

【For Immediate Release】



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Hengan International Announces 2020 Annual Results

**Profit Attributable to Shareholders Up 17.6% to RMB4.59 Billion
Final Dividend at RMB1.30 Per Share**

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Notable Positive Effects of Product Premiumisation and Optimisation and Sales Channel Reform

Continuously Strengthened Business Resilience

Financial Highlights

	For the year ended 31 December		Change
	2020 RMB'000	2019 RMB'000	
Revenue	22,374,001	22,492,845	-0.5%
Gross profit margin	42.3%	38.6%	+3.7 p.p.
Operating profit	6,392,388	5,680,296	+12.5%
Profit attributable to shareholders	4,594,815	3,907,723	+17.6%
Basic earnings per share (RMB)	3.864	3.285	+17.6%
Final dividend per share (RMB)	1.30	1.25	+4.0%

(19 March 2021— Hong Kong) — Hengan International Group Company Limited (“Hengan International” or the “Company”, SEHK stock code: 1044, together with its subsidiaries, the “Group”) announces today its annual results for the year ended 31 December 2020.

National health awareness heightened significantly and demand for personal and household hygiene products was strong. The Group’s sales in the first quarter were dampened due to the inevitable impacts on logistics and resumption of work, and amidst the market recovery in the second half of the year, the Group stepped up its efforts in developing e-commerce and new retail channels, resulting in a substantial increase in the expenses of marketing and promotion, all of which put pressure on sales during the year. However, thanks to Hengan’s well-known brand quality assurance, agile “small sales team” and the Group’s effort to maintain production and supply levels to the greatest possible extent, the negative impacts were effectively mitigated. For the year ended 31 December 2020, the Group’s revenue was approximately RMB22,374,001,000 (2019: RMB22,492,845,000), similar to that in 2019.

During the year under review, wood pulp prices remained at a low level, which supported the substantial increase in the gross profit of the Group’s tissue paper business. Revenue of the high-margin sanitary napkin business improved remarkably thanks to the effective reformed sales channel, its sales contribution increased to approximately close to 30% of total sales (2019: 28.8%). Moreover, the market penetration rate of the newly launched premium sanitary napkin series, “Space 7” surged rapidly during the year, which drove the sales of the sanitary napkin business and further fuelled growth to the overall gross profit and gross profit margin of the Group. In 2020, the overall gross profit increased by approximately 8.8% to approximately RMB9,455,855,000 (2019: RMB8,688,957,000) and the overall gross profit margin further increased to approximately 42.3%

(2019: 38.6%). Notwithstanding that the cost of wood pulp began to rise slowly in the second half of 2020, the Group has sufficient inventory of wood pulp and it is believed that the gross profit in the first half of 2021 will remain at a manageable level.

During the year, operating profit rose approximately 12.5% to approximately RMB6,392,388,000 (2019: RMB5,680,296,000). Benefiting from the low cost of wood pulp, an increase in the proportion of revenue from premium products, and exchange gains, profit attributable to shareholders of the Company amounted to approximately RMB4,594,815,000 (2019: RMB3,907,723,000), increased by about 17.6% year-on-year. Basic earnings per share was approximately RMB3.864 (2019: RMB 3.285).

The Board of Directors declared a final dividend of RMB1.30 per share for the year ended 31 December 2020 (2019: RMB1.25), together with the interim dividend of RMB1.20 per share (2019 first half: RMB1.00) already paid, total dividend for the year amounted to RMB2.50 per share (2019: RMB2.25 per share).

Commenting on the Group's annual results, Mr. Sze Man Bok, Chairman of Hengan International, said, "During the year under review, the coronavirus epidemic brought the global economy and people's livelihoods into a phase of "new normal", the operations of the personal and household hygiene product industry must also be deployed in accordance with the development of the epidemic. Fortunately, thanks to the Group's product premiumisation and optimisation strategies, as well as the evolution of its operation and management models over the years, after the challenges in the first quarter, the Group quickly seized the overall economic recovery in the second quarter and the high demand for hygiene products to offset the impact of the first quarter effectively and restored normal operations in the second half of the year. During the year, the Group stayed committed to its mission of "Growing with You for a Better Life" and started the production and sales of surgical masks at the end of February to provide domestic consumers with high-quality and reliable surgical masks products. After the epidemic stabilised in China, the Group exported surgical masks to Europe to support locals to fight the epidemic."

Sanitary Napkin

China has the world's largest feminine care products market where competition is fierce and is highly saturated. The Group has been developing in the direction of product upgrades and the launch of premium products to cater to market demand and maintain its leading position. The Group's sanitary napkin brand, 七度空間 has always been a hot-selling product in mainland China and has long been a market leader in the domestic market. During the year, the Group officially launched the new image of premium "Space 7" product. Leveraging on its high-quality products and brand image, the product was well-received by the market, thereby driving sales growth of the sanitary napkin segment.

In 2020, the sales of the sanitary napkin business returned to an upward trend and recorded an increase of close to 3.0% to approximately RMB6,654,711,000 (2019: RMB 6,487,003,000), which was higher than the average market growth and sales of the sanitary napkin business accounted for approximately close to 30.0% (2019: 28.8%) of the overall revenue of the Group. During the year, benefitting from the rapid growth of the premium "Space 7" product with sales reaching close to RMB200 million, gross profit margin of the sanitary napkin business further expanded to approximately 71.4% (2019: 70.3%). The Group is steadily shifting to a strategy of developing the premium market, the premium "Space 7" product is expected to become a potential growth point in 2021 and in the future, enabling the Group to expand its market share in the sanitary napkin industry.

Launched during the year, the premium product "Space 7" which aimed at the mature white-collar market received enthusiastic response, giving the Group the confidence to further expand the premium market. Since signing Space 7 brand ambassador contract with Yang Chaoyue, a member from Rocket Girl 101 (火箭少女 101), her girliness and healing power of spreading happiness greatly enhanced the brand image of "Space 7" and rejuvenated the brand with a sense of style. In addition, the Group signed a contract with the domestic new-generation girl group SNH48-7SENSES as the brand ambassador and star promoter of "Xiaohaisen" (小嗨森) and the "Xiaohaisen" family products, respectively in October 2020. Leveraging on the girl group's influence on young consumers, the Group reached out to more young consumers born after 1995 to further rejuvenate the brand.

Regarding other feminine care products, the Group's new feminine care brand "Origin and Prime" (若顏初) has received positive response and support from the market. The Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily developing the feminine care industry, capture growth opportunities brought by consumption upgrade and actively exploring opportunities to sell the Group's sanitary napkin products to overseas markets.

Tissue Paper

The epidemic in China was gradually put under control, but national health awareness has not diminished. The Group has always provided a variety of high-quality products according to the different needs of the market. The Group expects that national demand for tissue paper will continue to rise and believes that there is still room for growth in the overall tissue paper market.

In the second half of the year, the Group invested more in the marketing of the tissue paper segment in response to the market recovery, especially in the fourth quarter, the Group put in additional effort and investment in the promotion in e-commerce and new retail channels, resulting in a substantial increase in advertising and promotion expenses. Hence, the Group's revenue was offset by these expenses under the accounting standards and led to a decline in revenue of the tissue paper segment. On the other hand, commercial and corporate activities in mainland China were greatly affected by the epidemic, which in turn, reduced the demand for tissue paper. The sales of the tissue paper segment were down approximately 9.6% to approximately RMB10,382,758,000 (2019: RMB11,486,538,000), accounting for approximately 46.4% (2019: 51.1%) of the Group's overall revenue. Nevertheless, benefiting from the low cost of wood pulp, the gross profit margin of the tissue paper business increased significantly to approximately 33.5% year-on-year (2019: 27.7%).

Against the backdrop of the epidemic, the upgraded wet wipes products continued to perform well. Thanks to the super mini wet wipes that have been well-loved by consumers, sales growth of wet wipes continued to outperform the market in 2020. Sales of wet wipes for the full year increased approximately 20.9% year-on-year to approximately RMB733,192,000 (2019: RMB606,663,000), accounting for approximately 7.1% of the sales of the tissue paper business (2019: 5.3%). In addition, the Group upgraded its wet wipes products during the year and continued to leverage on its advantage as a leader in the "Super Mini" (超迷你) series with a collaboration with "Little Duck Liu" (小劉鴨) to launch super mini wet tissue toilet paper, continued to increase its market share and consolidate its leading position in the wet tissue market.

In terms of other tissue products, the Group continued to provide unique and high-quality products to the market with industry-leading product specifications and innovative technologies. The new premium series "Cloudy Soft Skin" (雲感柔膚) launched during the year was well-received by the market. It was made with the Group's original cloud-like three-dimensional embossing technology to form air cushions, providing enjoyable consumer experience to its customers with cotton soft skin like tissue paper. The Group has also obtained a national design patent on its unique embossing

technology. The product is safe and does not contain any chemical adhesives. It was selected as the recommended tissue product at the World Environmental Conference. Paper handkerchiefs from the "Pino Black and White" series (品諾黑白系列) presented in black packaging and featured with the newly upgraded sensation of tissue paper with superb strength are precisely marketed towards business people and young consumers.

As the living habits of people change and the level of consumption continues to rise, the tissue paper market continues to expand and competition is gradually intensifying. The Group will develop more products that can accurately meet consumers' needs in order to continuously seize business opportunities to expand its market share in domestic wet tissue market and maintain its leading market position. The Group's annualised production capacity was approximately 1,420,000 tons during the year. The Group will actively consider expanding its production capacity according to the market conditions and sales performance in the future.

Disposable Diapers

There are still a lot of growth potentials in the domestic disposable diaper market. National consumption of adult care products is still very passive. In addition, national consumption upgrades will continue to be the driving force for the Group to continue to upgrade its products and launch premium products. The Group believes that the overall diaper market still has huge untapped potential. The Group has always stayed committed to developing and providing a series of baby and adult care products. During the year, the Group stepped up its effort to upgrade its premium "Q·MO" products and achieved good results, and the market penetration rate of adult diapers "ElderJoy" (安而康) has gradually increased as well.

In 2020, thanks to the Group's additional effort in e-commerce and maternal sales, the proportion of sales through e-commerce and maternal channels has increased to over 40.0% and close to 15.0% respectively. On top of that, the proportion of premium baby and adult diapers products increased, sales of the diaper segment amounted to approximately RMB1,425,567,000 (2019: RMB1,439,087,000) and the decline greatly narrowed to approximately 0.9% (2019: a decrease of 6.3%), accounting for approximately 6.4% of the Group's overall revenue (2019: 6.4%). Among them, sales growth of premium "Q·MO" products exceeded approximately 70.0%, accounting for approximately 18.9% of the overall diaper sales. In terms of gross profit margin, the proportion of premium products has increased which was offset by the cost of petrochemical raw materials used in disposable diapers rose due to the tight supply affected by the epidemic. Hence, the gross profit of the diaper business dropped slightly to approximately 39.6% (2019: 40.5%).

During the year, the Group seized the opportunity to further develop the premium product market and rationalize its product portfolio. The "Q·MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very well-loved by the market. Anerles (安兒樂) "Soft and Thin" (小輕芯) diapers feature an ultra-thin absorbent core, allowing babies to wear without discomfort. Many parents are very satisfied with the quality of Anerle's "Soft and Thin" diapers. In addition, as the nation puts more emphasis on the development of the elderly care industry, there will be more market potential in the field of domestic adult care. The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the "ElderJoy" and "Banitore" (便利妥) brands and increasing its market share in Southeast Asia at the same time.

The Group will continue to develop the baby care market and the adult care market in parallel. In addition to e-commerce sales channels, the Group will also increase cooperation with maternal stores, nursing homes and hospitals. On the one hand, it will promote the Group's high-quality products. On the other hand, through the cooperation with maternal stores, nursing homes and hospitals, it will expand the Group's customer base and provide a one-stop product sales chain,

refuel growth momentum for the diaper business, help the Group to develop the adult health care business in the long term and continue to tap the growth potential of the adult health care market.

Other Incomes and Household Products

Regarding other income, revenue during the year grew about 27.0% year-on-year to approximately RMB3,910,965,000 (2019: RMB3,080,217,000), including revenue from surgical masks and other medical-related products in response to the epidemic. The sales of surgical masks were remarkable with a revenue contribution of approximately RMB260 million in 2020.

In 2020, revenue from the Group's household products segment was approximately RMB400,232,000 (2019: RMB376,874,000), including revenue from Sunway Kordis Holding Limited ("Sunway Kordis"), which amounted to approximately RMB277,265,000 (2019: RMB243,962,000). The household products business accounted for approximately 1.8% (2019: 1.7%) of the Group's revenue.

In 2020, the Group continued to expand its household products business to increase its presence in the sector. The Group has greatly expanded the product range of its brand, Hearttex (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to markets in Europe, Australia, North America and Asia. The Group will seek to leverage on Sunway Kordis's overseas sales network to bring Hengan's products to overseas market.

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

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 42 countries and regions, with 68 direct partnerships with major clients or distributors. Turnover of overseas business (including Wang-Zhang Group business) for the full year was approximately RMB2,166,847,000 (2019: RMB2,048,125,000), accounting for approximately 9.7% of the Group's overall sales (2019: 9.1%).

Affected by the city's lockdown due to the epidemic, the Group's Wang-Zheng Group in Malaysia recorded a turnover of approximately RMB398,384,000 (2019: RMB446,551,000), accounting for approximately 1.8% of the Group's overall sales (2019: approximately 2.0%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include Dry Pro diapers and Carina personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult diapers into the Southeast Asian market. In the future, the Group will continue to upgrade its existing Wang-Zheng products, research and develop and launch more high-end products under the Hengan brand and strengthen its market share in Malaysia and Southeast Asia.

E-commerce and New Retail Channel Strategies

The epidemic has prompted the rapid maturation of the domestic online shopping market and bolstered the development of new retail channels (including community group-buying) and mainstream e-commerce platforms. As a convenient way of shopping, online shopping has become part of the daily life of domestic consumers. Under the influence of the global epidemic, the growth

of e-commerce has far exceeded expectations. It did not only provide profit to e-commerce companies, but also accelerated retailers' investment on e-commerce operations. Since the Group's product launched on various domestic e-commerce platforms, e-commerce channel has become one of the Group's key sales channels.

In 2020, sales revenue of the Group's e-commerce channels (including Retail Integrated (「零售通」) and New Channel (「新通路」) was approximately RMB4.3 billion (2019: over RMB4.4 billion), accounting for approximately 19.1% (2019: 19.8%) of the Group's overall sales. In the first half of the year, logistics was clogged due to the impact of the epidemic and e-commerce sales were affected by the optimisation and integration of e-commerce channels. With the increasing sales of directly-managed online stores, e-commerce channels have resumed normal development in the fourth quarter, driving e-commerce sales. The Group will review its e-commerce sales strategy from time to time, reiterate the e-commerce rules and strengthen the sales and promotion of directly-managed online stores to achieve rapid growth in the future.

In response to the rapid development and fierce competition in the e-commerce market, the Group adopted the sales strategy of live streaming with brand ambassadors and fans for its brands to leverage on the reputation of brand ambassadors, thereby permeating the Group's products into the fan base, in particular, the live broadcast of "Space 7" with popular idols Liu Tao and Yang Chaoyue on Double Eleven Single's Day drove robust sales to the product.

During the year, the Group signed a data analysis (data centralisation platform) cooperation agreement with Alibaba. In the future, the Group will use the platform to analyse data from end customers, precisely allocate expenses and design related sales strategies. Alibaba will assist Hengan group in upgrading its digital intelligence strategy, business, organisation and technology, and form a comprehensive and unified platform operation for members, products and channels etc., enabling the Group to achieve its strategic goal of becoming the "world's top-tier enterprise of daily necessities".

In addition, with the rising popularity of community group-buying and online and offline (O2O) sales, almost all top platforms have stepped up their effort in this field. The Group will also allocate more resources in this area and leverage on the frequent shopping festivals on e-commerce platforms to attract consumers with exclusive products, thereby increasing the Group's market share in e-commerce and new retail channels and fostering e-commerce and new retail channels as the main growth drivers for overall sales in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize post-epidemic opportunities as the economy recovers, put forward effective sales strategies and conduct data analysis with its data centralisation platform, continue precise positioning and optimise the product portfolio to bring considerable return for shareholders. The selling and administrative expenses of the Group this year accounted for approximately 21.6% of the overall revenue (2019: 20.0%), which was mainly attributed to the Group's additional efforts and expenses in the promotion of e-commerce and new retail channels in the second half of the year and the increase in expenses related to logistics during the year. With the gradual control of the epidemic in the coming year and the precise cost allocation through data analysis, the Group believes that the expenses-to-revenue ratio will be improved gradually.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in US dollars. During the year, the Group recorded an operating exchange gain of RMB249,214,000 (2019: exchange loss of RMB89,331,000) as a result from the strengthening of the Chinese Renminbi in the second half of the year.

As at 31 December 2020, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2020, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB23,970,698,000 (31 December 2019: RMB22,977,561,000); domestic corporate bonds amounted to RMB988,938,000 (31 December 2019: RMB3,994,474,000); and bank borrowings and other borrowings amounted to approximately RMB19,837,362,000 (31 December 2019: RMB17,613,967,000).

In December 2019, the Group successfully registered for the proposed issue of RMB3.0 billion super short-term commercial papers. From February to December 2020, the Group issued super short-term commercial papers in five batches of RMB3.35 billion in total (after the repayment of the super short-term commercial papers of RMB3.0 billion in the second half of the year, the Group issued another batch of super short-term commercial papers of 0.35 billion in December), the coupon rates are between 2.10% to 2.85% per annum. The five batches of super short-term commercial papers will mature in 23 to 270 days from the respective issue date. As at 31 December 2020, the Group has no outstanding super short term commercial papers. In addition, the Group applied for the registration for the proposed issue of short-term commercial papers of RMB6.0 billion in two tranches in June 2020, each tranche of the short-term commercial papers will have a term of not more than one year. Moreover, the Group successfully registered for the proposed issue of RMB5.0 billion domestic bonds in 2021, each tranche of the domestic bonds will have a term of not more than five years.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.54% to 4.30% (2019: from 1.97% to 4.80%).

As at 31 December 2020, the Group's gross gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) decreased to approximately 107.3% (31 December 2019: 120.9%) mainly due to the repayment of bank borrowings and super short-term commercial papers during the year. The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 16.1% (31 December 2019: negative 7.6%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately RMB586,651,000. As at 31 December 2020, the Group had no material contingent liabilities.

Outlook

Looking ahead to 2021, Mr. Sze Man Bok, Chairman of Hengan International, said, “the epidemic in most regions in China will basically be put under control, the consumer market will gradually regain vitality and consumer demand will continue to be released. It is believed that domestic sales will continue to support the steady growth of the economy in China. However, changes in the external political and economic environment and fluctuation of the epidemic will bring a series of uncertainties across the globe. The Group will continue to pay close attention to the development of the domestic and international epidemic and changes in the markets to agilely respond and take appropriate actions.”

“The rapid increase in national health awareness due to the epidemic and the on-going trend of domestic consumption upgrades are beneficial to the refinement and high-quality development of the personal hygiene products market in the long run. The epidemic has changed people's living habits. The Group expects that national demand for personal and household hygiene products will continue to be maintained even after the epidemic, and people will continue to pursue high-quality products. In order to meet the increasingly high-end consumer demand of end customers, the Group will actively respond to and seize market opportunities brought by consumption upgrades, flexibly cope with changes in consumer demand, continue to actively optimise the product portfolio and upgrade the packaging, materials and functions of the products to promote the sales of high-end products and inject growth momentum into the Group.”

“Regarding sales channels, the epidemic has accelerated the shift of the consumption patterns to online. Taking advantage of the Group's omni-channel retail network, the Group will step up its efforts to increase the coverage of e-commerce and new retail, with an aim to drive e-commerce and new retail sales of tissue paper, sanitary napkins, and disposable diapers up to the market average in the foreseeable future. At the same time, the Group will leverage on its data centralisation platform to analyse consumer preferences and market changes and further optimise resource allocation in terms of product design, market distribution and sales channels. In order to meet the different needs of consumers, the Group will integrate online and offline retail models and actively develop new retail channels (including community group-buying) to increase the market penetration rate of the Group's products and further expand the Group's market share.”

“Affected by the epidemic, the Group has developed the business of preventive medical supplies, such as the manufacturing and selling of surgical masks to provide consumers with high-quality and reliable epidemic prevention products. Although the global epidemic will gradually be brought under control, national health awareness is still rising day by day. The Group believes that there is huge potential in the medical supplies market. With the medical device production license obtained in 2020, the Group will continue to adhere to the mission of "Growing with You for a Better Life", closely monitor the changes in market demand, conduct market research and vigorously explore the feasibility of the launch of various medical supplies.”

“As a leading enterprise in the personal and household hygiene products industry in China, Hengan is committed to providing high-quality personal and household hygiene products to its consumers and will continue to forge ahead with industrial expansion as the long-term development target, actively expand industries with high growth potential, namely feminine care, infant child care, elderly care and epidemic prevention medical care, gradually promote international development of Hengan's brand, continue to improve its overall competitiveness and profitability in order to generate sustainable returns for shareholders.”

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Company Background

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

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