T18916.5 "Water Quotas Part 5: Paper Products" (《取水定額第5部分：造紙產品》).



3. Material management

In order to reduce wastage in the post-processing of paper, Hengan has set consumption standards for each department and product in terms of the packaging materials and raw materials, and evaluated the key performance indicators on a monthly and annual basis. The evaluation results are directly related to bonus of each employee, which comes to good results.

In the production of sanitary products, Hengan has developed a material consumption assessment for employees from general managers to operators. Whether the material consumption exceeds the standard or not is directly linked to the salary of each position. Guided in this way, employees of each position are willing to control material consumption and reduce the discharge of leftover materials, thus enhancing material utilisation.

The Group promotes the sustainable use of packaging materials through consumption assessment, consumption reduction and use of recyclable packaging materials. To reduce waste during production, the Group has formulated consumption standards for each department and product in terms of the packaging materials and raw materials. It evaluates the key performance indicator on a monthly and annual basis, and maintains a reward and punishment based on the evaluation results. The salary of employees in different positions is directly related to whether their material consumption exceeds the upper limit. This encourages the employees in different positions to take the initiative to control material consumption, effectively reducing the discharge of leftovers materials.

In 2019, the sanitary product production segment of the Group carried out a series of packaging automation improvement projects. Each subsidiary has also introduced and promoted a batch of automatic packaging equipment in order to improve the automation of the packaging process, enhance the quality stability, and finally achieving the goal of reducing the waste of packaging materials. In order to reduce the consumption of packaging materials, the paper post-processing segment phases out the handbags or carrying handles in e-commerce sales.

Packaging automation improvement plan for 2019	Improvement direction
Transmission stability improvement project of medium-sized packing products	To improve the stability of transmission posture of medium-sized products and ensure the quality stability of automatic packing
Improvement project of quarter-turn transmission of packaging machines	To ensure the stability of products in the quarter-turn transmission
Sealing machine improvement project of medium-sized packing products	To reduce the abnormalities of sealing machine for medium-sized packing products and avoid the quality accidents caused by such abnormalities
Product tag inspection before packing	To avoid untagged products flowing into the market, which may result in waste and quality accidents

4. Pollution prevention

1) Exhaust gas management

The waste gas emissions of Hengan mainly include waste gas emissions caused by fossil fuel combustion and dust emissions from production workshop during production process.

The Group's each paper manufacturing base is promoting the use of the clean natural gas, and parts of the production processes are using foreign advanced equipment, recovering some of the particles during the production process, in order to reduce the waste gas emission to the greatest extent possible. As for the waste gas emission during boiler combustion, the Group requires each base to install a waste gas disposal unit and equip desulfurisation and denitrification dust removal facility in the coal-fired power plant to effectively dispose SO₂, NO_x and smoke to reach the standard of emission concentration stipulated in the Emission Standards of Air Pollutants for Thermal Power Plants (GB13223-2011) 《火電廠大氣污染排放標準》. Each paper production workshop is equipped with a de-dusting system imported from global leading markets such as Austria and Germany. The dust particle concentration of the working environment is only 3mg/m³, reaching the excellent level set in national standard for atmospheric environment quality.

In 2019, Hengan's subsidiaries actively implemented equipment replacement and technical transformation to further respond to the national emission reduction policy:

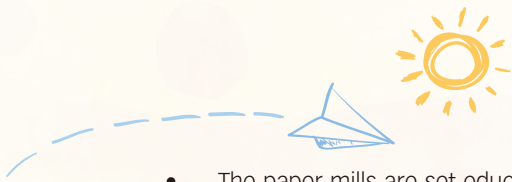
- Weifang Hengan Thermal Power Co., Ltd. overhauled the existing boiler baghouse filters or dismantled to build new ones, and the smoke emission index after the transformation reached the emission standard stipulated by the national laws and regulations;
- Hunan Hengan Living Paper Products Co., Ltd. carried out the project of ultra-low emission of flue gas from 75t circulating fluidised bed boilers to meet the requirements of ultra-low emission reform of coal-fired boiler gas emissions;
- Hengan (Chongqing) Living Paper Co., Ltd. implemented the low-nitrogen combustion technology reconstruction programme to reduce the generation of nitrogen oxides from the source.

2) Waste water management

The waste water discharged by Hengan is mainly the production waste water and domestic waste water during the production process. According to the Group's the Waste Water Treatment Measure 《廢水處理辦法》, all the paper production companies under Hengan have built sewage treatment stations. The waste water is dealt with through slanting, air floatation, aerobic aeration, etc., thus meeting the discharge standard under the Discharge Standard of Water Pollutants for Papermaking Industry 《造紙工業水污染排放標準》 (GB3544-2008) before emission. In 2019, the wastewater discharge intensity, COD discharge concentration and N-NH₃ discharge concentration of the Group's papermaking sector are much smaller than the national emission standards.

Hengan's subsidiaries adopt various measures to reduce the generation of waste water. Taking subsidiaries in the paper production segment as an example:

- All the paper machines of these subsidiaries are equipped with advanced multi-disc filters imported from Germany, Austria and other countries;
- Small amount of waste water produced in paper production is biochemically treated, and then recycled to the paper production workshop after ultrafiltration and reverse osmosis, realising water resource recycling, and more than 99% of paper production waste water was recycled;



- The paper mills are set education as bases of environmental protection for primary and secondary school students and enjoy a good reputation in all sectors of the society;
- The waste plaster from waste water treatment is treated so that it is no longer hazardous, sold to specialised companies and manufactured into egg trays and other products;
- Hengan (China) Paper Co., Ltd. has carried out a six-month advanced wastewater treatment transformation project to push forward the tertiary sewage treatment and water reuse project, so as to reduce wastewater emission and consumption of clean water; and the reuse rate of reclaimed water has reached 70%.

3) *Waste management*

Hengan classifies and recycles solid wastes in accordance with the Group's Solid Waste Management Measures 《固體廢棄物管理辦法》, so as to improve the efficiency of resource utilization. Hengan pays special attention to the scientific treatment of hazardous wastes included in the National Catalogue of Hazardous Waste 《國家危險廢物名錄》, such as waste cleaning agents, and entrusts qualified third parties to carry out detoxification treatment to reduce environmental pollution. Domestic waste was treated safely by environmental sanitation department.

Hengan has taken various measures to reduce the generation of waste, such as reduction of absorption of cotton and polymers in vacuuming by improving mesh screens, negative pressure, fans, pipes and conveyor belts, which greatly reduced the amount of waste generated in addition to lowering costs.

Hengan applies the "Reduce, reuse, recycle" waste hierarchy to its waste management and has taken measures as follows:

- Selling pulp to external paper box mills for recycling;
- Using sludge for incineration to produce electricity;
- Selling gypsum to cement factories for cement manufacturing;
- Selling fly ash to other companies for refining rare metals;
- Selling slag for brick manufacturing.

VII. TALENT INCUBATOR

The Group adheres to the “People-oriented” principle, insists on the implementation of a fair, just and open employment policy to recruit employees needed by the Group, and provides employees with reasonable compensation and benefits and clear career promotion channels so as to create good working atmosphere. Hengan also has built the Sunshine Community to safeguard the legitimate rights and interests of employees, and has established and improved the structure of “Three columns” platform to promote employees’ self-innovation. In regular working days and holiday seasons, the Group provides diversified activities for employees to put employee assistance down to earth and enhance their sense of belonging and happiness.

1. Employment compliance

Talents are the primary resources. Hengan strongly believes that maintaining positive relationship with employees is one of the keys to success for an enterprise. Hengan values labour, respects talents and strictly complies with the Labour Law of the People’s Republic of China 《中華人民共和國勞動法》 and the Labour Contract Law of the People’s Republic of China 《中華人民共和國勞動合同法》. The Group has proactively implemented a package of management policies for human resources, including Hengan Group Personnel Management Policy 《恒安集團人事管理規定》, Hengan Group Remuneration Management Policy 《恒安集團薪酬管理規定》, and Hengan Group Transparent Management Policy 《恒安陽光管理制度》 to provide competitive salaries, welfares, comprehensive training programmes and multi-channel promotion opportunities for developing full potential of the employees and bringing out the best in them. In addition, the Group cares about physical and psychological health of employees and has carried out activities showing care for its employees to create a harmonious working environment.

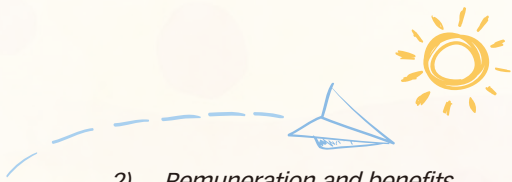


The Group puts forward the Policy of eight values for employees to realise their wills of filial piety, harmonious marriage, loving kids, comfortable living, satisfying work, happy learning, physical and mental health and decent living.

As of the end of 2019, the percentage of employees joining the labour union reached 100%, and contracts such as Collective Labour Contract 《集體勞動合同》, Collective Wage Agreement 《工資集體協議》 and Special Collective Contract for Female Employees 《女職工專項集體合同》 were signed between employees and the Group. Therefore, employees’ freedom of association and right to collective bargaining were guaranteed.

1) Recruitment and dismissal

Hengan provides all employees with equal opportunities, fair treatment and complete benefits, so that employees can grow with the Company; Hengan will not arbitrarily dismiss any employee, and the rights and obligations of Hengan and employees are clarified in the labour contract to protect the legitimate rights and interests of employees and to build harmonious and stable labour relations.



2) **Remuneration and benefits**

In accordance with the Hengan Group Remuneration Management Policy 《恒安集團薪酬管理規定》, the remunerations of the employees of the Group are no less than the local minimum wages, and takes into account such as responsibilities, capacity, knowledge and experience of the employees, to confirm a reverent grading remuneration based on their relevant job titles or grading in the remuneration standard table. On this basis, further consideration on internal balance of salary and overall performance will be taken. The Group regularly evaluates the reasonableness of employees' wages and determines whether to adjust the wages each year according to the operation performance of the previous year and the market salary situation.

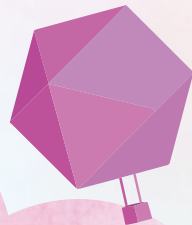
The Group provides social security for employees in a labour relation with the Group; social security base, insurance coverage and contribution rate are determined according to the relevant national requirements. If necessary, certain employees will be covered by commercial insurance.

In addition, employees enjoy the following benefits:

- subsidies for high temperature from June to September every year;
- an allowance for cleaning uniform, which is granted once a month for production workers;
- uniforms and necessary personal protection equipment issued as appropriate at employees' embarkation;
- family visit reimbursement for senior staff or above;
- a share option scheme to enable employees to grow with the company;
- arrangement for nearest enrolment of kindergarten, elementary school and middle school for employees' children and welfare like tuition fee discount.

3) **Working hours and holidays**

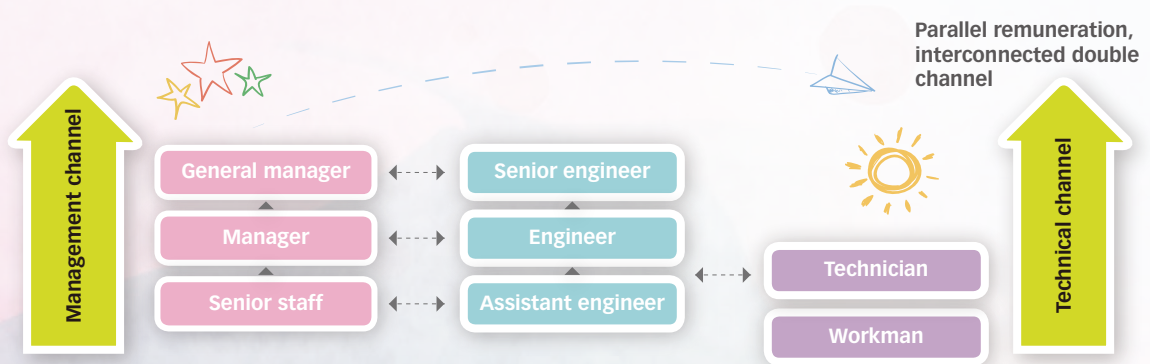
Employee working hours are strictly in compliance with relevant national laws and regulations. Employees working overtime should be based on their own free will and be provided with overtime pay according to relevant regulations. On New Year's Day, Spring Festival, Qingming Festival, International Labour Day, Dragon Boat Festival, Mid-Autumn Festival, National Day and other statutory holidays as stipulated by laws and regulations, employees of Hengan can take leaves accordingly.



4) *Promotion*

Hengan emphasises on building a win-win situation between employees and the enterprise, constantly innovates the employment mechanism and working environment, modifies the single position management system in which changes can only be realised through job promotion, and designs career development channels for professionals to meet the development needs of employees from different systems:

- Career development channel of managers: Through effective management of the team, an employee can continue to expand his/her scope of management, and become a leader of the department and the enterprise;
- Career development channel of professional technicians: With continuous improvement of their professional knowledge and skills, employees can become technical experts.



Double channels of career development

Hengan Management School adopts the professional technical title evaluation system and, by publicising the career development channels and title evaluation knowledge within the Group, encourages all employees to sign up for the evaluation. For the employees who have obtained a technical certificate, the Group holds an appointment ceremony and appoints the employees formally, and offers them corresponding benefits.

In order to improve the talents cultivation mechanism of Hengan and broaden employees' career development channels, the Group developed a job rotation programme for eligible in-service employees, covering key positions, specific positions and routine positions. Such job rotation is conducive to breaking the horizontal barriers and boundaries among departments and laying a solid foundation for teamwork cooperation, so as to help the Group cultivate versatile talents who may "Know something of everything and everything of something".

The number of Hengan management positions promoted was 149 in 2019.



5) **Employee rights & interests and complaints**

Employment of child labour and forced labour are prohibited by Hengan. In accordance with the Hengan Group Personnel Management Policy 《恒安集團人事管理規定》, in the process of recruitment and talent selection, those under 16 years old will not be hired; in addition, it has been configured that no one under 16 can be put into the human resources information system.

Hengan attaches great importance to protecting the legitimate rights and interests of employees. In order to ensure smooth communication between employees and the Group's management, Hengan provides employees with multiple ways to propose suggestions on management and development of the Group: Hengan built the Sunshine Community and encourages employees to propose suggestions in the platform. Relevant department heads will respond, put forward solutions, and put them into practice so that problems can be dealt with timely or improvement can be made; Hengan carries out employee satisfaction surveys (including work and life satisfaction surveys on catering and accommodation conducted by each subsidiary), and cares about what is closely related to the daily life of employees, so as to enhance employees' sense of belonging.

6) **Anti-discrimination**

Hengan actively carries out the principle of equal employment, and shows no discrimination towards employees or job applicants based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc. Employing disabled employees for different occupations in various production companies, Hengan encourages them to work earnestly to give play to their social values. At the headquarters in Fujian Province, Hengan actively responded to the Implementation Plan for the Employment Promotion of the Disabled in Fujian Province during the "13th Five-Year Plan" Period 《福建省殘疾人就業促進“十三五”實施方案》, the Implementation Measures for the Collection and Use of the Employment Security Funds for the Disabled in Fujian Province 《福建省殘疾人就業保障金徵收使用管理實施辦法》 and the Regulation on the Employment of the Disabled 《殘疾人就業條例》, and arranged suitable positions for the disabled while taking the characteristics of its own business lines and needs into consideration. In 2019, Hengan employed 82 disabled employees engaging in production-related activities in several production companies. Relevant positions were opened for public facilities maintenance specialists, auxiliary workers, equipment technicians, security guards, production monitors, packaging team leaders, etc.

7) **Benefit sharing**

Hengan lays importance on the theme of "Create values, bear responsibility together, and share benefits" in operation and transformation, establishes and perfects the structure of "Three columns" platform to make the strategic platform go hand in and with the business model of Amoeba team. Relying on innovation empowerment, the Group continues to fully empower employees under the rules and targets of the platform, and rewards Amoeba teams with outstanding operation performance with commendation and bonus, so as to stimulate the enthusiasm and vitality of the platform-based small team. In this way, the Company helps employees to improve their innovation ability and realise self-worth while promoting the rapid performance growth of the Group.

Hengan has launched multiple group strategic projects, such as commerce and trade Amoeba project, category Amoeba, regional operation centre Amoeba and production Amoeba. Through such unique operating model, the Group addresses the problem of complexity in the previous management layers with flattening management system, which motivates employees to actively participate in the operation to some extent and continues to stimulate business and innovation vitality.

In 2019, in order to meet the operation and management needs of platform-based small teams under Amoeba business model and to improve the business sense and operation performance of Amoeba leaders who take charge of different regions, Hengan adjusted the “Annual performance assessment” mode to “Quarterly performance tracking assessment” mode and formulated the Performance Management Measures for Commerce and Trade Amoeba Leaders (2019) 《商貿阿米巴巴長績效管理辦法(2019年度)》. By shortening the assessment cycle of employees, the Group could understand their performance in a more comprehensive and effective way, which in return will further stimulate the enthusiasm and creativity of the team members.

In the future, Hengan will continue to promote the multi-dimensional Amoeba projects in depth, which will bring more powerful growth momentum to the Group subsequently, thereby playing the unique “Group-based small team operation” symphony of Hengan.

8) *Employee activities*

In 2019, Hengan continued to carry forward enterprise culture and organised diversified employee activities, so as to promote employee communication and team cooperation, which therefore helped enhance friendship and cohesion.



Interesting cultural and sports activities on Women's Day



Interactive sharing session under the theme of “Creating sound family traditions and developing good habits”



Table tennis competition under the theme of “Fighting with motivation and striving for success”



Three-player basketball match under the theme of “Gathering strength and advancing together”



Lantern riddles guessing activities at Lantern Festival



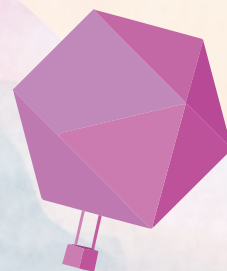
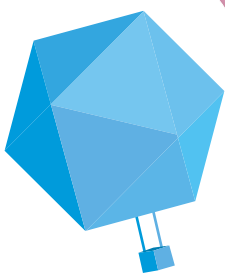
Rice dumplings making match at Dragon Boat Festival



Singing "My motherland and I" Flash Event

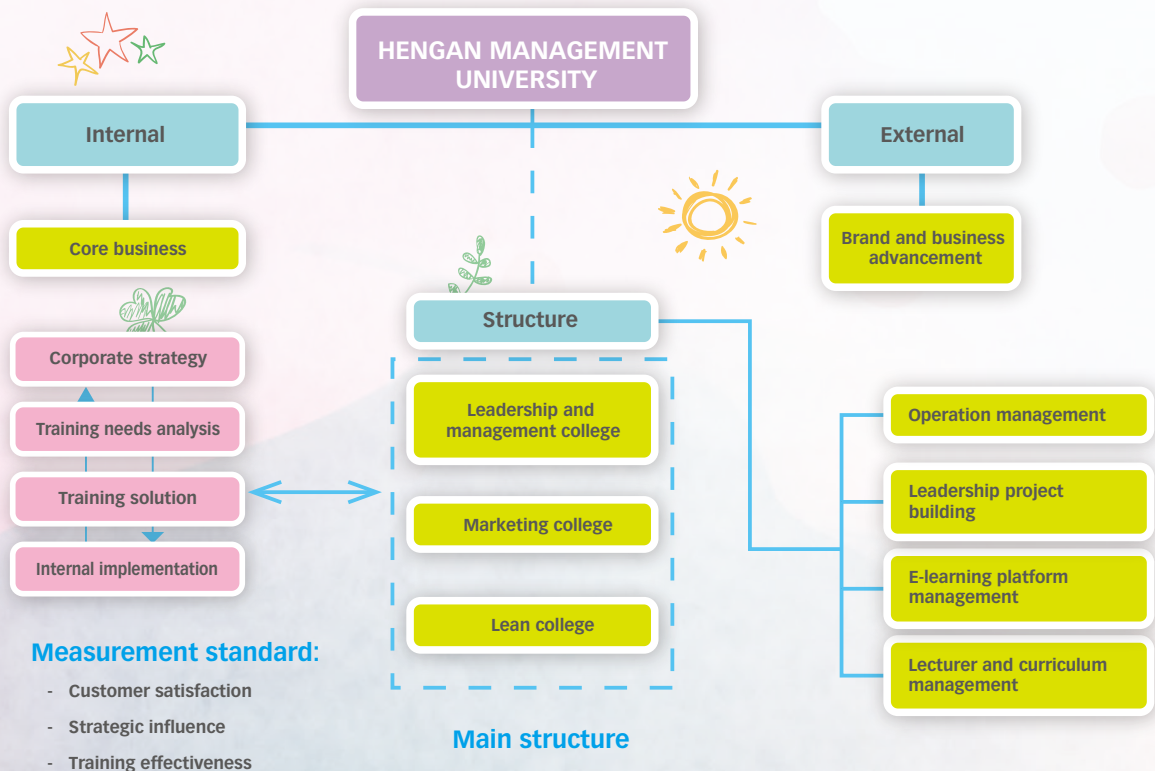


A visit to Inner-Party Political Life Experience Hall in Quanzhou



2. Training and development

Hengan is committed to cultivating itself as a “Learning enterprise” and creating an atmosphere of learning and enterprising, so that the overall quality of employees can be continuously improved. Based on the Hengan Group Training Management Policy 《恒安集團培訓管理規定》, the Group formed a unique talent cultivation system, which is implemented throughout the Group with the assistance of various departments and the use of external excellent resources, internal instructors, and various training methods. In 2019, Hengan invested a total of RMB2,395,236 in employee training and has 1,549 internal lecturers.



Hengan has built its Hengan Management University “Corporate University”, which consists of leadership and 3 colleges, namely Management College, Lean College and Marketing College, responsible for leadership and competence training, production management and technical training, marketing management and skills training respectively.

Hengan Management College established a comprehensive training and knowledge dissemination system for the common progress of the enterprise and employees:

- The system involves training and cultivating professional managers;
- Improving the professional and management skills of low-level managers, and improve their comprehensive abilities through vocational training, mentor coaching, university-enterprise cooperation and post practice;
- Sharing various experience, knowledge, methods and skills across the Group, so as to foster a favourable learning environment.

In 2019, Hengan continued to improve employees’ technical skills and management skills and tried to meet the needs of employees at all levels through various internal trainings, third-party open courses, post-ability-based quality model and online platform of management learning and training.



Training for Group senior executives on operating budget



Lean production training camp for technicians in the production system



3-day pre-embarkation training for new employees



VIII. INTEGRITY KEEPER

In strict compliance with the Company Law of the People’s Republic of China 《中華人民共和國公司法》, the Tendering and Bidding Law of the People’s Republic of China 《中華人民共和國招標投標法》, the Anti-Unfair Competition Law of the People’s Republic of China 《中華人民共和國反不正當競爭法》, the Interim Provisions on Banning Commercial Bribery 《關於禁止商業賄賂行為的暫行規定》 and other applicable laws and regulations, Hengan has adhered faithfully to its core value of business integrity. Corruption and bribery are strictly prohibited in Hengan.

As stated in the Hengan Group Personnel Management Policy 《恒安集團人事管理規定》, employees of the Group are prohibited from bribery, embezzlement or misappropriation by taking advantage of their authorities or duties and from exploiting their powers of office to accept bribes or kickbacks. All employees of the Group are responsible for the supervision and reporting on other employees’ breach on national laws and regulations as well as rules and regulations of the Group.

In 2019, the Group formulated several policies such as Anti-Fraud Policy of Hengan Group 《恒安集團反舞弊制度》, Interest Conflict Management Policy of Hengan Group 《恒安集團利益衝突管理制度》 and Travel Expenses Management Policy of Hengan Group 《恒安集團差旅費管理制度》 in an effort to strengthen the anti-fraud structure, which clarified the anti-fraud responsibilities to standardise various business activities of the Group. Besides, the Group has announced the reporting channels such as the email address, the 400 reporting hotline, auditors’ contact numbers, mailing or reception addresses for both internal and external personnel. Reporting clues will be accepted, preliminarily examined and investigated by personnel from different divisions. Investigation results will be reported to the Group’s anti-fraud management team for review, evaluation, and verification, and then will be finally submitted to the Group President for approval. Informers and reporting materials are kept strictly confidential during the period in case that illegal discrimination or vindictive actions or hostile measures against employees involved in the investigation may be taken by others.

Moreover, Hengan has adopted various forms of measures such as rotation programs, avoidance of relative recruiting, departure audit to promote the level of business integrity of the Group. It also strives to strengthen information sharing among managers and employees on internal control, anti-corruption and anti-commercial bribery through channels such as regular training, publicity and knowledge push from official account “Integrity building in Hengan”, so as to intensify anti-corruption awareness.

Regarding employees who have been verified to have committed fraud, whether or not they have reached the level of criminal offense, in addition to a return of the ill-gotten income therefrom, they will also be required to pay the economic compensation and face disciplinary actions as required by Hengan depending on the severity of the circumstances.



Anti-fraud organisational structure

Decision-making Committee

The supreme leading organisation in anti-fraud work of the Group

Supervise and guide management of the Group to create a group-wide anti-fraud cultural atmosphere and establish a sound internal control system including fraud prevention.

Anti-fraud Leading Team

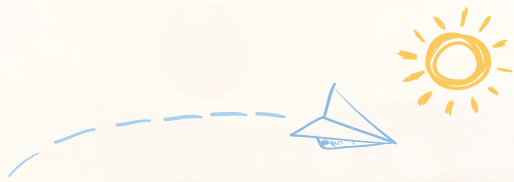
Anti-fraud management organisation of the Group

Guide and coordinate the Group's anti-fraud work, continuously oversee the anti-fraud work, review the anti-fraud investigation documents and submit opinions on handling and accountability to the president for approval.

Audit Department

Anti-fraud permanent establishment of the Group

Be responsible for the implementation of anti-fraud work and daily continuous supervision, including anti-fraud risk assessment, acceptance of related fraud reports, supervision or organisation of fraud case investigations, follow-up processing, and anti-fraud prevention publicity activities.



Employees with fraud practices

- Being ordered to return the ill-gotten income obtained from the fraud practices;
- Being ordered to compensate 0.5-2 times as much as the amount involved in the fraud or the economic loss resulted;
- Facing disciplinary actions such as warning, notification of criticism, demotion, position adjustment, termination of labour contract, etc.;
- Being referred to judicial department for prosecution for the fraud practices against the law.

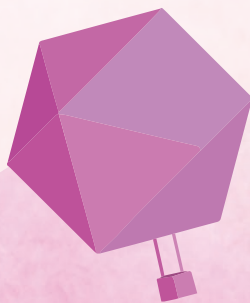


Administrative staff

- Assuming direct management responsibilities for fraud practices committed by their direct subordinates or employees under their direct supervision;
- Being punished in ways like notification of criticism, economic compensation for gross negligence, and cancellation of annual performance appraisal and promotion qualification.



Code of conduct for staff during the tendering and bidding process, requirements of economic incentives during construction works, and code of conduct for procurement staff have also been stipulated by Hengan in such documents as the Management Policy of Hengan Group for Tendering and Bidding 《恒安集團招投標管理制度》, the Management Provisions of Hengan Group on Engineering Construction 《恒安集團工程建設管理規定》 and the Procurement Policy of Hengan Group 《恒安集團採購制度》. Hengan has also entered into the “Integrity Agreement” with suppliers, which has clarified suppliers’ reporting obligations and violation responsibilities for commercial bribery/interest conflict. Hengan has adopted various forms of measures, including procurement pricing meetings, quality analysis meetings, analysis meetings for competitive products, as well as the business review meetings, to promote the integrity in cooperation between the Group and suppliers.



IX. HARMONIOUS SHARER

Hengan actively fulfils its obligations as a corporate citizen. While stabilising operations and creating economic benefits, it also considers social benefits, and shares achievements in development, thereby serving as a model for corporate citizens. Complying with the Management Policy for Hengan Group's Charity and Voluntary Activities 《恒安集團慈善與公益活動管理制度》, subsidiaries of the Group regularly evaluate the relationship between their public welfare activities and the communities in which they are located and support local undertakings such as charity, education, cultural and sports activities. They also concern about students, care for the elderly and children, and promote low-carbon living. Hengan's efforts in promoting social civilisation and harmony won it the China ESG Golden Awards 2019 – Best Social (S) Responsibility Award.

In 2019, the total donation of Hengan Group and its major shareholders amounted to RMB65.825 million. As of the end of 2019, donation has accumulated to more than RMB1.5 billion.

Taking multiple measures to fight the epidemic

In the face of major calamities and disasters, Hengan Group always steps forward to respond to the government's call in no time and go all out to contribute love and strength.

Facing the severe COVID-19 situation at the beginning of 2020, Hengan responded quickly to fight against the epidemic by donating goods and cash:

- The first batch of 2,500 pieces of sterilization wipes for epidemic prevention was delivered to the epidemic-affected area by Hengan (Xiaogan) Family Products Co., Ltd. of Hengan Group on January 25;
- Donated about RMB20 million worth of goods and cash to Hubei and Fujian Province through the Chinese Charity Federation, the Red Cross Society of Hubei Province and the Red Cross Society of Fujian Province;
- Targeted donation of RMB1 million was donated to Xiaonan District, Xiaogan City, Hubei Province;
- Until the end of the epidemic, continuous donation of sanitary napkin brands – Space 7, Xiaohaisen, and Anerle were donated to female medical staff in Hubei to protect their physical health;
- Space 7 cute pyjamas, Space7 sleeping pyjamas, Xiaohaisen sleeping pyjamas and other sanitary napkins were donated to three hospitals in Wuhan and medical teams in Guizhou, and seven hospitals in Xiaogan.

As of March 26, 2020, Hengan has donated a total of more than RMB20 million in cash and supplies.



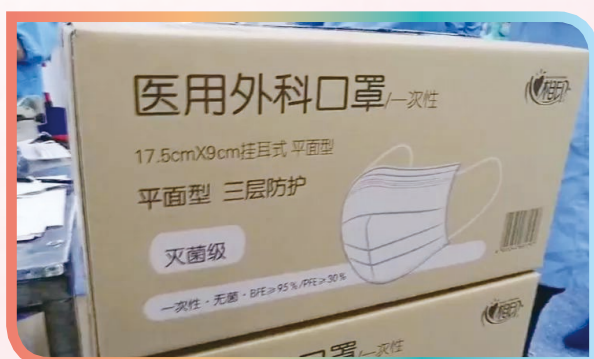


Donate sanitary napkin brand materials to Hubei female medical staff

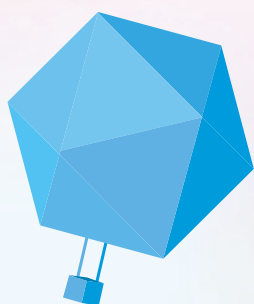


Donate pant sanitary napkins to three hospitals in Wuhan and medical teams in Guizhou, and seven hospitals in Xiaogan

The Group has vigorously responded to the government's call for support, exploited its advantages and integrated resources, endeavouring to ensure the production and supply of preventive supplies in order to meet the needs of national public health. The Group procured surgical mask production equipment at home and abroad, starting production of surgical masks and other preventive supplies in February. With the production equipment gradually put in place, the production capacity of surgical mask could be further increased. The surgical masks produced by the Group have obtained the production license and inspection certificate issued by the government.



Full production of medical surgical masks

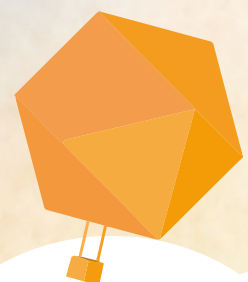




Caring for disadvantaged groups

2019 marked the fifth year that volunteers from Hengan have been visiting the good Samaritans whose families are in need and are receiving partner assistance from the Group. On 17 January 2019, volunteers of Hengan extended sincere greetings and best wishes for the New Year to the righteous and courageous people and their families.

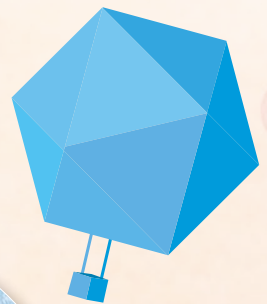
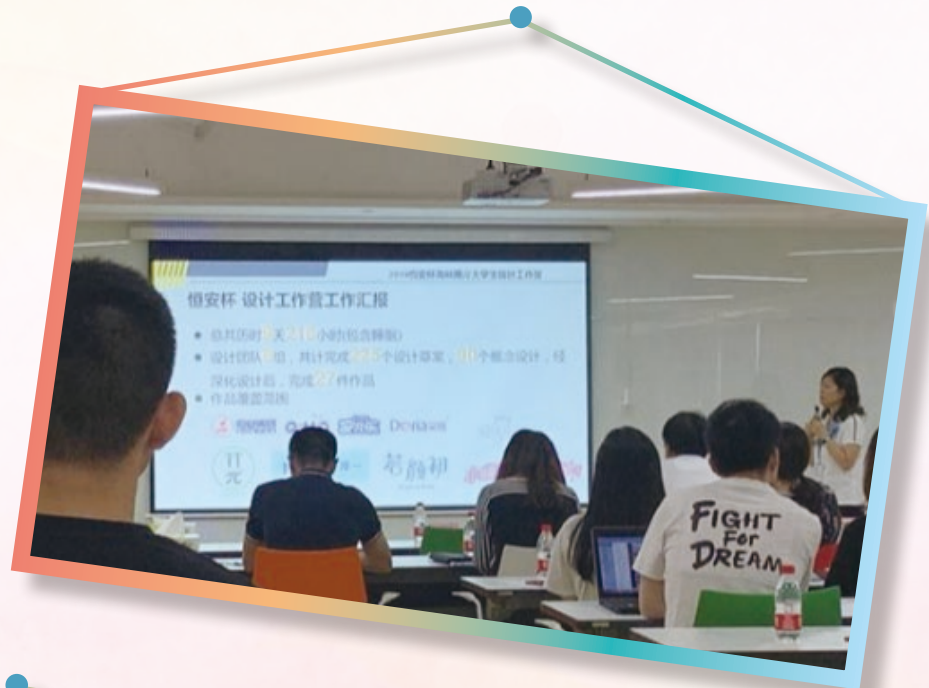
On 12 August 2019, volunteers from Hengan sent the elderly diapers during their visit to Minxiaoqin Nursing Home.





Supporting innovation

In 2019, Hengan undertook the Industrial Design Competitions of Ocean University of China with the core themes of “Design-Empowerment-Opportunity” and “Bringing together industry intelligence, Innovating for a win-win outcome” respectively. The university students were encouraged to design more marketable and feasible revolutionary products with brainstorming and collision of innovative thoughts during the teamwork.



Environmental protection promotion

On 21 September 2019, in Anping Community, Anhai Town, Jinjiang City, Hengan actively cooperated with the Party Committee and the Government of Anhai Town to carry out the publicity themed “Human settlement renovation and rubbish classification” as a part of its public welfare publicity activities.



Hengan not only established co-construction cooperation relationship with Anping Community, but also established publicity co-construction cooperation relationship focusing on “Rubbish classification” with voluntary publicity teams of middle (primary) schools and kindergartens of Anhai Town, to jointly launch the public welfare cooperation project with the theme of “Rubbish classification”, so as to ensure students’ continuous access to the education on rubbish classification.



On 20 March 2019, volunteers of Hengan actively participated in the voluntary tree planting activity in new campus of Longshan Primary School of Chidian Village, Anhai Town.



Caring for children

On 13 June 2019, Hengan and China Children and Teenagers’ Fund jointly launched an adolescence education project named “Spring Buds Project”. In the first year, this project was initially carried out in 150 schools in 5 provinces and municipalities nationwide with the theme of “Hello, girls”. Hengan integrated Yuan Qiqi, a virtual compassion ambassador, into the project to light children’s dreams with a brand new look and protect their spiritual buds.





X. KPI SUMMARY TABLE

1. Environmental KPIs

The environmental KPIs in this Report cover 23 production companies (27 production bases) which are the three major business segments of the Group – paper production, post-processing of paper and personal hygiene products (including sanitary napkins and diapers) and Weifang Hengan Thermal Power Co., Ltd.

	2019	2018	2017	Unit
Waste gas emissions (Paper production sector)				
NO _x	307	331	179	in tonnes
SO ₂	72	79	121	in tonnes
Smoke	35	36 ¹	7	in tonnes
Dust	78	96 ²	618	in tonnes
Waste water discharge				
Total waste water discharged	4,775,877	3,969,592	3,901,132	in tonnes
Waste water discharge (Paper production sector)				
Intensity of waste water discharge	3.0	2.8	2.7	in tonnes/tonnes of paper
COD emissions	114	127	162	in tonnes
Intensity of COD emissions	34.5	44.3	64.2	mg/L
N-NH ₃ emissions	5	6	8	in tonnes
Intensity of N-NH ₃ emissions	1.6	2.0	3.2	mg/L
Waste emissions				
Hazardous waste emissions ³	795	837	884	in tonnes
Hazardous waste emission intensity	0.35	0.41	0.45	kg/revenue in RMB10,000
Non-hazardous waste emissions	200,213	204,307	107,562	in tonnes
Non-hazardous waste emission intensity	89.0	99.6	54.3	kg/revenue in RMB10,000
GHG emissions⁴				
Direct emissions (Scope 1)	935,180	959,133	346,757	tCO ₂ e
Energy indirect emissions (Scope 2)	843,203	802,040	762,156	tCO ₂ e
Total GHG emissions	1,778,383	1,761,173	1,108,913	tCO ₂ e
GHG emission intensity	0.79	0.86	0.56	tCO ₂ e/revenue in RMB10,000
GHG emissions (Paper production sector)⁵				
GHG emissions	1,327,949	1,232,226	943,995	tCO ₂ e
GHG emission intensity	1.22	1.20	1.03	tCO ₂ e/tonnes of paper

	2019	2018	2017	Unit
Energy consumption⁶				
Natural gases	102,099,325	93,075,635	83,493,209	cubic metre
Anthracite	328,927	359,959	86,410	in tonnes
Purchased electricity	100,151	97,511	99,872	10,000 kWh
Purchased steam and heat	1,839,302	1,754,677	2,364,633	GJ
Liquefied petroleum gas	243	/	/	kg
Total energy consumption	4,717,921	4,768,674	3,110,510	MWh
Energy consumption intensity	2.1	2.3	1.6	MWh/revenue in RMB10,000
Energy consumption (Paper production sector)⁷				
Total energy consumption	402,728	379,136	340,929	in tce
Energy consumption intensity	0.37	0.37	0.37	in tce/tonnes of paper
Water consumption⁸				
Total water consumption	10,086,725	9,237,367	7,166,876	in tonnes
Including:				
Water consumption (Tap water)	8,674,025	/	/	in tonnes
Water consumption (Reservoir water)	1,412,700	/	/	in tonnes
Water consumption intensity	4.5	4.5	3.6	in tonnes/revenue in RMB10,000
Water consumption (Paper production sector)				
Water consumption	6,851,980	6,309,774	5,610,030	in tonnes
Water consumption intensity ⁹	6.3	6.1	6.1	in tonnes/tonnes of paper
Packaging material consumption				
Total packaging material used ¹⁰	108,540	92,172	76,282	in tonnes
Intensity of packaging material used	0.05	0.04	0.04	in tonnes/revenue in RMB10,000



Notes:

1. Due to changes in the statistical approach of smoke and dust data of Shandong Hengan Paper Co., Ltd., the smoke data in 2018 are recalculated here;
2. Due to changes in the statistical approach of dust particles in Shandong Hengan Paper Co., Ltd. and Hunan Hengan Living Paper Products Co., Ltd., the dust data in 2018 are recalculated here;
3. Hazardous waste of the Group includes tubes, used batteries, cartridges, waste oil (such as lubes, engine oil), used ink bottles, used additive bottles, used bottles etc.; non-hazardous waste includes sludge, wetproof, cinder, production waste, domestic waste, gypsum, coal ash, etc.;
4. The GHG emissions mainly represent CO2 emissions, including Scope 1: direct emissions, including anthracite and natural gas consumed during the production process; Scope 2: energy indirect emissions, including purchased electricity, purchased steam and heat. The GHG emissions are measured by carbon dioxide equivalent according to the Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Paper and Paper Products Manufacturers (Trial) 《造紙和紙製品生產企業溫室氣體排放核算方法與報告指南(試行)》 issued by the National Development and Reform Commission; Due to the increased use of natural gas and decreased use of anthracite, the Scope 1 emission is decreased. Due to the increased use of electricity and steam, the Scope 2 emission increased. As a result, the total GHG emissions increased slightly in FY2019, however, the GHG emission intensity was lower than that of FY2018;
5. Since the paper production sector's GHG emissions account for a relatively high proportion of the Group's environmental KPIs, the GHG emissions and the intensity of GHG emitted for production of each tonne of paper in the paper production sector are separately disclosed here; Due to the increase in production, the GHG emissions in Paper production sector increased in FY2019;
6. The total energy consumption of the Group is calculated based on the use of natural gas, anthracite, purchased electricity, purchased steam and heat, in combination with the recommended values for the relevant parameters of commonly used fossil fuels in Appendix 1 of Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Paper and Paper Products Manufacturers 《造紙和紙製品生產企業溫室氣體排放核算方法與報告指南》 issued by the National Development and Reform Commission; As a result of the decreased use of anthracite, the total energy consumption and its intensity decreased in FY2019;
7. Since the paper production sector's energy consumption accounts for a relatively high proportion of the Group's environmental KPIs, the energy consumption and intensity of energy for production of each tonne of paper in the paper production sector are separately disclosed here;
8. Starting from 2019, water consumption data will be disclosed separately by water source. The water consumption data for 2017 and 2018 are the total water consumption of various sources; Due to the increase in production and improvement of statistical approach of some production companies, the water consumption and wastewater discharge also increased slightly. However, the water consumption intensity remains at the same level compared to that of 2018;
9. Since the water consumption of the paper production sector accounts for a large proportion of the total water consumption of the Group, the water consumption of the paper production sector and the water intensity per ton of paper production are disclosed separately here. Due to the increase in paper production and improvement of statistical approach of some production companies, the water consumption and wastewater discharge also increased slightly;
10. Due to further increase in production in 2019, the total packaging materials used increased.

2. Social KPIs

The social KPIs in this Report covers the entire Hengan Group.

	2019	2018	2017	Unit
Employee Overview				
Total workforce	25,000	23,000	21,000	person
By gender				
Male	41%	42%	40%	
Female	59%	58%	60%	
By age group				
Under 20	2%	3%	/	
20-29	26%	28%	/	
30-39	39%	38%	/	
40-49	30%	29%	/	
50 and above	3%	2%	/	
By job title				
General manager and above	1.4%	2%	/	
Manager	3.5%	3%	/	
Functional staff	53.5%	51%	/	
Junior staff	41.6%	44%		
By region				
Northeast region	5%	/	/	
Fujian, Jiangxi	31%	/	/	
Guangdong, Guangxi, Hainan, Hunan, Hubei	18%	/	/	
North China region	5%	/	/	
East China region	12%	/	/	
Shandong, Henan	12%	/	/	
Northwest region	5%	/	/	
Southwest region	12%	/	/	
Proportion of female by job title				
General manager and above	14%	/	/	
Manager	33%	/	/	
Functional staff	39%	/	/	
Junior staff	89%	/	/	



	2019	2018	2017	Unit
Development and Training				
Employee training percentage				
By gender				
Male	77%			
Female	45%			
By job title				
General manager and above	49%			
Manager	44%			
Functional staff	55%			
Junior staff	64%			
Average training hours of employees	9	11	/	hour
By gender				
Male	14	/	/	hour
Female	5	/	/	hour
By job title				
General manager and above	4	/	/	hour
Manager	6	/	/	hour
Functional staff	12	/	/	hour
Junior staff	6	/	/	hour
Health and Safety				
Number of work injury	73	93		occurrence
Number of working days lost due to work injury	3,309	/	/	day
Product Responsibility				
Percentage of recall for safety and health reasons	0	0	/	

Note:

1. As Hengan begins to disclose more social KPIs in 2019, the historical data for these KPIs in FY2018 and FY2017 is not disclosed.

XI. GRI STANDARDS INDEX

GRI Standards Number	Disclosure Title	Report Section(s)
Organizational profile	102-1 Name of the organization	About the Report
	102-2 Activities, brands, products, and services	About the Group
	102-3 Location of headquarters	About the Group
	102-4 Location of operations	About the Group
	102-5 Ownership and legal form	About the Group
	102-6 Markets served	About the Group
	102-7 Scale of the organization	About the Group
	102-8 Information on employees and other workers	Talent Incubator
	102-9 Supply chain	Quality Leader
	102-10 Significant changes to the organization and its supply chain	No significant changes
	102-11 Precautionary Principle or approach	ESG Strategy and Governance
	102-12 External initiatives	ESG Strategy and Governance
	102-13 Membership of associations	ESG governance framework
Strategy	102-14 Statement from senior decision-maker	/
	102-15 Key impacts, risks, and opportunities	Tackle climate change
Ethics and integrity	102-16 Values, principles, standards, and norms of behavior	Integrity Keeper
	102-17 Mechanisms for advice and concerns about ethics	Integrity Keeper
Governance	102-18 Governance structure	ESG governance framework
	102-19 Delegating authority	ESG governance framework
	102-20 Executive-level responsibility for economic, environmental, and social topics	ESG governance framework
	102-21 Consulting stakeholders on economic, environmental, and social topics	ESG governance framework
	102-22 Composition of the highest governance body and its committees	ESG governance framework
	102-23 Chair of the highest governance body	/
	102-24 Nominating and selecting the highest governance body	/
	102-25 Conflicts of interest	/
	102-26 Role of highest governance body in setting purpose, values, and strategy	ESG governance framework



GRI Standards Number	Disclosure Title	Report Section(s)
	102-27 Collective knowledge of highest governance body	ESG governance framework
	102-28 Evaluating the highest governance body's performance	/
	102-29 Identifying and managing economic, environmental, and social impacts	ESG risk and response
	102-30 Effectiveness of risk management processes	ESG risk and response
	102-31 Review of economic, environmental, and social topics	Materiality assessment
	102-32 Highest governance body's role in sustainability reporting	ESG governance framework
	102-33 Communicating critical concerns	Stakeholder communication
	102-34 Nature and total number of critical concerns	Stakeholder communication Materiality assessment
	102-35 Remuneration policies	/
	102-36 Process for determining remuneration	/
	102-37 Stakeholders' involvement in remuneration	/
	102-38 Annual total compensation ratio	/
	102-39 Percentage increase in annual total compensation ratio	/
Stakeholder engagement	102-40 List of stakeholder groups	Stakeholder communication
	102-41 Collective bargaining agreements	Employment compliance
	102-42 Identifying and selecting stakeholders	Stakeholder communication
	102-43 Approach to stakeholder engagement	Stakeholder communication
	102-44 Key topics and concerns raised	Stakeholder communication Materiality assessment
Reporting practice	102-45 Entities included in the consolidated financial statements	About the Report
	102-46 Defining report content and topic Boundaries	About the Report
	102-47 List of material topics	Materiality assessment
	102-48 Restatements of information	No significant changes
	102-49 Changes in reporting	About the Report
	102-50 Reporting period	About the Report
	102-51 Date of most recent report	About the Report
	102-52 Reporting cycle	About the Report
	102-53 Contact point for questions regarding the report	Readers feedback form

GRI Standards Number	Disclosure Title	Report Section(s)
	102-54 Claims of reporting in accordance with the GRI Standards	About the Report
	102-55 GRI content index	GRI Standards Index
	102-56 External assurance	/
Management Approach	103-1 Explanation of the material topic and its Boundary	Materially assessment
	103-2 The management approach and its components	ESG governance framework Stakeholder communication
	103-3 Evaluation of the management approach	Materially assessment
GRI201: Economic Performance	201-1 Direct economic value generated and distributed	/
	201-2 Financial implications and other risks and opportunities due to climate change	Tackle climate change
	201-3 Defined benefit plan obligations and other retirement plans	Employment compliance
	201-4 Financial assistance received from government	/
GRI202: Market Presence	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	/
	202-2 Proportion of senior management hired from the local community	/
GRI203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported	/
	203-2 Significant indirect economic impacts	/
GRI204: Procurement Practices	204-1 Proportion of spending on local suppliers	/
GRI205: Anti-corruption	205-1 Operations assessed for risks related to corruption	/
	205-2 Communication and training about anti-corruption policies and procedures	Integrity keeper
	205-3 Confirmed incidents of corruption and actions taken	/
GRI206: Anti-competitive Behavior	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	During the reporting period, the Group had no related lawsuits
GRI301: Materials	301-1 Materials used by weight or volume	Environmental KPIs
	301-2 Recycled input materials used	/
	301-3 Reclaimed products and their packaging materials	Material management
GRI302: Energy	302-1 Energy consumption within the organization	Environmental KPIs
	302-2 Energy consumption outside of the organization	/
	302-3 Energy intensity	Environmental KPIs
	302-4 Reduction of energy consumption	Tackle climate change
	302-5 Reductions in energy requirements of products and services	Energy saving and carbon reduction



GRI Standards Number	Disclosure Title	Report Section(s)
GRI303: Water and Effluents	303-1 Water withdrawal by source	Water resource management
	303-2 Water sources significantly affected by withdrawal of water	Not applicable
	303-3 Water recycled and reused	Water resource management
GRI304: Biodiversity	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	/
	304-2 Significant impacts of activities, products, and services on biodiversity	/
	304-3 Habitats protected or restored	/
	304-4 IUCN Red List species and national conservation list Species with habitats in areas affected by operations	/
GRI305: Emissions	305-1 Direct (Scope 1) GHG emissions	Environmental KPIs
	305-2 Energy indirect (Scope 2) GHG emissions	Environmental KPIs
	305-3 Other indirect (Scope 3) GHG emissions	/
	305-4 GHG emissions intensity	Environmental KPIs
	305-5 Reduction of GHG emissions	Tackle climate change
	305-6 Emissions of ozone-depleting substances (ODS)	/
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	/
GRI306: Effluents and Waste	306-1 Water discharge by quality and destination	Environmental KPIs
	306-2 Waste by type and disposal method	Environmental KPIs
	306-3 Significant spills	Not applicable
	306-4 Transport of hazardous waste	Pollution prevention
	306-5 Water bodies affected by water discharges and/or runoff	/
GRI307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	The Group strictly abides by relevant laws and regulations
GRI308: Supplier Environmental Assessment	308-1 New suppliers that were screened using environmental criteria	Responsible procurement
	308-2 Negative environmental impacts in the supply chain and actions taken	Responsible procurement

GRI Standards Number	Disclosure Title	Report Section(s)
	401-1 New employee hires and employee turnover	/
GRI401: Employment	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employment compliance
	401-3 Parental leave	/
GRI402: Labor/Management Relations	402-1 Minimum notice periods regarding operational changes	The Group strictly abides by relevant laws and regulations
	403-1 Workers representation in formal joint management – worker health and safety committees	/
GRI403: Occupational Health and Safety	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Social KPIs
	403-3 Workers with high incidence or high risk of diseases related to their occupation	/
	403-4 Health and safety topics covered in formal agreements with trade unions	/
GRI404: Training and Education	404-1 Average hours of training per year per employee	Social KPIs
	404-2 Programs for upgrading employee skills and transition assistance programs	Training and development
	404-3 Percentage of employees receiving regular performance and career development reviews	Employment compliance
GRI405: Diversity and Equal Opportunity	405-1 Diversity of governance bodies and employees	Employment compliance
	405-2 Ratio of basic salary and remuneration of women to men	/
GRI406: Non-discrimination	406-1 Incidents of discrimination and corrective actions taken	Employment compliance
GRI407: Freedom of Association and Collective Bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	/
GRI408: Child Labor	408-1 Operations and suppliers at significant risk for incidents of child labor	/
GRI409: Forced or Compulsory Labor	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	/
GRI410: Security Practices	410-1 Security personnel trained in human rights policies or procedures	/



GRI Standards Number	Disclosure Title	Report Section(s)
GRI411: Rights of Indigenous Peoples	411-1 Incidents of violations involving rights of indigenous peoples	Not applicable
GRI412: Human Rights Assessment	412-1 Operations that have been subject to human rights reviews or impact assessments	/
	412-2 Employee training on human rights policies or procedures	/
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	/
GRI413: Local Communities	413-1 Operations with local community engagement, impact assessments, and development programs	Harmonious Sharer
	413-2 Operations with significant actual and potential negative Impacts on local communities	/
GRI414: Supplier Social Assessment	414-1 New suppliers that were screened using social criteria	Responsible procurement
	414-2 Negative social impacts in the supply chain and actions taken	/
GRI415: Public Policy	415-1 Political contributions	Not applicable
GRI416: Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	Quality Leader
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Quality Leader
GRI417: Marketing and Labeling	417-1 Requirements for product and service information and labeling	Customer services
	417-2 Incidents of non-compliance concerning product and service information and labeling	During the reporting period, the Group did not have corresponding violations
	417-3 Incidents of non-compliance concerning marketing communications	During the reporting period, the Group did not have corresponding violations
GRI418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Customer services
GRI419: Socioeconomic Compliance	419-1 Non-compliance with laws and regulations in the social and economic area	The Group strictly abides by relevant laws and regulations

XII. ESG REPORTING GUIDE INDEX

KPI	Description	Section(s)
A1	Emissions	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	VI. Environmental Protection Explorer Pollution prevention
A1.1	The types of emissions and respective emissions data	X. KPI Summary Table Environmental KPIs
A1.2	Greenhouse gas emissions in total and intensity	X. KPI Summary Table Environmental KPIs
A1.3	Total hazardous waste produced and intensity	X. KPI Summary Table Environmental KPIs
A1.4	Total non-hazardous waste produced and intensity	X. KPI Summary Table Environmental KPIs
A1.5	Description of measures to mitigate emissions and results achieved	VI. Environmental Protection Practitioner Pollution prevention
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	VI. Environmental Protection Practitioner Pollution prevention
A2	Use of Resource	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	VI. Environmental Protection Explorer Energy management and climate change
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	X. KPI Summary Table Environmental KPIs
A2.2	Water consumption in total and intensity.	X. KPI Summary Table Environmental KPIs
A2.3	Description of energy use efficiency initiatives and results achieved.	VI. Environmental Protection Explorer Energy management and climate change
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	VI. Environmental Protection Explorer Water resource management
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	X. KPI Summary Table Environmental KPIs



KPI	Description	Section(s)
A3	The Environment and Natural Resources	
General Disclosure	Policies on minimising the issuer’s significant impact on the environment and natural resources.	IV. Quality Leader Responsible procurement
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	IV. Quality Leader Responsible procurement
B1	Employment	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	VII. Talent Incubator Employment compliance
B1.1	Total workforce by gender, employment type, age group and geographical region.	X. KPI Summary Table Social KPIs
B1.2	Employee turnover rate by gender, age group and geographical region.	N/A
B2	Health and Safety	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	V. Safety Guardian Occupational health
B2.1	Number and rate of work-related fatalities.	N/A
B2.2	Lost days due to work injury.	X. KPI Summary Table Social KPIs
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	V. Safety Guardian Occupational health
B3	Development and Training	
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	VII. Talent Incubator Training and development
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	X. KPI Summary Table Social KPIs
B3.2	The average training hours completed per employee by gender and employee category.	X. KPI Summary Table Social KPIs

KPI	Description	Section(s)
B4	Labour Standards	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	VII. Talent Incubator Employment compliance
B4.1	Description of measures to review employment practices to avoid child and forced labour.	VII. Talent Incubator Employment compliance
B4.2	Description of steps taken to eliminate such practices when discovered.	VII. Talent Incubator Employment compliance
B5	Supply Chain Management	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	IV. Quality Leader Responsible procurement
B5.1	Number of suppliers by geographical region.	N/A
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	IV. Quality Leader Responsible procurement
B6	Product Responsibility	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	IV. Quality Leader Product research and development V. Safety Guardian Customer services
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	X. KPI Summary Table Social KPIs
B6.2	Number of products and service related complaints received and how they are dealt with.	V. Safety Guardian Customer services
B6.3	Description of practices relating to observing and protecting intellectual property rights.	IV. Quality Leader Product research and development
B6.4	Description of quality assurance process and recall procedures.	V. Safety Guardian Customer services
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	V. Safety Guardian Customer services



KPI	Description	Section(s)
B7	Anti-corruption	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	VIII. Integrity Keeper
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	X. KPI Summary Table Social KPIs
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	VIII. Integrity Keeper
B8	Community Investment	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	IX. Harmonious Sharer
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	IX. Harmonious Sharer
B8.2	Resources contributed (e.g. money or time) to the focus area.	IX. Harmonious Sharer

XIII. READERS FEEDBACK FORM

Thank you for reading the “Hengan 2019 ESG Report”. In order to provide more valuable information to the Group’s stakeholders and improve its ability and level of fulfilling social responsibilities, Hengan would welcome any feedback or suggestions you might have about this report.

You can send this form to any of the following:

E-mail address: martinli@hengan.com.hk

Mailing address: Unit 2101D, 21st Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong

1. How would you rate your opinion of this ESG Report?

Excellent Good General Poor Hardly

2. How would you rate your opinion of the environmental and social responsibilities of the Group?

Social Responsibility Excellent Good General Poor Hardly

Environmental responsibility Excellent Good General Poor Hardly

3. Please rate the effectiveness of this Report in reflecting the environmental and social impact the Group has brought about through its social responsibility practices?

Excellent Good General Poor Hardly

4. How would you rate your opinion of the clarity, accuracy and completeness of the information, data and indicators this Report has disclosed?

Clarity Excellent Good General Poor Hardly

Accuracy Excellent Good General Poor Hardly

Completeness Excellent Good General Poor Hardly

5. Do you find this Report in easy-to-read contents and formatting?

Yes Neutral No

6. Feel free to share any comments or suggestions you may have on the Group and this Report:
