



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

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



ENVIRONMENTAL,
SOCIAL AND
GOVERNANCE
REPORT

2022

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ABOUT THE REPORT

Since the first Environmental, Social and Governance Report (the “ESG Report”) was released in 2017, Hengan International Group Co., Ltd. has issued ESG reports for seven consecutive years. The ESG Report elaborates the Group’s concepts, practices and achievements of its sustainable development and social responsibility in 2022 from the environmental and social aspects.

Scope of the Report

The ESG Report covers three major business segments of the Group — tissue paper, female sanitary napkins, and baby diapers. 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 the ESG Report.

The ESG report covers the period from 1 January 2022 to 31 December 2022 (the “reporting period”). All information in the ESG Report is disclosed from the Group level, except for the environmental KPIs, which only includes data from 23 production companies (27 bases) and Weifang Hengan Thermal Power Co., Ltd (“Weifang Thermal Power”). No significant adjustment is made to the disclosure scope of the ESG Report, compared with that of the 2021 ESG Report published on April 2022.

Reporting principles

The ESG Report is 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》) (the “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 partially refer to the GRI Standards (《GRI標準》) 2021 published by Global Reporting Initiative (GRI).

The Group has assessed the applicability and materiality of relevant aspects and key performance indicators (KPIs) according to the ESG Reporting Guide. The ESG Report complies with the disclosure obligations of “Mandatory disclosure requirements” and “Comply or explain” provisions, and any disclosure rules inapplicable to the Group has been explained. The ESG Report follows the reporting principles set out in the ESG Reporting Guide:

- ▶ “Materiality”: The Group identifies key ESG issues through stakeholder engagement and materiality assessment;
- ▶ “Quantitative”: The ESG Report states the Group’s key environmental and social KPIs on a quantitative basis, elaborating purposes and impacts and giving comparative data where appropriate;
- ▶ “Balance”: The ESG report provides an unbiased picture of the Group’s environmental and social performance;
- ▶ “Consistency”: The relevant disclosure and statistical methods of the ESG Report are consistent with those used in the 2021 ESG Report without any significant changes.

Report availability

The ESG 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 ESG Report is published in Chinese and English. In the event of any discrepancies in the interpretation of the two texts, the Chinese text shall prevail.

Reference description

For ease of expression, Hengan International Group Co., Ltd. and its subsidiaries are also referred to as “Hengan Group”, “Hengan” or “the Group” in the ESG Report.



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ABOUT THE GROUP

1. About Hengan

Hengan, established in 1985, is a well-known domestic manufacturer of packaged tissue paper and women and children hygiene products. Hengan 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. Women sanitary napkins, baby diapers and tissue paper as Hengan's three leading products take leading market shares in the domestic market. Adopting a strategy that aims to "create long-term brand value of main operations", the Group strives to drive growth in tissue paper, female sanitary napkins, and baby diapers. At Hengan, we focus future development on long-term gains and will expand our business by seizing opportunities in the new retail era. Driven by the implementation of "The Belt and Road Initiatives", Hengan has been also expediting the overseas business development by acquiring listed companies in Malaysia, thus further extending the industrial chain and layout in the international markets.



Adhering to "independent innovation as a top priority and cooperative development for additional assistance", Hengan thoroughly integrates internal and external technical resources through industry-university-research cooperation to develop new materials, processes and technologies, providing technical support for new product development and product upgrading. Relying on the two technology platforms, i.e., the national industrial design centre and the national enterprise technology centre, Hengan is able to lead the technological innovation in the industry. Sticking to the customer-oriented platform strategy, Hengan has been deepening management reforms, driving its products to quickly respond and stay close to the market, and cater for customers. Meanwhile, the Group has joined hands with IBM to launch an R&D and innovation management project to reconstruct the existing processes, and establish brand-new market and product planning processes, integrated product development (IPD) processes, technology planning process, and technology development process and supporting systems, so as to build a product technology innovation management system from the three dimensions of the organisation, processes and supporting mechanisms, achieving effective trans-department coordination.

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With the world's cutting-edge production equipment introduced, the Group extends the upstream and downstream value chain based on "end-to-end" informatisation. Accordingly, a modern and high standard hygiene products industrial park, which integrates raw materials sourcing, intelligent production, intelligent warehousing, intelligent sorting, and other supporting links, will take shape. In addition, to grow business more effectively, the Group applied the latest version of SAP PCE. This system will get the supply chain and production highly connected to further promote "business and finance integration", laying a solid foundation for future use of AI technology.

Being customer oriented and focusing on customer demands, the Group explores into women's health, infant health and elderly health industries to improve its competitiveness towards the long-term goal of industry extension. Also, high-end products are developed and the product portfolio is optimised to meet domestic consumers' needs for quality of life and diversified products. Meanwhile, Hengan actively explores innovation opportunities to drive product innovation together with product category-driven innovation, and is committed to rolling out innovative products that are comfortable, safe and healthy for customers.

The Group firmly sticks to low-carbon, green and sustainable development. In 2016, Hengan Group and its CEO Mr. Hui Lin Chit were respectively awarded "the International Carbon-Value Award" and "the Carbon-Value Innovator Award" by the World Economic and Environmental Conference. In 2020, Mr. Hui Lin Chit was ranked the 8th on the list of "China's Top 100 CEOs" by Harvard Business Review and this is the fifth time he has ranked on the list. In 2020, Hengan was awarded the Green Supply Chain Demonstration Enterprise under "The Belt and Road Initiatives" and Mr. Hui Lin Chit was titled the "National Advanced Individual of Private Economy in the Fight against COVID-19". In 2021, Hengan served as the vice chairman of the Carbon Neutrality Committee of China Energy Conservation Association to actively promote the national goals of carbon peak and carbon neutrality. In 2022, Hengan was awarded the "Green Sustainable Development Contribution Award", for its green, low-carbon and sustainable development efforts, fulfilment of social responsibilities, and practice in cleaner production and "zero emission". In February 2023, Hengan was included on the "2022 Forbes China Top 50 Sustainable Development Industrial Enterprises" list.

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2. Honours in 2022

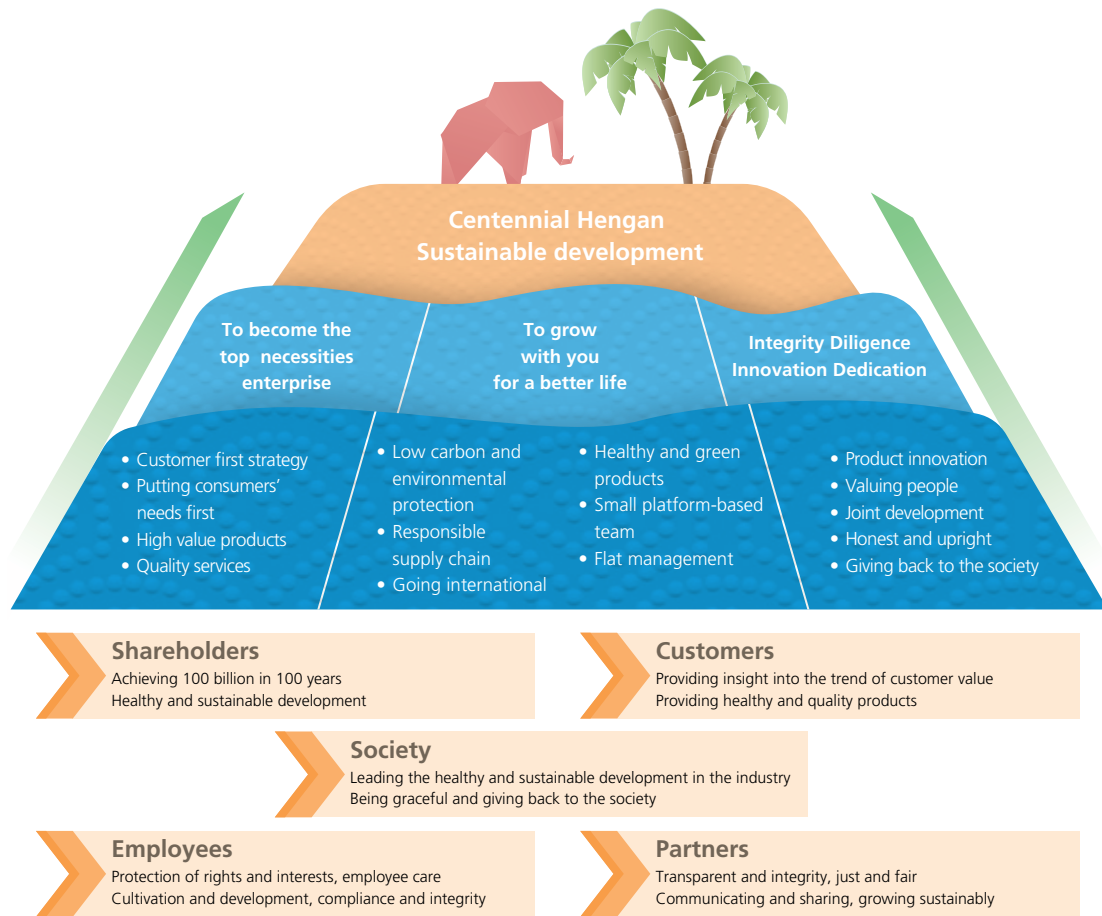
- ▶ Fujian Provincial Department of Industry and Information Technology: “National Green Factory”
- ▶ 2022 Quanzhou Private Economic Development Conference: “Quanzhou Enterprise with Tax Payment of over RMB1 billion in 2021”
- ▶ The People’s Government of Fujian Province: Mr. Hui Ching Lau, Group CEO, was granted the title of “Outstanding Contributor of Non-public Economy in Fujian Province”
- ▶ 2022 Jinjiang Enterprise Innovation Development Conference: “Enterprise with Tax Payment of over RMB1 billion in 2021” and “Technology Innovation Benchmarking Enterprise”
- ▶ GYbrand 2022 *Top 500 Most Valuable Chinese Brands* research report: “Top 500 Most Valuable Chinese Brands”
- ▶ 2022 International Green Zero Carbon Festival and ESG Summit: “Green Sustainable Development Contribution Award”
- ▶ Asiabrand, China-Asia Economic Development Association and *Global Times*: “2021 Top 500 Listed Companies in China” and “Most Socially Responsible Listed Companies in China”
- ▶ Deloitte China: “Best Managed Companies” in the 4th programme
- ▶ *Institutional Investor*: “Best ESG”; Mr. Hui Ching Lau was titled “Best CEOs” while Mr. Li Wai Leung was titled “Best CFOs”
- ▶ Hong Kong Investor Relations Association: “Best ESG (Environment)”, Mr. Hui Ching Lau was titled “Best Investor Relations (Chairman/CEOs)”, while Mr. Li Wai Leung was titled “Best Investor Relations (CFOs)”
- ▶ Corporate Governance Asia: Mr. Hui Ching Lau was titled “Asia’s Best CEO” while Mr. Li Wai Leung was titled “Asia’s Best CFO” and “Best Investor Relations Company”
- ▶ The 11th Philanthropy Festival & Corporate Social Responsibility Carnival: “Honour — 2021 Responsibility Golden Award” and “Honour — 2021 KOLs CEO Mr. Hui Ching Lau”
- ▶ Kantar Worldpanel’s *Global Brand Footprint*: Hearttex won “Top Ten Preferred Brands of Chinese Consumers”
- ▶ The 29th Tissue Paper International Science and Technology Exhibition and “Ingenuity Products” List: Space 7 was selected for the “2022 List of Ingenuity Products of China Tissue Paper and Sanitary Products Industry”

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I. ESG GOVERNANCE

1. ESG Strategy

Hengan has been optimising its raw material structure, accelerating forest system construction, and improving its product standards. Meanwhile, the Group is committed to developing green products and cultivating high-level talents to promote human health and well-being, and fights for the goal to “gain RMB100 billion within 100 years”.



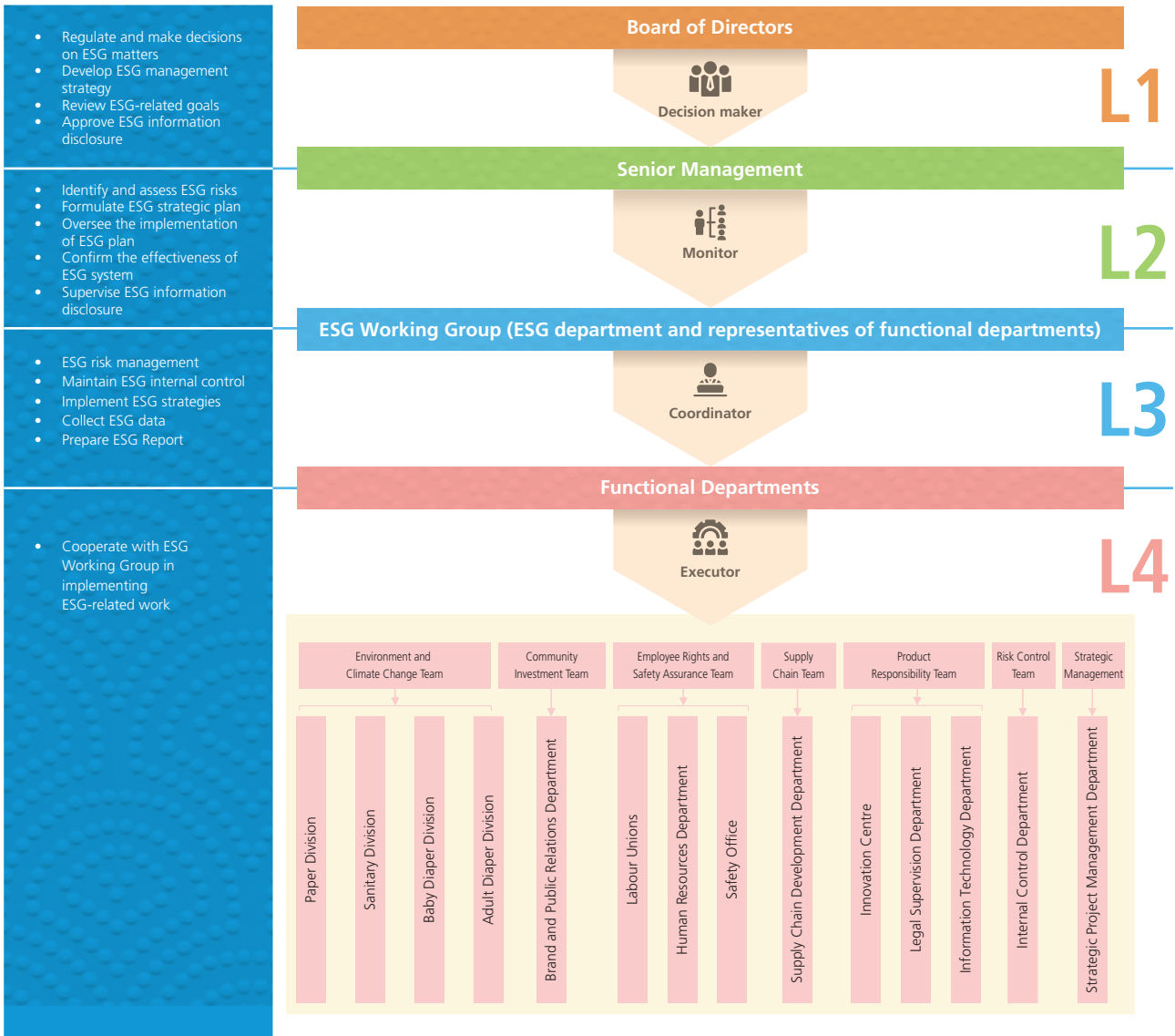
The Group also improves the transparency level of ESG information, and conveys Hengan’s concept and practice of sustainable development by actively responding to questionnaires such as the Carbon Disclosure Project (CDP) questionnaire, MSCI ESG Ratings, Dow Jones Sustainability Indexes (DJSI), FTSE Russell ESG rating system, as well as Hong Kong Quality Assurance Agency (HKQAA)’s Sustainability Rating. In 2022, the Group’s MSCI ESG rating went up from B to BB. And S&P Global Corporate Sustainability Assessment rating increased to 46, which is above the industry average and ahead of 78% of peers. Further, the Group received “A-” rating in Hang Seng Corporate Sustainability Benchmark Index, and, for the first time, was included in Top 200 HKQAA CSR Index Plus among over 2,000 issuers.

Hengan actively responds to the UN SDGs, protects the global environment, promotes social development, and cares for human well-being.

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2. Governance Structure

The Group focuses on its sustainability practices, and the top-level design was further refined, with a top-down four-level ESG governance structure developed. Specifically, the structure consists of Board of Directors, senior management, ESG working group and functional departments, responsible for the decision-making, monitoring, coordination and execution of ESG issues. Members under this structure are committed to practising ESG governance throughout operations, and solidly driving the Group towards a more sustainable future.



In 2022, after attending two semi-annual briefings, where the latest ESG trends and compliance requirements at home and abroad, ESG-related work arrangement and performance, external stakeholders demands and recommendations for sustainable development were presented, the Board of Directors were supportive and recognised of our ESG strategy direction and work progress.

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3. Material Topics

By conducting the materiality assessment, the Group clarifies issues of importance to the Group’s business and stakeholders to guide the implementation of ESG work and the preparation of the ESG Report:

Step 1: Identify relevant ESG issues

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

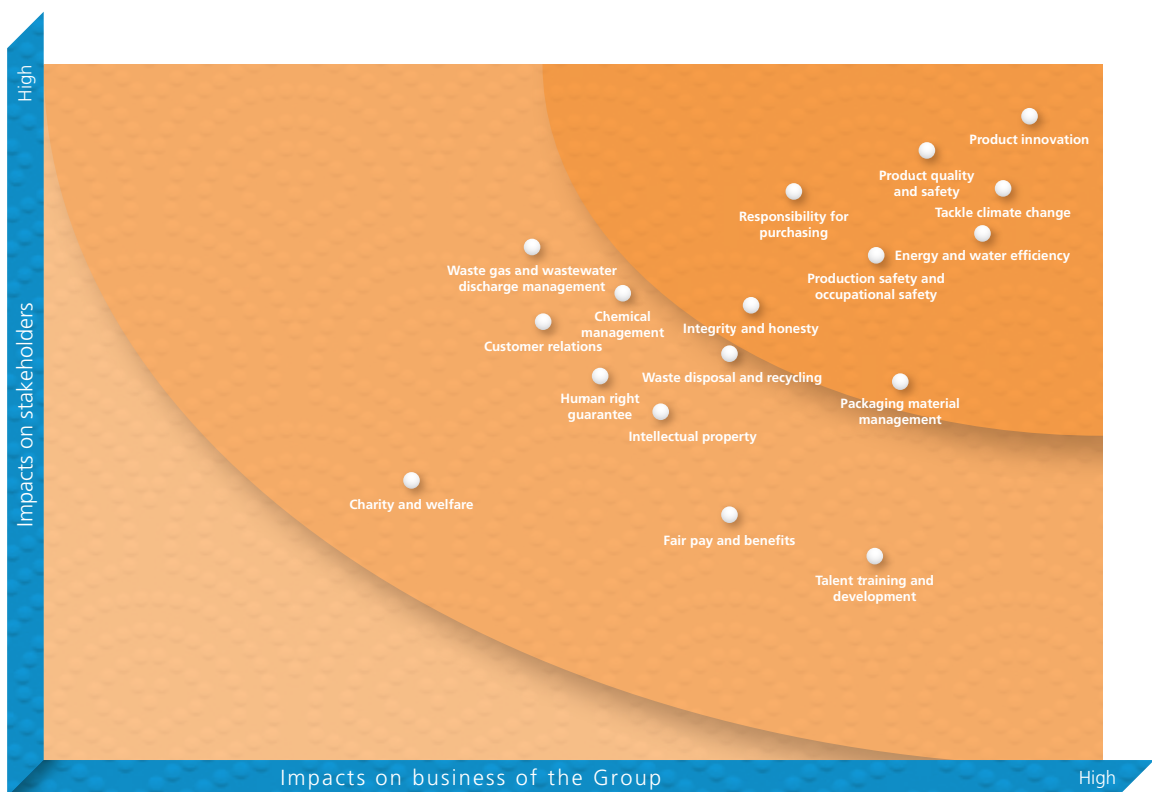
Step 2: Score and sort

The Group scores and sorts the identified relevant issues, selects the important issues, draws the materiality assessment matrix, and obtains the preliminary evaluation results, so as to determine the strategic focus of sustainable development and improve the governance of sustainable development.

Step 3: Assessment Results

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

The Group reviewed material topics that were identified in the 2021 materiality assessment and still focused on them in 2022, as the Group believed that they were still applicable to its ESG development.



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4. Stakeholders' Communication

The Group maintains close communication with stakeholders, responding actively and taking the initiative to undertake responsibility. The Group also explores sustainable development strategy and improves ESG management level continuously, as well as integrates sustainable development into daily management and operation.

The Group's major stakeholders include shareholders, employees, governments and regulators, clients and consumers, partners, community, 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
Governments and regulators	Daily management Meetings Monitoring and inspections Policy consultation Reporting	Multiple per year	Abide by laws Pay tax in accordance with laws Support local development Support public health incident response
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
Clients and consumers	Service hotline Enterprises' official websites Brand promotion activities	Daily	Provide healthy and premium products Innovate continuously Offer first-rate services
Employees	Labour unions Employee trainings Staff activities	Multiple per week	Protect rights and interests Provide promotion and development Guarantee work safety Provide epidemic prevention Provide equal opportunities Communicate democratically

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Stakeholders	Communication mechanisms	Communication frequency	Stakeholders' expectations
Media	Interviews about business operation Corporate culture publicity Thematic activities	Multiple per year	Understand the fulfilment of corporate social responsibility Understand the enterprises' major events
Partners	Negotiation and communication Supplier investigation 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
Community	Charitable donation Cultural and sports support Voluntary service Publicity for environmental protection	Multiple per year	Support for common prosperity Promote social harmony Drive sustainable development Support for epidemic prevention
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

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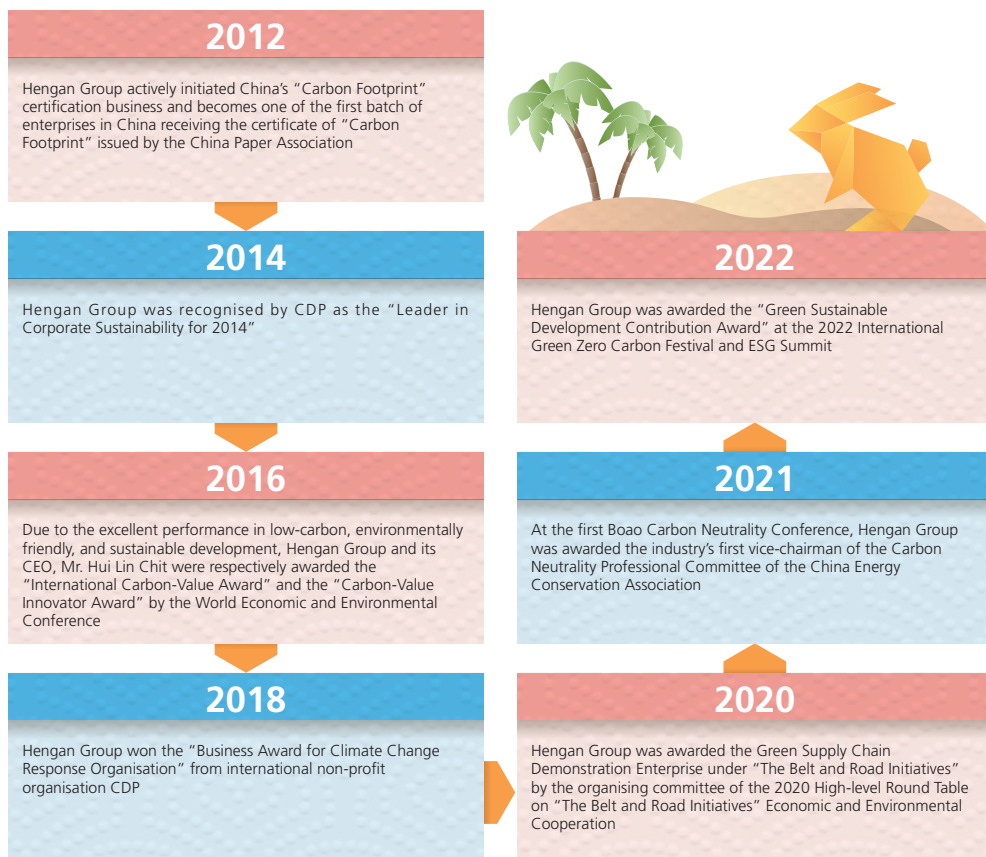
II. GREEN AND LOW-CARBON PATH



In support of the new development paradigm and high-quality development, China implements a national strategy of actively responding to climate change, and calls for incorporating the carbon peak and carbon neutrality into the overall layout of building an ecological civilisation and the overall economic and social development. Guiding by the new national deployment of climate change response, Hengan firmly sticks to the concept of “green, low-carbon and sustainable development” in exploring a new model for green development and a path towards the dual carbon goal. In addition, to address climate change, Hengan invests heavily in environmental protection, and stays committed to clean production and “zero emission” for a zero-carbon future.

1. Climate Change

Green and harmonious development is always the core of our corporate social responsibility. We follow the concept of sustainable and circular development throughout the value chain, and exert positive influences on green development as an industry-leading enterprise. Meanwhile, extensive efforts have been made in addressing climate change-related matters to mitigate impacts of climate risks on our operations.



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1.1. Climate strategy

The Group’s senior management is responsible for formulating annual environmental targets, which are implemented by the ESG working group, and monitored and reviewed by the Board of Directors at regular intervals for effective follow-up on the Group’s environmental performance. Since 2020, the Group has set and announced quantitative environmental targets for the Hengan papermaking segment to reduce the density of power consumption per tonne of paper, the density of water consumption per tonne of paper and the density of wastewater discharge per tonne of paper, with the target progress monitored and reviewed on an annual basis. In 2022, due to the large increase in yields of the papermaking segment, the density of power consumption per tonne of paper and the density of wastewater discharge per tonne of paper exceeded the set targets by a small margin, while the density of water consumption per tonne of paper achieved the annual target. Further measures will be taken to optimise energy and water management, thus improving environmental performance:

Annual environmental target	Reduce the intensity of power consumption per tonne of paper	Reduce the intensity of water consumption per tonne of paper	Reduce the intensity of wastewater discharge per tonne of paper
Target in 2022	No more than 630 kWh/t paper	Remain at the level of 5–6 t/t paper	No more than 3 t/t paper
Achieved progress in 2022	631 kWh/t paper	5.65 t/t paper	3.1 t/t paper
Target in 2023	No more than 630 kWh/t paper	Remain at the level of 5–6 t/t paper	No more than 3 t/t paper

In 2022, in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, Hengan released its first TCFD report to disclose the governance, strategy, risk management, and metrics and targets around climate change risks, as a further move to ensure transparency on climate-related risks.

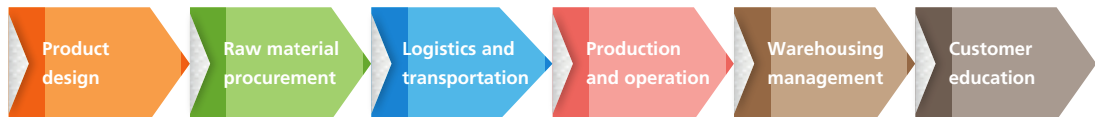
Governance	Establish a comprehensive top-down governance mechanism for sustainable development, and specify roles of each party (from the Board of Directors to functional units) for climate change related matters
Strategy	Identify physical risks, transition risks and opportunities, perform scenario analysis to assess the potential impact of each risk on business operations, and formulate climate-related strategies based on assessment results
Risk management	Develop risk management framework as well as responses to different risks
Metrics and targets	Establish greenhouse gas (GHG) emissions accounting system and methods, disclose GHG emissions and set targets for energy consumption and GHG reduction

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Listed as key emitting entities, Weifang Thermal Power, Hengan (Chongqing) Living Paper Co., Ltd. and Hengan (China) Paper Co., Ltd. (Hengan China Paper) conducted carbon emission verification projects for three consecutive years. They accounted for total GHG emissions in accordance with 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)》), which will be helpful in allocating carbon emission allowances (CEA) reasonably. Hengan China Paper entered the pilot carbon trading market in Fujian in 2019. Since then, it has been purchasing CEA to achieve carbon emission reduction targets.

1.2. Responses

Through life-cycle low-carbon management, the Group has carried out a series of activities for energy conservation in terms of design, procurement, logistics, production, warehousing, and consumer education, so as to provide high-quality green products, and advocate the concept of green consumption to the society. Guided by the concept of “green, low-carbon and sustainable development”, the Group also promotes green operations through technological reforms.



➤ Low-carbon design

In the process of product design, the Group gradually introduces the concept of green environmental protection and sustainable development into the process of brand strategy evaluation and product design. 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 draft, Hengan regards ecological and environmentally friendly as starting points for product design, with sufficient consideration of safety and healthy, recyclable, and reusable:

- Develop natural plant fibres, such as bamboo fibre fluff pulp and soybean fibre non-woven fabrics;
- Develop water washable products and improve their raw materials and technologies, for example, increasing the proportion of wood pulp in wood pulp spunlace wipes;
- Develop films, spunlace fabric and other materials that are biodegradable;
- Research and develop food-grade medicinal solution for baby wipes and other products.

The Group identifies and determines the significant environmental/hazardous factors of products and prepares corresponding control procedures, management schemes or emergency preparedness and response plans to minimise environmental impact during the process of product design. Additionally, the Group makes reforms for green production by developing sustainable production technologies. For example, the high-consistency refining process improves the strength of paper, and reduces long fibres usage and dust generated. These technologies are able to save manufacturing costs, enhance product performance and alleviate the impact of products on the environment.

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➤ Sustainable forests

Hengan continues to promote responsible procurement for wood pulp and join hands with suppliers to propel the sustainable development of the supply chain for wood pulp to protect the forests that human beings rely for existence. The Group actively advocates green supply chain cooperation under “The Belt and Road Initiatives” and establishes extremely strict criteria for the selection of raw material suppliers. Raw materials of wood pulp are mainly imported from Europe and South America, and only legal, traceable and renewable wood with a clear origin would be used for pulp production.

The paper products of the Group won the forest certificate from Forest Stewardship Council (FSC) in 2010, and pass the third parties’ certification audit every year. Prior to the FSC annual review, instructors are assigned to provide training for departments subject to review, including procurement, production, overseas export departments. This is to ensure that FSC standards are strictly followed during production and sales, thus helping the Group pass the FSC review. Six paper production subsidiaries of Hengan were FSC/CoC-certified in 2022. The percentage of certification was 100%.



FSC training

The group prohibits the procurement of pulp raw materials from wood through following means:

- ✘ **Illegal logging or illegal timber trade or forest products**
- ✘ **Forestry operations that violate tradition and human rights**
- ✘ **Destruction of forests of high conservation value**
- ✘ **Important conversion use of forest plantations or non-woodlands**
- ✘ **Introduction of GMOs in forestry operations**
- ✘ **Contrary to the ILO’s Declaration of Fundamental Principles and Rights**

Hengan adheres to the principle of “Sustainable use of resources and strict control; protecting the environment and benefiting our society”, strictly controls the production process and ensures that certified and non-certified products are clearly identified and isolated. 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. In addition, the group would increase the certified percentage of base paper for production and sales in accordance with factors such as customer needs, government regulations and market trends.

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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 2022, 100% of pulp suppliers of Hengan obtained FSC or PEFC (Programme for the Endorsement of Forest Certification Schemes) certificates, and 80% of wood pulp purchased by Hengan can be traced to the forest land.

› Carbon reduction in logistics

We have established a transportation management system (TMS) for logistics to centrally manage the nation-wide distribution. We collect and integrate logistics data with digital technology, carry out intelligent management in transportation orders and vehicle arrangement, so as to improve waybill tracking and logistics efficiency. In addition, we always consider reducing GHG emissions from logistics and transportation when planning and designing:

- Upgrade logistics packaging. Hengan has established a group specialised in packaging materials to carry out optimisation, upgrading and application testing to advocate sustainable packaging materials. Hengan has improved logistics efficiency and reduced energy consumption by optimising packaging size and reducing interspace between packages. Large quantities of B2C turnover boxes are used on a trial basis to increase the proportion of reusable packaging materials for energy saving and cost reduction.

B2C turnover box trial

Each recyclable turnover box in the trial can hold 15 boxes of finished products, saving 15 paper boxes per trip to decrease the packaging material consumption. The Group plans to put more boxes into use, in order to further reduce costs and save logistics packaging.



B2C turnover box

- Optimise logistics routes. Hengan replans localised logistics routes and takes the optimisation of transportation routes and volume into account to reduce the overlap of transportation routes and shorten transportation mileages. The Group advocates the direct distribution to customers to reduce multiple transfer and delivery, shorten the delivery distance, and reduce energy consumption. Also, the Group focuses on convective transport to reduce empty routes, emissions and costs. In addition, we broke strong subordination of the Regional Distribution Centre (RDC) to the customer to shorten the delivery distance, that is, we advocate delivery from the RDC closer to the customers. For example, after Nanjing customers move to Wuhu for production, we will arrange Suzhou RDC to make delivery.

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- Improve logistics efficiency. Hengan optimises traffic volume planning for increasing loading rate and reducing empty load. The Group realises common delivery through multiple cargo owners from RDC to customers, increasing loading capacity, reducing carbon and saving energy. In addition, the Group vigorously upgrades vehicles into lightweight and new energy ones to reduce energy consumption and exhaust emissions. In 2022, there were 40 new energy vehicles in operation, accounting for 8% of all transportation vehicles.

We work with third-party logistics service providers to minimise the amount of empty vehicle and promote convective transport for higher energy efficiency. In 2022, the Group furthered its cooperation with JD Logistics and Yunda Logistics in B2C express delivery. They discussed ways of addressing the unstable source of return cargo due to information asymmetry between drivers and shippers to increase convection and reduce empty load. During the new contract period, our monthly shipping volume with Yunda Logistics reached 1,946 m³ and that with JD Logistics was 23,327 m³. We cut down one cross-region cargo transport per day, saving transportation mileages of 3.24 million km in the year. Production bases in Tianjin and Chongqing reached cooperative intention with Lalamove on enterprise logistics and transportation services.

» Energy management

The Group strictly complies with the rules in the *Energy Conservation Law of the People's Republic of China* (《中華人民共和國節約能源法》), and formulates the *Hengan Group Energy Saving and Consumption Management Policy* (《恒安集團節能降耗管理制度》) in response to the State's policy on energy conservation and emission reduction. Committed to energy conservation, the Group steadily improves energy efficiency, optimises energy structure and increases the use of clean energy. In 2022, the energy consumption per unit product of the papermaking sector of the Group is 25% lower than the advanced value requirement of the *Energy Consumption Per Unit Product of Pulp and Papermaking (GB 31825-2015)* (《製漿造紙單位產品能源消耗限額》) (≤420kgce/ton), which is at the leading level in the industry.

- Management platform and system

With the power demand side management platform and paper energy management centre system, the Group is able to monitor energy consumption and power factor of each subordinate company and base in real-time, detect abnormalities for improvement, and monitor transformer power demand and power consumption trends, exploring ways to save power for operation. The system is designed to improve the overall power efficiency, reduce power losses while stabilising the grid-connected power factor.

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- Energy-saving technology and measures

In the process of production, the Group has applied various energy-saving technologies and upgraded production equipment to be energy efficient to further reduce energy consumption in production lines. Meanwhile, energy-saving projects have been carried out in plants to help reduce carbon emissions from production.

✓ Energy-saving technology

<p>Install 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 reduces the amount of purchased steam</p>	<p>Water ring vacuum pumps are extensively replaced with turbines, greatly reducing energy consumption</p>	<p>The use of dryer cap heat preservation technology reduces the heat loss of steam and cuts down the amount of steam to be purchased</p>	<p>Frequency-conversion power-saving technology is widely used in all factories to reduce power consumption</p>	<p>Appropriate measures are taken to optimise process for power conservation by increasing the first time yield and preventing reworking</p>
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✓ Energy-saving transformation

Motor transformation	Machine set transformation
<p>In promoting motor transformation projects in production lines, the Group replaced triple-phase asynchronous motor with full servomotor to control the spindle drive of the production line, contributing to more accurate closed-loop control and less power losses.</p> <div data-bbox="624 1413 804 1653" data-label="Image"> </div> <p data-bbox="563 1715 863 1742">Full servomotor in production lines</p>	<p>Weifang Thermal Power transformed the extraction-condensing set and introduced the back-pressure set for stable operation capacity. The upgraded set will reduce steam consumption rate and heat consumption rate with less steam consumed and heat loss per kWh, so as to save energy and protect the ecological environment.</p> <div data-bbox="1054 1480 1345 1693" data-label="Image"> </div> <p data-bbox="970 1715 1430 1742">Weifang Thermal Power generator set transformation</p>

✓ Dark workshop

Dark workshop

With respect to daily operations, Hengan launched the “dark workshop” project in 2022. Specifically, mosquito repellent lamps used in 6 production workshops were all cut down by 25% based on actual needs, with a monthly power saving of approximately 9,000 kWh. According to the planned power use strategy, Hengan’s power supply depends on the output to reduce unit power consumption of products.

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- Photovoltaic (PV) application and management

Many of our plants and bases across the country have been fully installed with solar roof. In 2022, in addition to the first PV project, Hengan continued to explore the use of new energy by implementing the second PV project at Hengan (Shaanxi) Paper Co., Ltd., Hengan (Wuhu) Paper Co., Ltd., Hengan (Henan) Paper Co., Ltd. (Henan Paper) and other subordinate companies, plants and bases. By the end of 2022, the PV project has been carried out in 9 production companies, with an installed capacity of 21.4 MW and annual power generation capacity of 21.6 million kWh, equivalent to a reduction of 14,963 tonnes of carbon dioxide.



PV project at Henan Paper

For more systematic operation and maintenance of PV power stations, Hengan built up a new energy management platform to capture real-time operating power, power generation and environment of each power station. Based on this, the platform automatically collects data to form data analysis charts, such as monthly power generation comparison. In the future, Hengan plans to expand the coverage of PV panels by including hygiene products production companies and their plants in the PV project, contributing to sustainable development through use of green energy.

› Warehousing management

With respect to warehousing, the Group vigorously promotes the digitalisation, visualisation and informatisation and is dedicated to optimizing hardware and reduce energy consumption. Warehousing energy transformation is also promoted by the Group, as the green warehousing is gradually achieving by expanding PV power's construction on warehouse roofs and factories. In the factory, the Group replaces manual operations with automated equipment, thus accomplishing unmanned operation process and developing vertical transportation and translational delivery, so as to improve operational efficiency overall and save the energy. Furthermore, the diesel forklifts and shuttles used for warehousing operation of the group have been fully replaced by electric vehicles, which reduced environmental pollution from the source.

With the aim of improving utilisation efficiency of warehouses, Hengan built automatic stereoscopic warehouses in large production bases in Shandong, Hunan, Neikeng and other regions, to balance storage needs for slack season and peak season. To reduce floor space and energy consumption, a total of 6 stereoscopic warehouses were built and put into use, covering 43% capacity of warehouses in the bases, and 6 more stereoscopic warehouses are under construction or planning. In addition, as greater logistics efficiency contributes to shorter logistics turnover period, Hengan has removed ordinary warehouses under the context of inventory reduction in 2022, reducing the area of warehouses in Fujian, Shandong and Guangdong by 51,258m². This greatly reduces the consumption of base resources and improves storage efficiency.

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▶ Customer Education

We integrate sustainable development and climate change strategies into the Group's brand strategy. While building a responsible brand profile, we expand the low-carbon ecological circle and be the boost for consumers to create higher low-carbon benefits together.

Leveraging the brand influence and the environmental nature of products, Hengan is committed to rooting sustainability concept deeply in heart of the public through green publicity and marketing. For example, Bamboo π , as one of the Group's sustainable products, adopt bamboo as the raw material, as its growth cycle is short and its powerful carbon sequestration capacity allows it to absorb large amounts of CO₂, protecting forest resources in a more efficient way. On the occasion of publicising Bamboo π , the Group officially announced the strategic cooperation with the Qinling Giant Panda Breeding and Research Centre. The Group adopted two giant pandas for life, named "Hengheng" and "An'an", to convey the concept of low carbons and environmental protection to consumers, appealing to the public to protect the natural ecology and pay attention to climate issues.

On various environmental protection days, Hengan influences and guides customer behaviours through brand influence, calls on the public to pay attention to major environmental challenges and hotspots, and advocate green consumption and life, so as to motivate the potential societal decarbonisation strength while raising the profile and reputation.

2. Resource Management

2.1. Water resources management

Hengan's water consumption is mainly for production and domestic use. With tap water and reservoir water as water source, water demands for daily operation can be satisfied. 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》). The Production Department under each segment is responsible for assessing and managing water demands, and promoting the assessment and application of 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 consume large quantities of water resources. 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. Small amount of wastewater produced in paper production is biochemically treated, and then recycled to the paper production workshop after ultrafiltration and reverse osmosis, realising water resource recycling, with more than 99% of paper production wastewater recycled.

In 2022, the water consumption per tonne of paper in the Hengan papermaking segment was 81.2% lower than the national standard upper limit of water withdrawal per tonne of product specified in *Water Quotas Part 5: Paper Products* (GB/T 18916.5-2012) (《取水定額第5部分：造紙產品》), leading the industry.

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2.2. Material management

› Packaging reduction

Hengan improves the utilisation efficiency of packaging materials through reduction, reuse, efficient processes and recycling, and uses packaging label to indicate consumers the proper ways of packaging disposal, driving a more recycling production and consumption model.

Moreover, Hengan has set consumption standards for each department and product in terms of raw materials and packaging materials, and evaluated the key performance indicators on a monthly and annual basis. The evaluation results are directly linked to bonus of each employee, which comes to good results.

In 2022, Hengan reduced packaging materials of diapers by using lighter packages for 40.3 thousand packs, saving a total of nearly 135 kg or 35% of packaging materials. Moreover, Hengan developed the “polypropylene + polyethylene” two-layer pack films for high-speed high-barrier wet wipes, making films thinner by 0.01 mm and reducing the plastics use by 11.76%. In 2022, 100% of paper packaging materials and 92.2% of plastic packaging materials of Hengan were recyclable, accounting for 97% of the total amount of packaging materials.

In addition, the Group conveys the concept of environmental protection and sustainable development to consumers through product packaging identification, and guides consumers to correctly dispose of waste after using products, so as to promote resource recycling and reduce packaging material wasting.

› Sustainable plastics

As China places more emphasis on the whole chain of plastic pollution control, Hengan sticks to the 14th Five-Year Plan and the principle of “reduce, reuse, recycle, degradable and functional” in building a sustainable plastics platform. In accordance with the *Degradability and Identification Requirements of Biodegradable Plastics and Products (GB/T 41010-2021)* (《生物降解塑料與製品降解性能及標識要求》) and other standards, Hengan develops biodegradable plastics for film bags, cotton tissue, wet wipes and other products, to make positive effects on environmental protection by offering green and sustainable products.

As the vice chairman of the Green Recycled Plastics Supply Chain Joint Working Group (GRPG), Hengan played a part in formulation and revision of industry standards for plastics use, including the *General Rules for Assessing Easy-to-Collect and Easy-to-Recycle Designs of Plastic Products* (《塑料製品易回收易再生設計評價通則》). Apart from that, Hengan deepened cooperation with suppliers on biodegradable materials, exploring new models and paths for green industrial development to further reduce plastics use at source. In 2022, at the Green Recycled Plastics Supply Chain Forum held by GRPG, Hengan conducted several meetings with suppliers to exchange the research on the application of biodegradable materials and discuss future trend of technology development and plastics circular economy.

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2022 Green Recycled Plastics Supply Chain Forum

Hengan attended the 2022 Green Recycled Plastics Supply Chain Forum on July 29 and July 30. Themed “Towards a Low-carbon Circular Economy for Plastics”, the forum aimed to hold policy discussions to build a green recycled plastics supply chain system and promote sustainable development in the industry. A series of seminars and discussions were organised on hot issues in the industry at home and abroad, such as ecological design of plastics, chemical cycling, and creating the application standards for green recycled plastics. During the forum, representatives from Hengan exchanged ideas and shared experience on technologies with other participants to build consensus for future cooperation, and call for coordinated action of the whole industrial chain towards a circular economy for plastics in China.



Green Recycled Plastics Supply Chain Forum

3. Compliant Emission

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》), the *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》), the *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》), the *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. The Group identifies, monitors and manages essential environmental factors in accordance with internal policies such as the *Control Procedures for Organisation Environment and Needs of Interested Parties* (《組織環境及相關方需求控制程序》), the *Control Procedures for Environmental Factors Identification* (《環境因素識別控制程序》) and the *Monitoring and Measurement Control Procedures of Environment, Safety and Health* (《環境安衛監視與測量控制程序》). In doing so, the Group develops responses to the identified environmental risks and opportunities, to minimise the impact of production and operating activities on the environment.

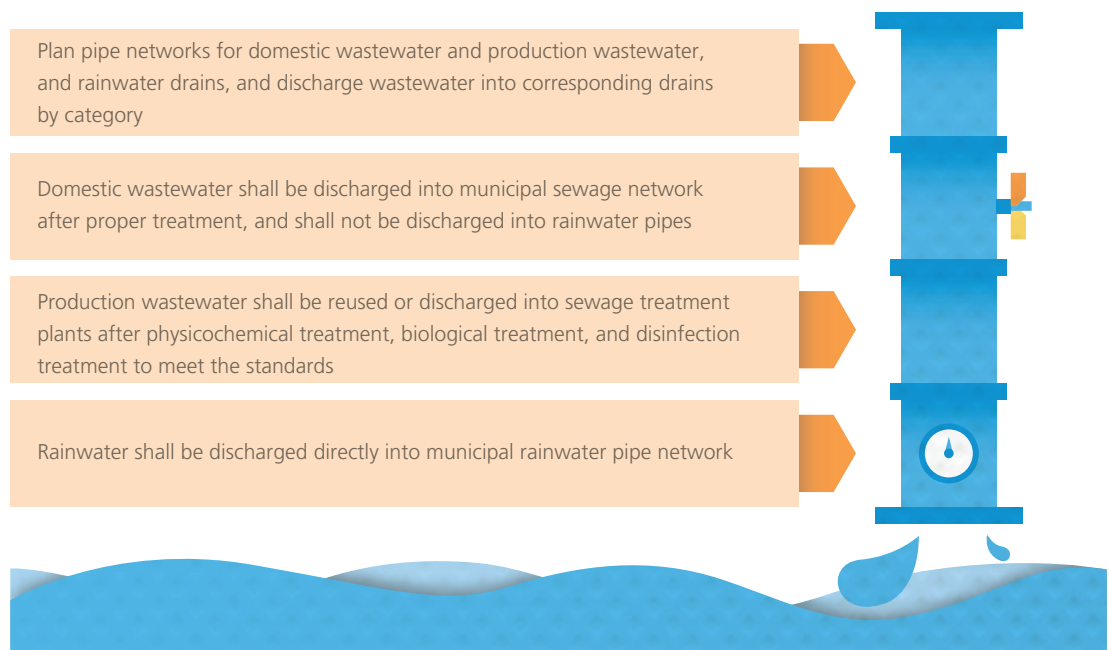
The Group engages environmental protection departments and third-party testing agencies to regularly monitor emissions around plants, such as wastewater and waste gas, and keep records for continuous improvement in the future. Since 2003, Hengan has established and implemented the ISO 14001 environmental management system, and accepted the supervision and review by third party certification institutions and regulatory departments every year. By the end of 2022, all of the Group's production companies and Weifang Thermal Power have established and passed ISO 14001 Environment Management System Certification, and the certification rate was 100%.

During the reporting period, there were no major environmental pollution accidents at the Group.

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3.1. Wastewater management

The wastewater discharged by Hengan is mainly the production wastewater and domestic wastewater produced during the production process. According to the Group's *Wastewater Treatment Measure* (《廢水處理辦法》), different types of wastewater shall be treated in different ways, and all the paper production companies under Hengan shall have sewage treatment stations. Wastewater is dealt with through slanting, air floatation, aerobic aeration, etc., thus meeting the discharge standard under the *Discharge Standard of Water Pollutants for Pulp & Paper Industry (GB 3544-2008)* (《製漿造紙工業水污染物排放標準》) before discharge. In 2022, the wastewater discharge intensity, COD discharge concentration and N-NH₃ discharge concentration of the Group's papermaking segment were far less than the national discharge standard.



3.2. Waste gas management

The waste gas emissions of Hengan mainly include exhaust gas emissions caused by fossil fuel combustion and dust emissions from production workshops during the 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 (GB 13223-2011)* (《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.

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3.3. Waste management

With the commitment to manage wastes with responsibility, the Group has formulated the *Solid Waste Management Measures* (《固體廢棄物管理規定》) that outlines the scope of solid waste and control processes, to ensure that waste generated by Hengan does not cause pollution and meets standards set by laws, regulations and local environmental protection authorities. Hengan follows the principle of “reduction, reuse, recycle” to improve the efficiency of resource use and reduce the discharge of hazardous and non-hazardous wastes.

Hazardous waste

Transport waste to designated storage area after it is sorted and packaged properly on site, and entrust qualified third parties for harmless treatment

Non-hazardous waste

Domestic waste:

- › Put waste in bins around the plants, for recycling and harmless treatment by environmental sanitation department

General industrial solid waste:

For solid waste with reuse and resource potential, the Group conducts multi-level recycling of waste:

- › Selling pulp to external paper box mills for recycling;
- › Incinerate sludge to generate electricity, or sell it to specialised companies for manufacturing of trays, egg trays, etc.
- › Selling gypsum to cement factories for cement manufacturing;
- › Selling fly ash to other companies for refining rare metals.
- › Selling slag for brick manufacturing.

Construction waste:

- › Disposed of by the construction company in a compliant manner

In addition, the Group reduces waste production and discharge by reducing waste of raw materials.

- › The Group has developed raw material consumption assessment indicators. Whether the raw material consumption exceeds the standard or not is directly linked to the salary of each position. Employees of each position are urged to control raw material consumption and enhance material utilisation, thus reducing the discharge of leftover materials.
- › The Group has realised the reduction of absorption of cotton and polymers in vacuuming by improving mesh screens, negative pressure, fans, pipes and conveyor belts, which further greatly reduced the amount of waste generated in addition to lowering costs.

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III. RESPONSIBLE OPERATION AND INNOVATION



“Jinjiang Experience” is a valuable asset for Hengan. Seeking after such experience, we align efforts to promote innovation and transition of the industry with digital technologies to drive value creation across the whole industry chain. Empowered by technology innovation and digitalisation, we promote sustainable development towards a green and low-carbon future. We are committed to providing quality products that meet changing demands of consumers. With our ever-increasing brand influence and innovation capacity, and good products, we devote to the high-quality development of the industry and contribute to a solid foundation for a modern economic system.

1. Product Innovation

Innovation is the driving force behind Hengan. As an industry leader, Hengan always stays resilient, keen on exploration and creative. Even faced with the complex external environment, Hengan still digs into opportunities for innovation-driven growth, takes practical actions towards the goal of high-quality development, to build a strong brand in the spirit of “Innovation and Dedication”.

1.1. Innovation strategy

➤ Strategic planning

The Group has established and enhanced an interactive dual-engine product innovation model, incorporating category selection led by the product management committee of the Group and technology and product R&D led by the innovation centre, aiming at encouraging technological innovation and effectively managing the technical research projects of the innovation centre, so as to effectively exchange technical information and support product innovation through knowledge sharing.

Driven by the dual-engine model, and guided by the target of improving the first-pass yield of R&D, the Group clarifies the development direction of high-quality, healthy and safe products, implements a differentiated and high-end technology development route, builds automated and digital factories, promotes R&D digitisation, and establishes and improves a standardised and scientific innovation management mechanism to support the continuous implementation of the R&D innovation management system and improve the execution efficiency and management efficiency of R&D innovation business.

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➤ R&D management

To control the major processes of design and development, and ensure that product design meets customer expectations, standards, laws and regulations, the Group formulated internal policies such as the *Control Procedures for Design and Development* (《設計開發控制程序》). Accordingly, Hengan strictly manages the input and output of product design and development, as well as the final review, verification and validation. Besides, we have established a complete product R&D system and organisational structure to drive internal product management, formulated advanced internal standards to improve our own technical level and product quality, and maintained a long-term leading edge in the competition with internationally renowned brands.

The product management committee of the Group authorised by the decision committee is responsible for the management of product planning and product development. To promote product planning management by product categories, the product management committee holds monthly meetings to carry forward the process and result management based upon project objectives and the management of the problems occurring in the implementation process. The innovation centre takes responsibility for the R&D of innovative material technology, equipment technology and products, also for the innovation management and technical standards across the Group, and its overall work penetrates laterally into the process of integration and optimisation of technology and product development. Adopting a project-specific operation and evaluation model, the Centre maintains the efficient operation of projects through project management based on the business workflows, and performance assessment approaches and incentive measures for product development projects aiming at promoting effective collaboration among team members. The marketing and product planning team, product development team and technical experts committee of the Group perform specific product planning and product development.

In 2022, based on the technical planning and the product development needs, the Group took stock of existing talents in the innovation centre, evaluated the demand for basic technical talents, and introduced and cultivated professional and technical talents accordingly. Statistics show that the Group in 2022 employed a total of 112 talents, including 2 doctors, 17 postgraduates, and 93 undergraduates. Moreover, Hengan organised product R&D workshops, where professional R&D personnel shared R&D concept and knowledge about raw materials and medicine solutions of wet wipes. The workshop gives our employees a chance to know more about Hengan products and motivates them to think creatively, creating an innovation culture within the Group.



Product R&D workshop

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1.2. Practices communication

With a focus on the research and application of biodegradable materials and non-woven fabrics, the Group keeps working on new materials and new technologies to develop eco-friendly products that are safer and healthier, meeting consumers' growing demand for green products.

Supported by strong innovation capability and well-established innovation system, Hengan goes beyond its innovation advantages through higher level of research and application in various areas such as product performance enhancement, raw material replacement and preparation process upgrade.

➤ Green environmental protection

Hengan developed biodegradable PLA fibre spunlace fabric. This material was applied to biodegradable cotton tissue 100% made of tropical wood fibre, fully biodegradable plastic bags and other products. For diapers, Hengan carefully designs the proportion of, and looks for sources of natural and biodegradable raw materials. The composition of future products will mostly be 80.43% natural materials and 73.79% biodegradable materials made of viscose, cotton, corn starch and tapioca starch. In addition, the new offering, "new ultra-thin cotton sanitary napkins", is 100% made of natural cotton fibre surface layer.



Biodegradable cotton tissue



New ultra-thin cotton sanitary napkins

➤ Lightweight and low-carbon

Under the light weighting project in adult diapers, Hengan is able to reduce carbon emissions when designing by cutting down the weight of bottom film by 12% from 25g to 22g, with an annual material saving of approximately 440kg.

In 2022, Hengan also adjusted the glue volume of baby diapers, and ran two equipment lines using the adjusted glue volume on a trial basis, saving 25% of glue by each workstation. This change makes diapers softer and more comfortable to wear without compromising the quality of products, and contributes to environmental protection by reducing materials usage and waste generated.

➤ Health and safety

Within consumers' increasing concerns about hygiene and safety of products, the Group implements higher safety standards for products. As for disinfection function of baby wipes, we specially developed the "XYC baby wipes" medicine solution system for physically removing bacteria, in place of conventional chemical disinfectants that may harm baby's sensitive skin. In addition, we sent XYC products to a third-party testing agency, and the testing results showed that our baby wipes can remove over 99.9% of Staphylococcus aureus, Escherichia coli and Candida albicans, effectively guarding the health and safety of babies.

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» Quality improvement

In 2022, acting upon consumers' demand for comfort, the Group completed the trial production and evaluation of non-woven fabrics for baby diapers' bottom films. After this, 22gsm hot air plain fabric was used for bottom films of "Royal Soft" diapers, significantly improving the softness of the product. To better care for babies' skin, the Group also completed testing on the first batch of 0.8D waistband non-woven fabrics, and plans to use the fabrics in production to reduce the fabric-skin friction.

The Group launched the brief-style adult diapers, "Night-time Pull-ups pants", which are designed with 3D bumpy surface to reduce fabric-skin contact for more comfortable experience. The Group also reformed its technology to prevent liquid leakage more effectively, and adopted high-quality imported fluff pulp and super absorbent polymer (SAP) for high absorbency, to save consumers the trouble of changing diapers at night. In addition, odour-suppressing wood pulp is added to reduce odour, and the breathable micro-pores on bottom films will keep the skin fresh.



Night-time pull-ups pants

"SPACE 7 Fruit Nourishment", as a sanitary napkins product of Hengan, adopts a zero-glue oxygen-permeable surface layer to improve its softness and fit. The Group also commissioned a third-party organization to conduct safety tests on the product to confirm that it is non-irritating to the skin, thus protecting consumers' sensitive skin.



Magic buckle

From the product wearing aspect, as traditional glue buckles on diapers may lose adhesion or be less adhesive when wearing, the Group designed magic buckles that can avoid adhesion loss after the diaper get dirty and maintain good adhesion, making the product more convenient to use and meeting consumers' demand.

The Group partners with external parties to unlock potential and break limits in innovation by making full use of respective strengths. We cooperate with suppliers, universities and research institutes in the research and application of biodegradable materials, to deliver overall solutions for green materials, leveraging external material application platform and our application evaluation criteria and market development advantages. In 2022, Hengan, together with Donghua University, made breakthroughs on key technologies for non-woven materials and conducted research on industrial application of this technology. As a result, Hengan bridges academic innovation with product applications to improve performance of non-woven materials, and promote the implementation of industry-university-research project.



Cooperation with Donghua University

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1.3. Intellectual property rights

Complying with the *Trademark Law of the People's Republic of China* (《中華人民共和國商標法》), the *Patent Law of the People's Republic of China* (《中華人民共和國專利法》) and other laws and regulations, 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.

To create a cleaner market consumption environment and protect consumers' and our own rights and interests, Hengan actively cracks down on counterfeit production and sale to an extent that "every case is investigated and every investigation is concluded". Based on internal procedures set forth in the *Anti-counterfeit Management Policies of Hengan Group* (《恒安集團打假管理制度》), the anti-counterfeiting office at the Group's headquarters is responsible for cracking down on nationwide infringement acts of manufacturing and selling counterfeit products, and implements the system 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 in the market circulation, the anti-counterfeiting team will take actions to safeguard their rights so as to control and minimise consequence of infringement. As long as whistle-blowers' report is 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. Hengan not only safeguards its own rights and interests, but also protects the intellectual property rights of others. Specifically, Hengan clearly specifies the protection, application and infringement compensation of intellectual property rights in the contract signed with advertising and marketing service providers.

In 2022, Hengan had 156 licensed patents, including 104 valid invention patents and 52 utility models and designs. Among them, the patent "a non-woven fabric and manufacturing method" was awarded by the 23rd China Patent Excellence Award. As at the end of 2022, the cumulative number of valid patents reached 390.

2. Digital and Intelligent Operations

Hengan integrates the digital transformation strategy with its own business strategy and considers the cost of the whole value chain from the Group's perspective to enable digital sales, planning, supply and decision-making. Changes in the Group's management model are driven by digitalisation, which empowers high-quality development of the Group.

Hengan employs SAP information systems in its daily operation. For example, Enterprise Resource Planning (ERP), Business Intelligence (BI) and Quality Management (QM) effectively support Hengan's development. In 2022, the SAP systems experienced comprehensive upgrading. Focusing on 13 aspects including business process diagram, roles and positions and critical control points, the blueprint process was designed to build a digital core of Hengan in a unified, efficient, agile and sustainable manner as well as a visual financial control and analysis platform across the whole value chain. That enables us to deal with the complex business model and diversified customer needs of the Group.

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The Group built digital and intelligent process quality control (PQC), and adopted a large number of world-leading automatic equipment to realise automatic operation for the whole process. The Group's digital and intelligent PQC has six functions: intelligent online monitoring, digital inspection, intelligent quality tracing, statistical process control (SPC), event management, and intelligent simulation and optimisation. To further improve quality control management, the Group has introduced the LIMS laboratory management system, which supports inspection business management, laboratory resource management and inspection quality control, covering 13 types of inspection services such as material storage inspection and finished product storage inspection. This system ensures the precision and accuracy of quality inspection results, and allows automatic transmission of data, thereby realising efficient synergy of quality inspection.



At the production level, Hengan adopts the MES operation system, which covers real-time data collection and analysis, abnormal alarming and co-processing and other aspects in respect of planning, materials, equipment, quality and energy consumption, to solve problems related to information blind areas and information lags in planning work orders, manufacturing execution, reporting and warehousing. In this regard, a closed-loop management of the overall business is fostered to improve production efficiency and controllability, and promote the intelligent development of the Group while reducing costs and increasing efficiency.

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3. Product Quality

Recognising that quality plays a vital role in its development, Hengan adheres to the principle of “strengthening quality awareness, enhancing quality skills and creating quality value together”. Under the quality policy of “producing quality, comfortable and hygienic daily necessities with the pursuit of human health and happiness as our mission”, Hengan particularly focuses on quality management innovation.

3.1. Standard establishment

The Group designs a Standard Management Committee at the top, and takes international advanced standards as benchmarks to formulate and release unified standards and procedures, including setting up internal standards higher than the national ones regarding liquid medicine, wood pulp, polymers, hot melt adhesives, toilet paper, and non-woven fabrics in order to maintain the leading position. The technical standard team subordinate to the committee is divided into material team, finished product team, equipment team and others, taking the innovation centre as the starting point. It tackles with 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.

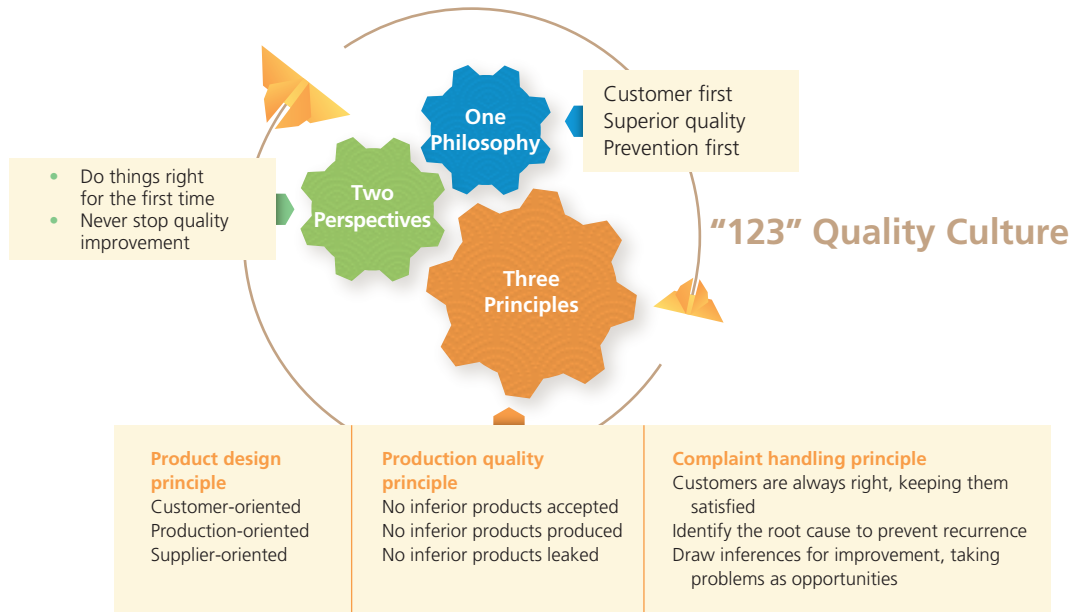
The Group has joined China Paper Association and Fujian Paper Association to reinforce exchanges with all parties on product safety standards. Besides, the Group actively participated in the development of international, national and industry standards to help make clear regulations on product specifications, inspection methods, packaging, storage and transportation conditions, thereby positively promoting mature industry standards.

In 2022, we participated in developing the international standard *Paper, Board and Pulps — Standard Atmosphere for Conditioning and Testing and Procedure for Monitoring the Atmosphere and Conditioning of Samples (ISO 187:2022)* (《紙、紙板和紙漿 — 試樣處理和試驗的標準大氣條件及其監控程序》), 4 national standards including *Paper Towel (GB/T 20808-2022)* (《紙巾》) and *Surface Layer for Disposable Hygiene Products (GB/T 30133-2022)* (《一次性衛生用品用面層》), and the industry standard *Natural Colour Pulp (QB/T 5742-2022)* (《本色漿》).

3.2. System building

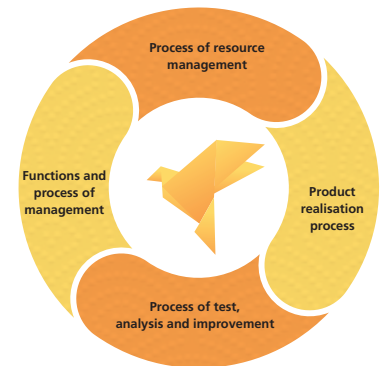
The Group continues to promote the quality management model that highlights “constant care”, “constant innovation” and “constant safety” (the “Three Constants Model”) throughout the whole value chain, gives full play to the role of a quality benchmarking enterprise with leading industry standards, and ensures product quality and safety to demonstrate “care” for customers. Based on the core concept of the “Three Constants Model”, the Group has established the culture of quality titled “123” with Hengan’s features, listens to customers’ voices and ensures integrity and quality.

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Hengan vigorously absorbs advanced ideas from others and incorporates scientific quality management methods and successful experience into the management system to establish a sound quality management system.

In accordance with internal control systems such as the *Internal Audit Control Procedures* (《內部審核控制程序》), the *Management Review Control Procedures* (《管理評審控制程序》) and the *Data Analysis and Continuous Improvement Control Procedures* (《數據分析與持續改進控制程序》), the Group monitors and measures the quality management system and conducts internal audits and management reviews to ensure its effectiveness and appropriateness. The Group has also formulated a quality system maturity evaluation form to comprehensively evaluate the requirements of the system in accordance with the PDCAR rule and set annual quality management system targets. In 2022, all quality indicators' targets were achieved. As at the end of 2022, all of the Group's production companies and Weifang Thermal Power have established and passed ISO 9001 Quality Management System certification, and the certification rate was 100%.



Hengan Quality Management System

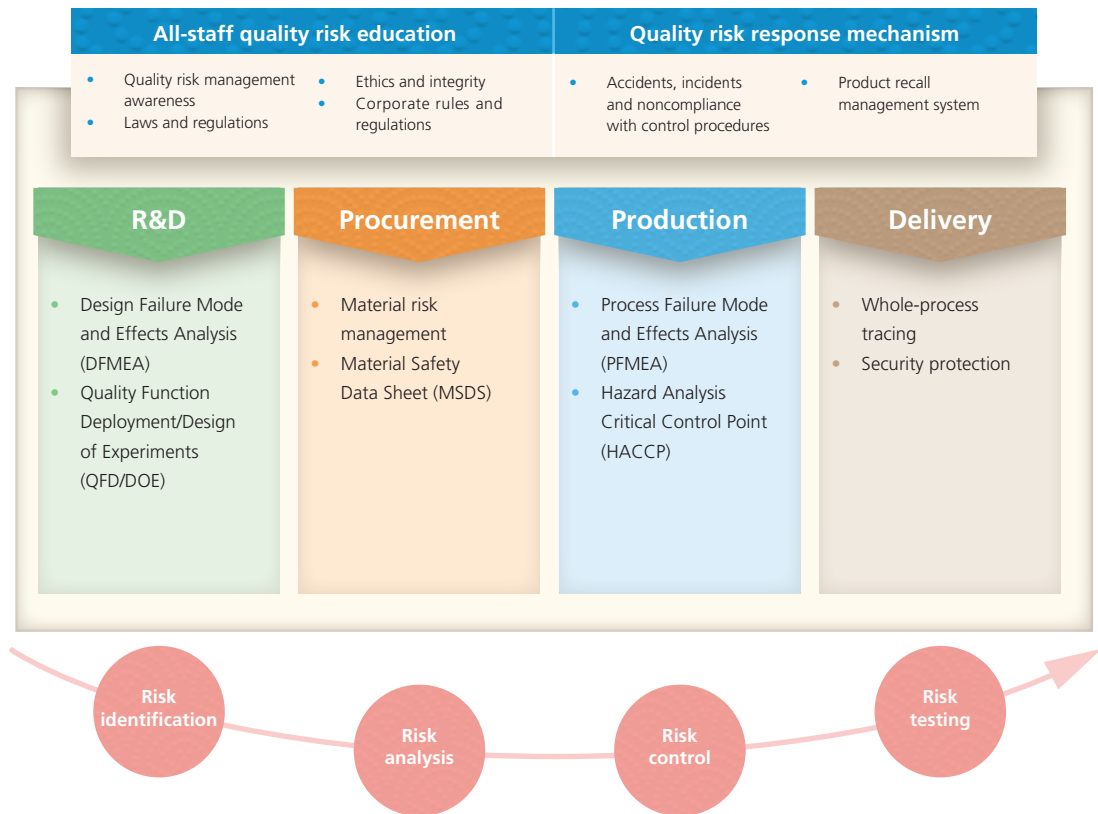
Hengan strictly complies with the requirements of laws and regulations such as the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》). In addition, according to the Acquisition and Identification Control Procedures for Laws and Regulations (《法律法規的獲取、識別控制程序》), the Group regularly collects and evaluates information on quality-related laws and regulations and relevant standards to form a quality compliance evaluation report. The Group has passed ISO 9001 Quality Management System certification, CE certification, FDA certification and MSDS certification and introduced the comprehensive quality management and target management method, to guarantee the Group's product quality level and compliance.

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Since 2014, the Group has established an efficient operation platform, innovatively designed a quality inspection platform at the top, and formed a double-top quality management structure. In 2022, the Group formulated and issued the Hengan Group Product Quality Reward and Punishment Management Policy (《恒安集團產品質量獎懲管理規定》). It updated the “red line” and “yellow card” mechanism for quality performance, stressed quality responsibility and standardised the handling of quality accidents to ensure win-win results for revenue and quality.

3.3. Risk monitoring

The Group has built a whole-process quality risk management system of Hengan, and assembled a quality risk management team led by the Chief Quality Officer of the Group who is provided with the one-vote veto power of quality safety. The failure mode and effect analysis (FMEA) is adopted to identify, analyse, control and monitor potential quality and safety risks throughout the process of R&D, procurement, production and delivery.



➤ Chemical risk monitoring

The Group strictly abides by international, national and industry standards as well as internal standards, strictly controls the quality of upstream raw materials, introduces high-quality raw materials, and regularly identifies and eliminates highly concerned chemicals to maintain the health of users. The Group strictly follows normative documents including the *Management System for Quality Safety of Products and Materials* (《產品、材料質量安全管理制度》), the *Administrative Measures for Oils and Chemicals* (《油類、化學品管理辦法》), the *Material Safety Index List* (《材料安全指針清單》), and the *Additive Limitation List* (《添加物限度清單》), and makes improvement on chemicals procurement, storage, usage and disposal.

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- Chemical procurement

The Group applies high standards on supplier selection, requiring them to present qualified business license, related "safety production license" or "business permit", and related MSDS. 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. In the procurement of chemicals, the Group gives priority to non-toxic and non-hazardous ones that cause less pollution. Imported hazardous chemicals should be accompanied with corresponding labels or description in Chinese.

- Chemical storage

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* (《常用化學危險品貯存通則》), and daily inspection must be conducted. Hazardous chemicals must be strictly and qualitatively distributed and recorded. 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.

- Chemical 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:

- ✓ Use of hazardous substances are prohibited in the production process;
- ✓ 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》);
- ✓ Transportation vehicles must be hygienic and safe;
- ✓ All materials (including medicinal solution) and additives in all processes are subject to the *Additive Limitation List* (《添加物限度清單》) to eliminate the use of chemicals that are harmful to humans.

Those Chemicals are not allowed

2-Bromine-2-Nitropropane-1,3Diol (Bropol)	Propylene Glycol
5-Bromine-5-Nitro-1,3-Dioxane	1-Monophenyl Ether
7-Ethyl bicyclo oxazolidine	Salicylic acid and its salts
Formaldehyde benzyl alcohol hemiacetal	Salts of benzene mercury, including Phenylmercuric Borate
Chloretone	Silver oxide deposited on titanium dioxide
Diazolidinyl urea	Sodium hydroxymethyl glycine
DMDM hydantoin	Thiomersal
Formaldehyde and paraformaldehyde	Triclocarban
Glutaraldehyde	Triclosan
Imidazolidinyl urea	Zinc pyrithione
Iodopropynyl Butylcarbamate (IPBC)	Methenamine
Methyl isothiazolinone (CIT)	Chloroacetamide
Methylchloroisothiazolinone and methylisothiazolinone (Kathon)	HICC lylal
P-chlorom-cresol	Ethyl lauroyl arginate
Nonylphenol polyoxyethylene ether	Citric acid and silver citrate

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- Chemical 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 to develop and update *Hazardous Chemicals List* (《危險化學品清單》), which specifies identified highly toxic chemicals, highly irritating and corrosive chemicals, inflammable and explosive chemicals and general hazardous chemicals. According to aforementioned information, the Group phases out chemicals and seeks for safer alternatives.

- Chemical safety testing

In accordance with the *Material Safety Index List* (《材料安全指標清單》), *Hygienic Standard for Disposable Sanitary Products (GB 15979-2002)* (《一次性使用衛生用品衛生標準》), *Textiles — Determination of formaldehyde — Part 1: Free and hydrolysed formaldehyde (water extraction method) (GB/T 2912.1-2009)* (《紡織品甲醛的測定第1部分:遊離和水解的甲醛(水萃取法)》), *Biological evaluation of medical devices — Part 10: Tests for skin sensitization (ISO 10993-10: 2021)* (《醫療器械生物學評價第10部分:皮膚致敏試驗》), *European Cosmetics Regulations (EC) No. 1223/2009* (《歐洲化妝品法規》), 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 and Technical Specifications for Cosmetics (2015)* (《化妝品安全技術規範(2015年版)》) and *Chemicals — Test Method of Acute Oral Toxicity (GB/T 21603-2008)* (《化學品急性經口毒性試驗方法》).

In 2022, we cooperated with China Light Industry Group to carry out the safety index test programme of materials and finished products, in which we tested and monitored the ingredients of products, summarised and analysed the data to identify non-conformities and implement rectification measures.

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➤ Product risk monitoring

In accordance with the procedure documents such as the *Incoming Material Inspection Management System* (《進料檢驗管理制度》), the *Process Inspection Management System* (《製程檢驗管理制度》), the *Delivery Inspection Management System* (《出貨檢驗管理制度》), and the *Control Procedures for Process and Product Monitoring and Measurement* (《過程和產品的監視和測量控制程序》), the Group requires whole-process inspection to monitor and measure product quality from raw and auxiliary materials, products in process to finished products. That has improved the effectiveness of all-round inspection, ensuring that the quality of the delivered finished products meets relevant standards and customer requirements.

Raw materials and auxiliary materials

- The Quality Control Department of the Category Division monitors, samples and inspects materials, records the inspection results in the SAP system and notifies the warehouse. Raw materials with any defects will be isolated and marked, and disposed of in accordance with the *Control Procedures for Non-conforming Products* (《不合格品控制程序》).

Products in process

- The Quality Control Department of the Category Division develops corresponding inspection procedures, assigns relevant personnel to conduct checks and inspections, and makes records in a timely manner. If any defects are found during the inspection, they will be disposed of according to the *Control Procedures for Non-conforming Products* (《不合格品控制程序》).

Finished products

- The Quality Control Department and Innovation Centre of the Category Division inspect products according to the requirements of inspection specifications and standards, records the inspection results in the SAP system and notifies the warehouse. After inspection, warehouse staff will be notified to store and deliver qualified products, and unqualified products will be isolated and marked, and disposed of according to the *Control Procedures for Non-conforming Products* (《不合格品控制程序》).

The quality and safety of Hengan's products have also been recognised by external parties. For example, Hengan's "Elderjoy" and "Banitore" adult diapers, adult pull-up pants and adult care pads have been certified as hygienic and safe products by China Health & Safety (Beijing) Certification Centre (CHS), and the "Hearttex" series products have also been certified as medical grade products by CHS.

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To ensure the quality of new products in IPD and the safety of products and raw materials, the Group observed the principles of HACCP and Current Good Manufacturing Practice (CGMP) in the product development stage to assess potential risks and implement Sanitation Standard Operating Procedure (SSOP) management for the whole process, and managed and controlled all key hazard points, so as to realise quality and safety management for new products throughout the whole process of R&D, procurement, production and delivery. According to the *Product and Material Quality Safety and Ingredient Management System* (《產品和材料質量安全與成分管理制度》) and other systems, the Group ensures the safety of new products and raw materials through the following four steps:

- | | |
|---|------------------------|
| Step 1 | Identify |
| <ul style="list-style-type: none"> Identify external national product/material safety laws, regulations, and standards applicable to the products and corresponding materials; Identify the standards issued by the Standard Committee applicable to the products and corresponding materials. | |
| Step 2 | Standardisation |
| <ul style="list-style-type: none"> Establish the safety index requirements for new products during its initiation; Provide the Material Safety Index List after the determination of product safety index. | |
| Step 3 | Confirmation |
| <ul style="list-style-type: none"> Ensure that the product is safe before finalising it for mass production by commissioning external testing agencies to conduct comprehensive safety tests based on the established safety list; Confirm that raw materials and auxiliary materials meet the relevant national safety index and internal standards such as the Material Safety Index List. | |
| Step 4 | Review |
| <ul style="list-style-type: none"> Identify changes in safety index through ongoing checks and updates of external safety standards, dynamic tracking of product safety testing reports of external media, external communications on product safety issues, etc., and organise reviews to assess whether material safety requirements are met; Regularly summarise the existing safety index of the Group's products and materials and assess whether such index needs revision. | |

All new products are subject to approval before mass production. The responsible department reviews the product safety reports in accordance with the requirements of the *Hengan Group Product Safety Index List* (《恒安集團產品安全指標清單》), and mass production will not be implemented until the product passes the safety test.

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➤ Quality risk response

The Group has prepared the *Quality Risk Assessment Form* (《質量風險評估表》) for quality risks in the whole process and identifies quality risks from the biological, chemical and physical aspects of hazards according to production and processing procedures. For all hazards analysed, the quality risk management team will develop appropriate control measures based on the actual situation.

The Group's Category Division 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》).

The Group implements the *Accidents, Incidents, Non-Conformance to Control Procedures* (《事故、事件、不符合控制程序》), the *Product Quality Problem Recall Management Policy* (《產品質量問題召回制度》) and other processing procedures, and traces the product back to the production date and production team based on the certificate label or information code (box code) outside the packaging box of finished products and the spray code marking on the product packaging, 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.



In 2022, the Group did not engage in any product recall for safety or health reasons.

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3.4. Steady enhancement

➤ Quality improvement

The Group adopts the three-level quality analysis meeting model. Production plants and business divisions organise weekly or monthly quality meetings to summarise the performance in quality indicators and conduct gap analysis, provide improvement measures, and review quality improvement and verification results. Moreover, the Group upgrades online quality testing equipment, organises various quality activities and cooperates with external platforms to further facilitate the safety management of materials and finished products.

- On 5 September 2022, the Paper Division launched the Quality Month activity with the theme of “My Quality Is My Choice”. It included professional activities such as quality skills competition, as well as fun activities such as quality-related speech and debate competitions and valuable idea collection to raise the quality safety awareness of all employees. The event aimed to improve our capability to guarantee quality and meet upgraded market demands.



Launch of Quality Month



Quality Month Debate Competition



Quality Month Speech Competition

We make sustained efforts to explore quality improvement technology and concept. In 2022, the Group’s Paper Division issued 39 mandatory quality improvement projects and set up 112 improvement teams, with three major segments, i.e., paper making, paper products and wet wipes, involved. These efforts aimed to accelerate quality tackling and enhance the quality improvement capabilities of the Group’s entire workforce, so as to improve consumer experience while reducing costs.

Quality improvement results release review meeting

On 29 September 2022, the Group’s Paper Division organised a review meeting for releasing quality improvement results in the first half of 2022. 10 outstanding representatives from 72 completed quality improvement projects nationwide were selected to participate in the review and got rewards. That helped instil the concept of quality improvement in all employees and promote quality improvement results.



Quality improvement results release review meeting

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➤ Quality education

The Group has established a quality education and training system focusing on position quality training classes, junior training classes and senior training classes. In 2022, Hengan carried out comprehensive and multi-level quality education activities such as Quality Month, and cooperated with third-party institutions to provide special training for professional inspectors, so as to enhance their comprehensive capability in a diversified manner and lay a solid foundation for the Group's quality management.

- In September 2022, Hengan launched the inspector upskilling training camp, which enrolled a total of 28 participants and involved 13 professional courses including basic knowledge of inspection, paper making and paper production processes and common causes of unqualified products. In addition to various reading and sharing sessions, experts from China Light (Jinjiang) Sanitary Products Research Co., Ltd. (CLSP) were invited to give lectures on national standards and practices to help inspectors improve their business skills and enhance their overall quality. Ultimately, all participants successfully obtained awards and certificates in the training camp.



Inspector upskilling training camp

- In August 2022, the Group and CLSP jointly organised a special upskilling training on inspection of hygiene products, and 43 finished product inspectors and microbiological inspectors from the headquarters and bases participated in the training. The training adopted the "1+1" model of "one-day theoretical reinforcement + one-day practical operation". Additionally, CLSP experts provided detailed analysis of the standard theory of baby diapers, adult diapers and female sanitary pants, led the trainees to practice skills and explained common non-conforming items. Through systematic theoretical study and on-site practical operation, the trainees who passed the examination were awarded training certificates.



Special upskilling training class for inspectors

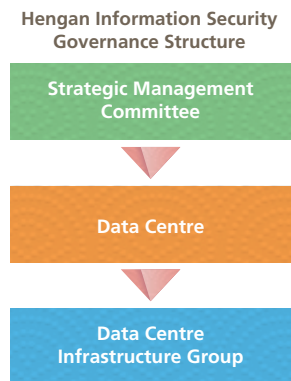
Through systematic theoretical study and on-site practical operation, the trainees who passed the examination were awarded training certificates.

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4. Information Protection

While making efforts in building Marketing Platform and accelerating digitalisation, Hengan also pays attention to consumers' personal privacy, and strictly abides by relevant laws and regulations such as the *Personal Information Protection Law of the People's Republic of China* (《中國人民共和國個人信息保護法》) and the *Cybersecurity Law of the People's Republic of China* (《中華人民共和國網絡安全法》) to protect customers' information security. Hengan Group employs an independent third party to conduct external IT audit every year.

The Data Centre is the executive department of the Group's information security, and the CEO is the responsible person, who reports to the Strategic Management Committee of the *Board of Directors*. Hengan formulated *Management Manual 1.0 for Data Centre* (《數據中心管理工作手冊1.0》) and the *Hengan Group Digitalization Service and Building Management Policy 1.0* (《恒安集團數字化服務與建設管理制度1.0》), to standardise the data centre's work, including data digitising planning, data services, demand management and promotion, IT support services, information construction and operation and maintenance, infrastructure management, etc., so as to strengthen information security management.



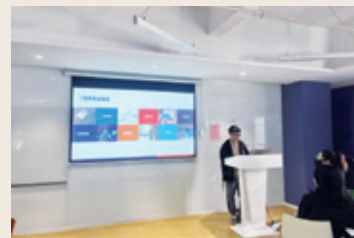
In terms of information security operation, the Group's IT equipment shall be uniformly installed by the Group's data centre with designated anti-virus software, and the server of anti-virus software shall be managed by a specially assigned person from the Data Centre. The Group regularly tracks the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

In terms of information security management, Hengan classifies the Group's secrets, personnel files and customer information as confidential information. Hengan strictly abides by the privacy protection regulations. For example, when Hengan Online Store obtains customer information, a pop-up window appears to ask the customer whether to give authorisation for Hengan to obtain the user's nickname, avatar, telephone number and other information. Strict registration procedures are carried out in all aspects of drafting, circulation, verification, storage, transfer and destruction of confidential information. Meanwhile, confidential information is encrypted and access to the information is controlled, with accounts and passwords of all information systems under unified authentication management. According to the *Hengan Group Digitalisation Service and Building Management Policy* (《恒安集團數字化服務與建設管理制度》), information security training shall be included in the induction training courses for the Group's new joiners, who will be assessed in this regard. Application for releasing information to the public shall follow the principle of "the person who releases the information shall guarantee its security" and shall be submitted to the relevant leaders of corresponding department for approval according to the management regulations of such department. An emergency Plan 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.

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Induction information security training and assessment

Every new joiner of Hengan Group's branches is required to attend the information security training and pass the assessment. In 2022, Hengan's information security training and assessment covered identification of information security threats and risks, means of handling information security incidents, good security habits in daily work and life, and introduction of various security strategies and policies.



Information security training for new joiners

The Group organises 6 cybersecurity drills every year, including 4 drills for security failures and 2 drills for security attacks.

Drills for security attacks in 2022

On 9 March 2022, the Group carried out drills for security attacks on Internet IP and external servers respectively. The drills were implemented smoothly in accordance with the planned steps of simulating attacks, modifying IP, testing whether the Internet access or connection to the external network was normal, and restoring IP. No abnormal feedback was received. Through attack drills, the Group tested and further improved its level of cyber security protection.

Data Centre bare fibre switching drill in 2022

On 12 March 2022, the Group conducted a drill for Data Centre bare fibre switching, which involved the use of all intranet application systems and the Group's Internet access. The drill mainly covered switching between the primary and backup bare fibres to test whether the access to and use of internal and external network application systems were normal. The bare fibre switching drill was completed successfully and no abnormal problems were identified. The network fault emergency handling capabilities of the Group has been strengthened by this drill.

Hengan classifies customer information as highly confidential information, thus keeping the personal information collected from customers strictly confidential. No employees shall disclose any confidential commercial information concerning business, production formula, technical data and document of the Group. 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.

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

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5. Service Enhancement

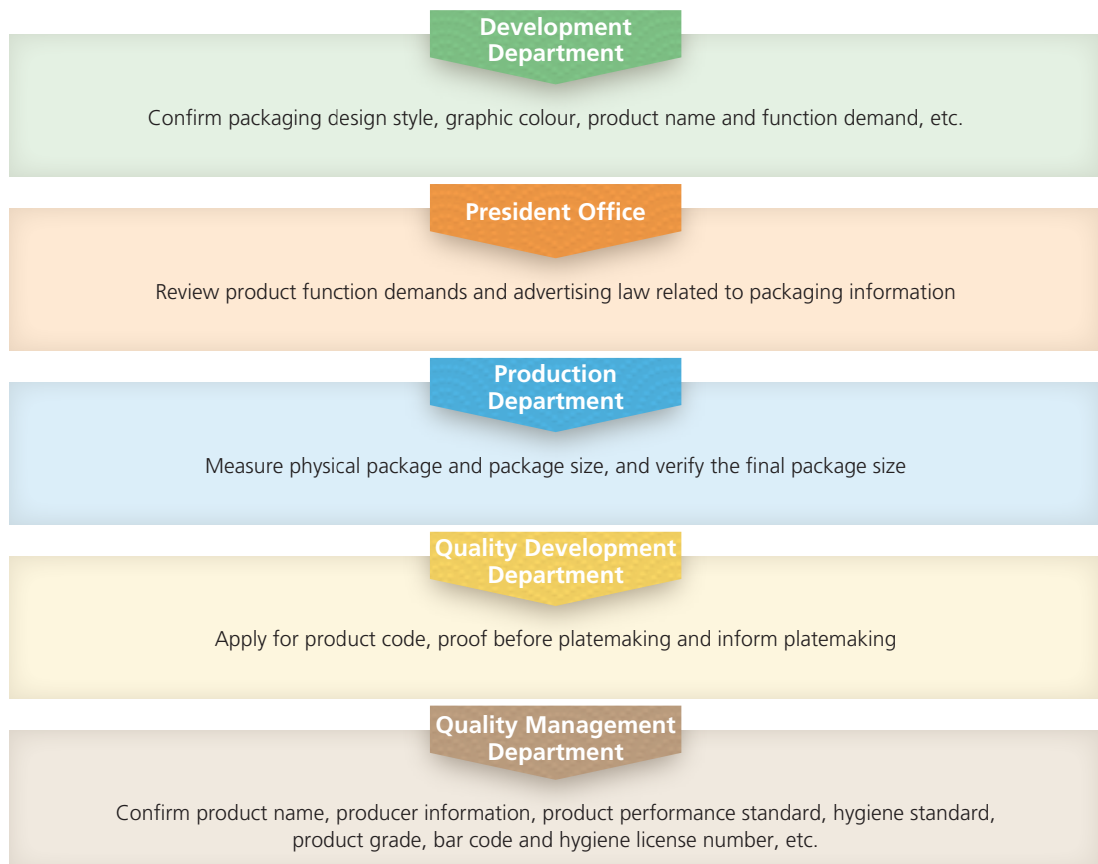
In the era of channel fragmentation, relying on big data systems and platforms, we have realised market-oriented and consumer-centred brand operation by resolving consumers' pain points, releasing accurate and compliant advertising, and providing comfortable experience through various measures. As a result, we have reaped a high level of satisfaction.

5.1. Marketing compliance

Hengan strictly follows the *Advertisements Law of the People's Republic of China* (《中華人民共和國廣告法》), 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》) and other laws and regulations. The Group markets its products in a truthful and legal manner, ensuring that no deception or mislead of consumers occurs.

Hengan has established a standardised product information review process to ensure comprehensive and objective product information and to protect consumers' right to know. 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 in order to provide accurate information to consumers, including 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 number and other information.

Product packaging layout review process



The Group strictly regulates the use of FSC marks and effectively controls the use of FSC marks in the processes of printing, publicity, product marking, etc. to ensure that the use of marks complies with FSC requirements.

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5.2. Customer communication

▶ Customer satisfaction

Through multiple channels, Hengan understands the latest consumer concerns and satisfaction in a timely manner, and establishes comprehensive cooperation and trust with consumers, providing comfort and happiness for end consumers on a continuous basis.

Hengan strictly abides by pertinent laws and regulations such as the *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 follows relevant internal procedures, such as the *Customer Satisfaction Survey Control Procedures* (《顧客滿意度調查控制程序》) to analyse customer and client satisfaction through official website, e-commerce platform, hotline and follow-up investigation, figure out whether the Group correctly understands and meets customers' needs and expectation, and evaluate whether the quality management system adequately addresses customer requirements.

In 2022, Hengan conducted an in-depth online survey of adult diaper consumers to identify their usage habits, and record their comments and suggestions on product performance and packaging. Based on the results of satisfaction survey, the Group identified customer concerns and defects in product usage, and developed specific improvement plans to enhance customer satisfaction.

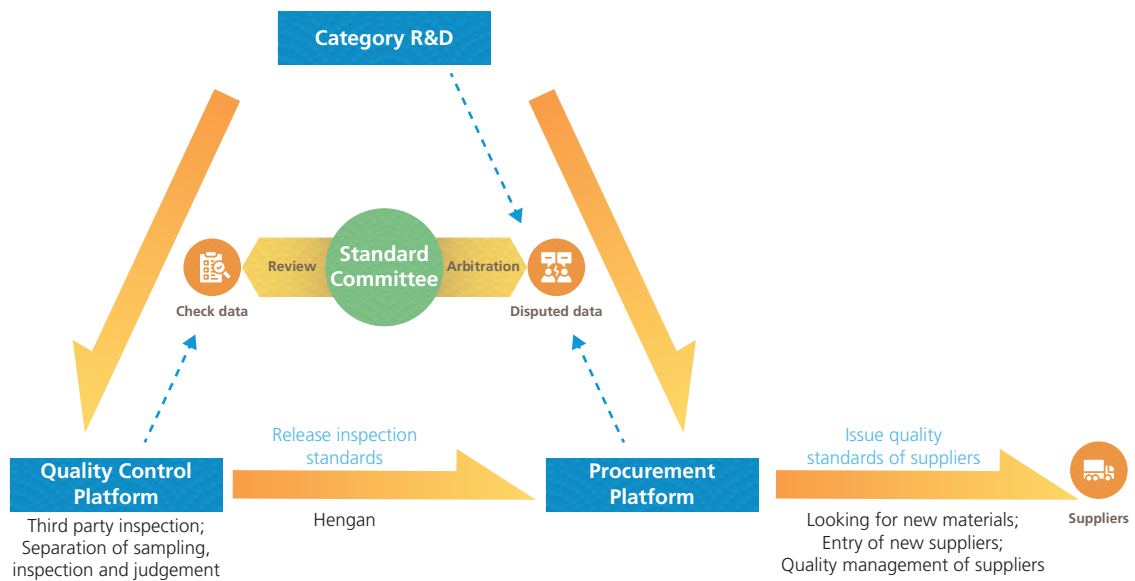
▶ Customer complaint

Hengan continues to implement *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. In 2022, Hengan newly formulated and issued the *Control Procedures for Handling External Quality Incidents and Accidents* (《外部質量事件事故處置控制程序》), which provides various feedback channels such as 800/400 service hotline, and set up specialists to collect complaint-related information from those channels, further standardising and improving the process of consumers' problem feedback and complaints handling of responsible department. To satisfy the demands of our customers, we classify complaints according to their nature and handle them in different targeted ways, thus resolving all types of consumer feedback properly and efficiently. In 2022, based on the number of customer complaints received per 10,000 boxes of products, the Group's overall product complaint rate was 0.002%, down 8.82% year-on-year.

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6. Joining Hands for Progress

Insisting on the strategy of “Separation of Three Powers” among the Procurement Platform, the Innovation Centre and the Quality Control Platform, the Group builds up an “Iron Triangle” management model. Specifically, the Innovation Centre prepares material specification standards in accordance with product positioning (market/quality/cost). The Quality Control Platform inspects and manages quality in accordance with formal standards issued, presents inspection results provided by a third party and sets out corrective action plans. The Procurement Platform introduces, manages and instructs qualified suppliers in accordance with formal standards issued to monitor supply quality in an all-round manner.



The Group conducts centralised procurement management through the procurement platform. Based on the *Procurement Platform Management Regulations* (《採購平台管理規定》), the Group sets standards for sourcing and supplier management from procedure connection, function orientation, organisational structure, code of conduct and implementation assurance, to form a fair, transparent and professional end-to-end procurement management platform. In 2022, the Group upgraded the procurement management platform to “Hengyigou” and launched a mobile app to improve the coordination efficiency of orders in respect of production material procurement, OEM procurement and bulk material procurement, thus ensuring clear and transparent tracing process and reducing the loss caused by manual intervention.

➤ Supplier acceptance

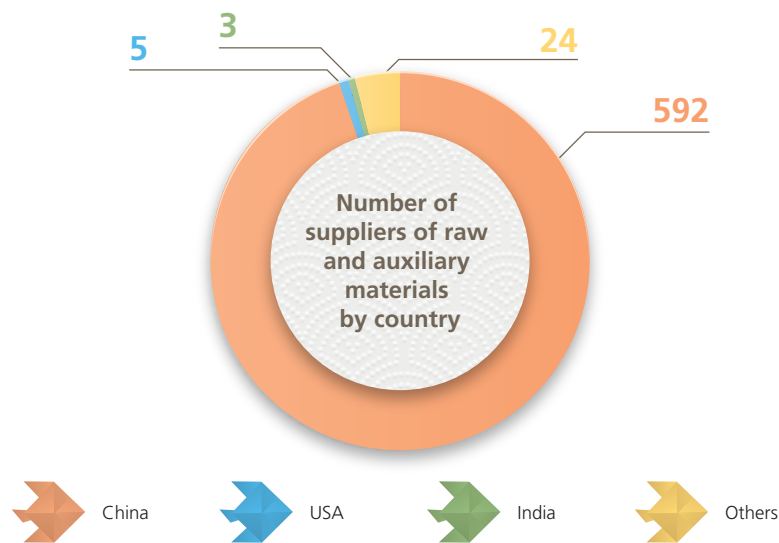
The Group, in compliance with the *Suppliers On-Site Inspection Management Measures* (《供應商現場考察評審管理辦法》), reviews qualifications and systems of supplier to be approved, to screen out qualified suppliers pending for verification. The Group requires suppliers to provide the following information, documents and records, including 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 (involving anti-discrimination, occupational health and safety, business ethics, compliance employment, etc.), technology R&D and service management, etc. The Group has signed the *Raw and Auxiliary Materials Quality Agreement* (《原輔材料質量協議》) with its suppliers, and requires them to maintain a sound quality assurance system and manage materials, production, logistics and environmental hygiene effectively.

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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, CE, etc.;
- ✓ 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.

On the premise of ensuring the quality of production materials, the Group preferentially selects local suppliers. As at the end of 2022, the number of the Group's suppliers of raw and auxiliary materials by country is as follows:



➤ Supplier classification

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

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➤ Supplier evaluation

The Group conducts monthly performance evaluation on suppliers of bulk materials, production materials, equipment/spare parts and OEM and promotes continuous improvement on suppliers' performance based on the evaluation results. Meanwhile, the Group conducts annual performance evaluation and hierarchical management for suppliers of bulk materials and production materials for differentiated cooperation. In addition, the Group carries out annual on-site audit of qualified OEM suppliers to control the quality and supply risks of the suppliers.

➤ Supplier sustainable development management

The Group promotes a stable and sustainable supply chain, conducts regular ESG risk assessment and on-site audit of raw and auxiliary material suppliers, and continuously follows up on suppliers assessed with high ESG risk. In addition, the Group also makes comprehensive and multi-aspect assessment of suppliers with reference to the results of third-party environmental and social responsibility audits. During the supplier on-site evaluation jointly carried out by the Quality Management Department and the Procurement Platform, the Group incorporates environmental and social factors into the evaluation indicators, and mainly identifies the sustainable development risks of suppliers from the following aspects:

- ✓ Whether suppliers' internal regulations meet the requirements of relevant laws and regulations;
- ✓ Whether suppliers have passed environmental management system certification and whether any environmental pollution incidents have occurred to suppliers in the past three years, etc.;
- ✓ Suppliers' environmental and sanitary status, including environmental emergency plans, mosquito control, pollution source control, waste management, workshop/warehousing environment management, etc.;
- ✓ Suppliers' protection of employees' rights and interests (whether suppliers have passed occupational health and safety management system certification, office environment safety, whether incidents such as gender discrimination or child labour occurred to suppliers, fire training and drills, factory risk prevention, health check and job training, etc.);
- ✓ Suppliers' raw and auxiliary material source management and sub-supplier management, etc.;
- ✓ Whether suppliers' relevant products are evaluated by a third-party testing agency.

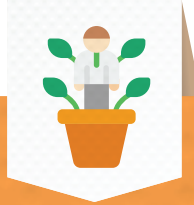
The Group regards irreplaceable suppliers with high amount of procurement and supplying key raw materials as key suppliers. In 2022, the Group carried out ESG on-site audit on 31 key suppliers, and required 5 of them to take remediation measures. Among them, 3 suppliers improved their ESG performance after rectification.

➤ Supplier phase-out

The Group conducts daily inspection and supervision on suppliers with quality/delivery issues to assist them in continuous improvement. The Group will initiate the freezing/withdrawal procedure against suppliers that fail daily inspection, on-site annual review, monthly/annual performance evaluation, and that present serious quality issues or violations of laws and regulations, etc. These suppliers will be removed from the list of qualified suppliers. In 2022, no suppliers of raw and auxiliary materials were removed by the Group.

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IV. HEALTHY AND HIGH-QUALITY WORKPLACE



Hengan attaches importance to the workplace environment and is committed to creating an equal and harmonious workplace that facilitates common development and progress with employees. The Group actively protects employees' rights and interests, and comprehensively develops the talent promotion path and training system. Besides, the Group also strictly manages risks and hazards in the working environment, takes various measures to ensure safety, and carries out a variety of activities and all-round assistance projects to increase employees' happiness. Furthermore, the Group regards integrity and honesty as an important quality, and implements anti-corruption and integrity policies internally to create a clean corporate culture.

1. Protection of Rights and Interests

The Group advocates the *Universal Declaration of Human Rights* (《世界人權宣言》) endorsed by the United Nations and other internationally recognised human rights principles, and complies with relevant laws and regulations. Besides, we fulfil our responsibility to uphold human rights in our operations according to the United Nations Sustainable Development Goals, so as to create an equal and inclusive working environment for employees and protect their legitimate rights and interests.

We regard talent as our most valuable asset. They come from different regions and communities and work with Hengan to realise the mission of "growing with you for a better life". The Group has established 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. Hengan adopts the talent development model which combines "innovative ladder-style talent development model" with "diversified career development channels" to attract and cultivate talents and fully explore the potential of employees, so as to achieve a win-win situation for both employees and the enterprise.

1.1. Equal employment

The Group strictly observes the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the *Labour Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》), the *Trade Union Law of the People's Republic of China* (《中華人民共和國工會法》), the *Employment Promotion Law of the People's Republic of China* (《中華人民共和國就業促進法》), the *Law of the People's Republic of China on the Protection of Minors* (《中華人民共和國未成年保護法》) and other laws and regulations. The Group prohibits the employment of child labour and forced labour through clear management policies and a strict information management system. Besides, we have revised the *Hengan Group Human Resources Management Policy* (《恒安集團人力資源管理制度》), which requires that those under 16 years old will not be hired in the process of recruitment and talent selection. The Human Resources Department will be informed immediately of any child labour and forced labour cases, implement remedies and report to the labour department or the public security department for their advice on any appropriate arrangements.

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Hengan signs employment contracts with all employees in accordance with national laws and the Group's Articles of Association. 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. By the end of 2022, the Group's employee handbook was signed by all employees, ensuring equal opportunities, fair remuneration and comprehensive benefits for all employees.

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. Hengan employs disabled employees in different positions in various production companies, arranges suitable positions for them, and encourages them to work earnestly to exert social values. In 2022, Hengan employed 88 disabled employees to work as facilities maintenance specialists, auxiliary workers, equipment technicians, security guards, production monitors, packaging team leaders, etc., accounting for 0.4% of total workforce.

1.2. Remuneration and benefits

Hengan is committed to building an outstanding talent pool and realising a win-win outcome for company development and talent growth by insisting on compliant and legal employment and establishing remuneration incentive systems.

The Group adopts a scientific and reasonable "Target Wage" system, which is connected to job responsibilities and task goals of employees, so as to motivate employees' work enthusiasm. 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. 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. The 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, 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;
- Flexible work models are provided for employees during the pandemic to avoid concentrated infection;
- Employees who ceased to work for medical treatment were granted paid leave in accordance with the relevant regulations.

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1.3. Working hours and holidays

The working hours of employees are strictly in compliance with relevant laws and regulations. If employees are arranged to work overtime due to work needs, they must be voluntary and be paid according to relevant regulations. In addition, Hengan arranges employees to take holiday leave on New Year's Day, Spring Festival, Qingming Festival, International Labor Day, Dragon Boat Festival, Mid-Autumn Festival, National Day and other statutory holidays stipulated by laws and regulations.

1.4. Communication channels

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. For example, Hengan built the "Sunshine Community" platform and encourages employees to propose suggestions in the platform. Relevant department heads will respond so that problems can be dealt with timely or improvement can be made. Additionally, management expands outreach to get the first line workers involved in the communication and solve problems in a timely manner. Hengan carries out employee satisfaction surveys (including work and life satisfaction surveys on catering, accommodation and office condition conducted by each subsidiary) and makes timely rectification according to the feedback from employees to enhance their sense of well-being at work.

2. Talent Cultivation

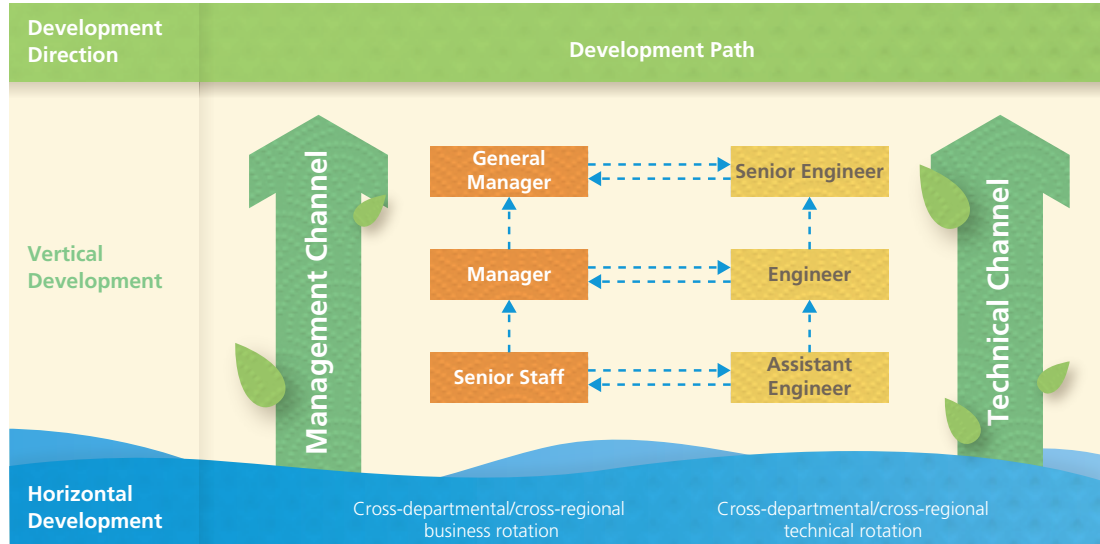
2.1. Promotion channel

Talent cultivation and development are crucial to the long-term success of the Group. The Group has formulated the *Management Framework for Hengan Group's Talent Development System* (《恒安集團人才培養體系管理框架》), which plans the development path of talents in key positions and establishes a dual-channel career development to ensure that the core talent are reserved.

- Career development channel of managers: Through effective management of the team, an employee may become a leader of the department and the Group;
- Career development channel of professional technicians: With continuous improvement of their professional knowledge and skills, an employee can become technical expert;
- Employees are cultivated as "versatile" talents by strengthening their professional knowledge through horizontal career development;
- Through the supporting mechanism of employee career development channels, employees with outstanding performance are screened into the promotion pipeline via multiple channels.

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Employee career development path



In addition, Hengan has set up a talent management mechanism to screen and train outstanding talents through talent selection, review, training and promotion and elimination mechanism. By this means, we are able to improve the talent competency and also establish a dynamic talent pool for the future development of the Group.

In 2022, 78 management employees were promoted in Hengan.

2.2. Development and training

Hengan is committed to cultivating itself as a "Learning enterprise". Hengan highlights training and education of employees and keeps expanding horizons of employees to enhance their comprehensive quality. Based on the *Hengan Group Training Management Policy* (《恒安集團培訓管理規定》), the Group has formed a unique talent cultivation system with the use of external excellent resources, internal instructors, and various training methods. In 2022, Hengan invested nearly RMB2.66 million in employee training.

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Talent development system of Hengan Group

Type	Object	Course System	Training Program	Cultivation Method
Management	Current Cadre	Series training for current executives	Executive Development Programme (EDP)	Project Customisation Special Operation Coaching Action Learning Book Sharing Personal IDP Job Rotation Training 1+1+1 Interview 70/20/10 School-enterprise Cooperation
	Reserve Cadre	Series training for succession / high potential talent	HIPO programme (General manager + Manager)	
Specialty	Commerce / e-commerce	Professional skills enhancement for commerce / e-commerce sequence	Learning map development for commerce / e-commerce	
	Category / production	Professional skills enhancement for category / production sequence	Learning map development for category / production	
	Supply Chain	Professional skills enhancement for supply chain sequence	Learning map development for supply chain	
	General Series	Trainings for basic/general skills	Train-the-trainer programme	
New Generation	Social Recruitment	Induction training for new employees	New Forces	
	Campus Recruitment	Training for management trainee	Eagle Plan	

We have created a comprehensive talent development system to set comprehensive skill and quality training for employees at different levels and stages, with programmes tailored to management roles, specialists and new-generations employees. We also rely on online learning platform-based training management and instructor-and-course-combined management approaches to assist our employees in self-improvement.

Hengan attaches importance to the build-up of in-house instructors. Hengan has introduced a train-the-trainer policy to ensure the effectiveness of internal instructor development. According to the policy, managers will take on the role of "internal instructors" to enhance the skills of their juniors, enabling mutual growth between the instructors and juniors. This creates a culture of team learning and makes Hengan an organisation of learning. Through public recruitment and trial-based selection, Hengan already has 1,969 in-house instructors, striving to build a talent training base for itself.

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Besides, Hengan uses external resources and invites talents from cooperated universities & colleges to share new knowledge & skills with the Group's talents.

- **Pre-employment training**

In 2022, Hengan Innovation Academy held the pre-employment training for newcomers, sharing information concerning development history, corporate culture, occupational psychology and career planning, etc. This may enable newcomers to rapidly fit into and become part of Hengan family and have a clearer understanding of their future career development.

- **Learning map workshop series training programme**

To clearly map out the path of talent development, the Group launched a "Learning Map Development Workshop" project in 2022, covering the business and trade, product category, and finance sequences. Many key employees were invited to the workshop to share their best business experience, so as to support the development of a learning map for our talents.



Learning workshop training programme

- **Collaboration between Hengan and Xiamen University on EDP**

On 4 September 2022, the EDP project jointly designed and held by the EDP Centre of School of Management of Xiamen University and Hengan Innovation Academy was officially launched. The programme focuses on the key competencies that executive teams need to break through and improve, through a series of teaching activities, it has helped Hengan's executives to learn from classical business theories and excellent management practices and reshape their business perceptions and mindsets within a year.



Collaboration with Xiamen University on EDP

- **Hengan Partners with Quanzhou College of Technology to Offer a "College and Enterprise Co-operated" Junior College Programme**

In support of the Fujian Provincial Department of Education's advocacy of developing talents with technical skills via the "College and Enterprise Co-operated" model, we have further improved the school-enterprise cooperation mechanism for fostering professional and technical talents. For example, Hengan and Quanzhou College of Technology have co-operated to offer several junior-college courses under this model — including mechatronics, food inspection and testing, and modern logistics management — for an all-win outcome for students, schools and enterprises.



The "College and Enterprise Co-operated" junior college programme offered by Hengan and Quanzhou College of Technology

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- **School-enterprise cooperation: internship, training and employment**

Since 2022, Hengan has held seminars with Jimei University, Quanzhou Normal University, the School of Electromechanics and Automation of Huaqiao University and Quanzhou Vocational and Technical University. The topics are centred on graduate employment, practical training bases, and industry-university-research cooperation. In addition, Hengan has signed cooperation agreements with Fuzhou University and Huaqiao University for internship, practical training and employment.



University-Enterprise cooperation and exchange with Jimei University



University-Enterprise cooperation and exchange with Quanzhou Normal University



University-Enterprise cooperation and exchange with the School of Electromechanics and Automation of Huaqiao University



University-Enterprise cooperation and exchange with Quanzhou Vocational and Technical University

- **Students of Fuzhou University visited Hengan for research study**

In June 2022, Fuzhou University organised a research study trip to Hengan, which included a visit to Hengan's production site, sharing of Hengan's corporate culture and development history, and storytelling of career planning by top executives.



Research study for Fuzhou University

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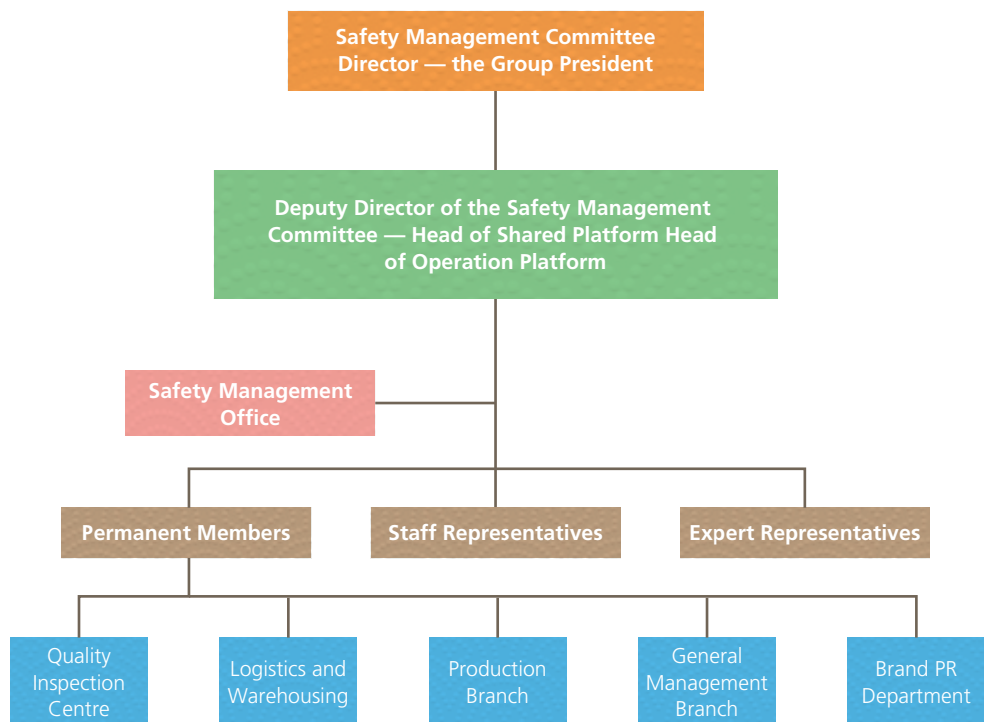
3. Health and Safety

3.1. Production safety

In 2019, Hengan introduced the *Comprehensive Safety Management Policy* (《全面安全管理制度》), which is applicable to all its departments and production subsidiaries. The policy sets out a comprehensive safety management concept of “all accidents can be prevented”; a principle of “safety and quality first, prevention first with comprehensive management, as well as continuous improvement and pursuit of excellence”; and a comprehensive safety management objective of “Five Requirements and Three Zeroes, full compliance, industry best, zero accidents and zero injuries”. Hengan has established relevant organisational responsibilities and process structures for safety, and strives to provide a safe working environment for its employees with sound management and predetermined control procedures. Each year, we carry out a series of safety and occupational health campaigns at our factories during the “Work Safety Month”, etc. In addition, the Group regularly summarises and analyses basic data on the safety works of each factory. In 2022, no major health and safety related incidents occurred.

➤ Management framework

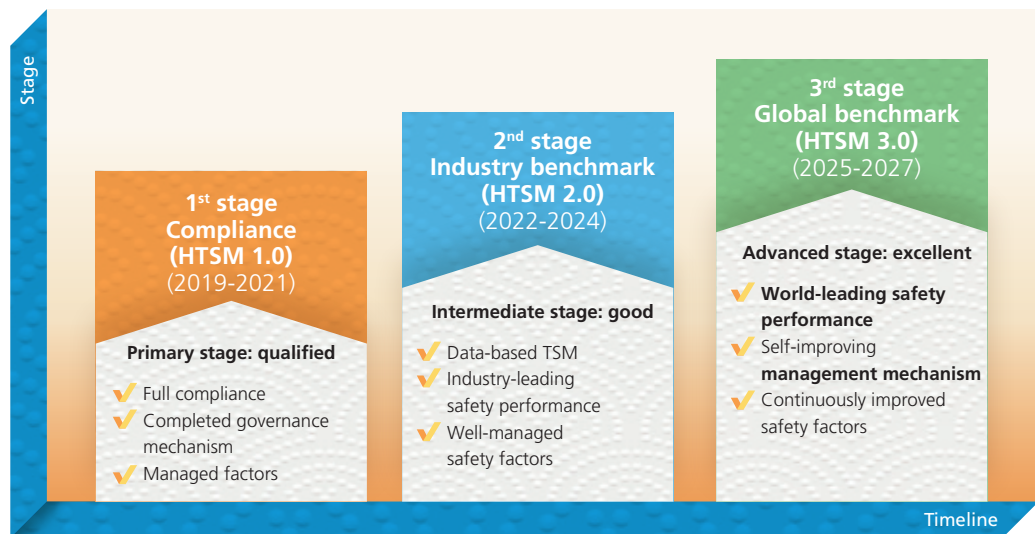
The Group strengthens safety management during production, facilitates standardizing safety management, safeguards safety of all employees and improves work efficiency of safety management through establishment of a Safety Management Committee to. Serving as a decision maker that directs comprehensive safety management within the Group, the Safety Management Committee is fully in charge of safety management from decision-making on major safety concerns to safety management oversight. The Safety Management Office, an executive arm headed by the Safety Management Committee, is responsible for organising monthly safety meetings and annual and semi-annual safety report meetings to review, follow up on and supervise the implementation of safety rules, policies and comprehensive management safety by business units.



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➤ Safety strategy

The Group established a comprehensive safety management project team, and formulated a “three-step” comprehensive safety management strategy to achieve the overall target of “Five Requirements and Three Zeroes” principle (“Full dimensions, Full workforce, Full process, Full space, Full time” and “No blind spots in segregation of duties, No dead end in coverage, No blind sides in safety”) from seven aspects, including quality, environment, production, fire protection, occupational health, administration, and warehouse distribution, so as to build Hengan into an industry benchmark with full compliance, zero accidents and zero injuries, and set a model for comprehensive safety management for the industry and private enterprises.



Since the launch of the comprehensive safety management project in 2018, taking into account its situations, the Group has established a standard for safety factors, improved the production safety accountability system, and formulated safety management-related protocols. The Group has also built demonstration workshops for safety, trained a group of safety management professionals and established a systematic approach to comprehensive safety management based on “Hazard Source Identification — Risk Management — Control Measures”, laying the foundation for the enterprise to fulfil social commitments and principal responsibility for production safety. The number of safety accidents in the Group has been in decline year on year, fully exemplifying the growing safety awareness and competence of department leaders and executives at all levels.

➤ Safety goals

The Group has set up the goals of full compliance, industry benchmark, zero accidents and zero injuries. We designate specific indicators and assessment requirements every year, and require the director of the safety management committee of the Group to sign the safety management target responsibility letter with each safety responsible entity to implement the annual safety goals. As at the end of the reporting period, the annual safety goals for 2022 set by the Group have been successfully achieved.

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➤ Management system

Hengan observes laws and regulations including 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 Prevention and Control of Occupational Diseases* (《中華人民共和國職業病防治法》), and internal rules and disciplines, including the *Comprehensive Safety Management Policy of Hengan Group* (《恒安集團全面安全管理制度》), the *Administrative Provisions on Maintenance of Fire-fighting System* (《消防維保管理規定》) and the *Employee Occupational Health Management* (《員工職業健康管理辦法》), as well as related procedures and standard lists, in an effort to continuously drive the improvement of the safety system covering the whole process of business operation process, and lay a good foundation for the realisation of the goal to “Gain RMB100 billion within 100 years” for Hengan. In 2022, all production companies of the Group and Weifang Thermal Power established the ISO 45001 Occupational Health and Safety Management System and passed the third-party certification, and the certification rate was 100%.

Total management system framework



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➤ Management measures

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:

- Unacceptable risks: formulate targets and management plans of occupational safety;
- Acceptable risks: require business centres and production sites of the Group to lay down regulations on management of safe production and operation procedures, which shall specify detailed control measures for various potential hazard sources and risks, so as to ensure that those hazard sources and risks are under control. Hengan formulated the *Comprehensive Emergency Response Plan for Production Safety Accidents* (《生產安全事故綜合應急預案》) by the *Guidelines for the Preparation of Emergency Response Plans for Production and Operation Entities (GB/T 29639-2020)* (《生產經營單位安全生產事故應急預案編製導則》) in 2021; in addition, Hengan issued the *Safety, Health and Environment Management Measures for Contractors* (《承包商安健環管理辦法》) in 2020 to regulate the safety, health and environment management of contractors of Hengan and its subsidiaries.
- Potential urgent situations (i.e., fire, leakage of flammables, typhoon, accidental injuries, etc.): require formulating emergency plans and corresponding control procedures to control the situations mentioned in line with the emergency procedures. Given their geographic locations, Hengan's production sites are highly exposed to typhoons and floods. Therefore, the Group issued the *Emergency Plan for Prevention of Typhoons and Floods* (《防颱抗洪應急預案》) in 2020 and issued the *Notice on Prevention of Summer Heat, Floods and Typhoons* (《夏季防署、防汛、防颱風工作通知》) in 2022 to set out the requirements and make preparations for the prevention and control of possible extreme weather conditions.

➤ Special training

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

The Group organises regularly safety rules training, firefighting training and drills to raise the safety awareness and self-protection capabilities of all employees. In addition to the Group's internal safety training, Hengan also provides safety training for contractors. In 2022, Hengan provided respective safety training for contractors such as "On-site Training on Safety of Performing Different Tasks Simultaneously by Operating Areas".

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Production Safety Month activities

Starting from June 2022, and with the timing of the 21st production safety month, the Group has launched activities such as safety knowledge promotion, safety month theme speech contest and fire-fighting skills competition in each production subsidiary to raise safety awareness for all employees. We help participants and audiences to acquire fire safety knowledge by means of various fun and educational activities, such as firefighting skills competitions. Additionally, we provide staff with hands-on experience with firefighting drills.



Fire-fighting skills competition during the production safety month

➤ Accident investigation

The Group has formulated detailed and comprehensive management regulations on the investigation and handling of safety accidents, and has standardised identification and classification, real time reporting, site protection, data collection, investigation organisation, investigation content, causes and responsibilities analysis, accident reporting, investigation settlement and data archiving of safety incidents.

The Group's safety accident reporting, investigation and handling must integrate the principle of "protecting people, quality and equipment". The Group will leave no stone unturned in the investigation and handling of accidents until the cause is clarified, the personnel subject to liabilities are held accountable, rectification measures are implemented, and the personnel concerned are criticised.

When a safety incident occurs, the safety representative will organise or assist in the thorough investigation of the safety incident and supervise the implementation of rectification measures according to his/her authority. Departments concerned will organise or participate in the investigation and handling according to their authority. Each department will summarise and submit the data on the rectification of the safety incident to the comprehensive safety representative and file it at the integrated service team.

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➤ Occupational health

The Group identifies and evaluates existing hazards in the workplace and takes necessary control measures to eliminate and reduce risks, including but not limited to:

- A third-party testing agency was entrusted to test the air and noise in the factory premises. 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;
- Provides annual occupational disease examinations for employees;
- 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;
- Hengan arranges annual physical examinations for employees and sets up a new gym at its headquarters for employees to work out and keep healthy status;
- Amid repeated resurgence of COVID-19, the Group sustains sound pandemic control, with the vaccination rate for employees reaching 100% as at the end of 2022;
- We provide our employees with group commercial insurance for special types of work, covering: group accidents, major illnesses, additional group medical service for accidents, voluntary additional group medical subsidies, and decease due to illnesses. In 2022, the number of employees insured at Hengan was 187.

3.2. Care for employees

Hengan cares about the well-being of its employees and encourages them to strike a balance between work and life. In 2022, we organized many interest and corporate cultural events to add colours to the spare time of our staff, including staff clubs, birthday parties and family days. In addition, we care for the underprivileged and regularly visit families in need and employees with disabilities, supporting and helping them in every way we can.

Hengan actively promotes the sense of belonging for female employees. For example, Hengan organises a series of care activities for them on Women's Day every year. In 2022, Hengan organised cultural and sports fun activities for female staff to strengthen their emotional bonding and advocate for female staff to have more fun in life while exercising for a strong body.



Hengan cultural and sports fun activities for female staff in 2022

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4. Anti-corruption Initiative

Hengan has always upheld the principle of "Bright and Fair" and operated with integrity in accordance with laws and regulations. Hengan strictly complies 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. Corruption and bribery are strictly prohibited in Hengan. All employees 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.

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. The Group signs Letters of Commitment relating to Integrity with employees in sensitive positions and management positions, including *Anti-Fraud Statement* (《反舞弊聲明》), *Interest Conflict Statement* (《利益衝突聲明》) and *Gift Policy Statement* (《禮品政策聲明》) to regulate employee behaviour.

The Group has established multiple reporting channels to get reporting clues from internal and external persons. Reporting clues will be accepted, preliminarily examined and investigated by personnel from different branches. 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. Employees and management who are confirmed in fraud events will be subject to internal sanctions. Employees who violate the law will transferred to judicial authorities for prosecution.



Reporting channels:

Tel.: 400-1044-315 185-5951-2828

WeChat Official Account: Integrity building in Hengan

Email: jubao@hengan.com

Mail or reception address: Audit Department, 13# Office Building, Hengan Industrial City, Anhai Town, Jinjiang City, Fujian Province

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

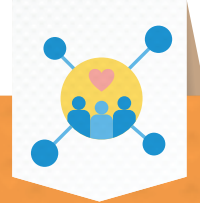
In order to protect whistle-blowers and investigators, the Group prohibits employees who receive reports or complaints or get involved in fraud investigation from offering information related to the report to any department or individual, and prohibits transferring reporting materials to the individual or department being reported. Otherwise, the person breaking the above rules will be deemed as engaged in fraud. The Group prohibits any illegal discrimination or retaliation and protects whistle-blowers and investigators in the investigation. For employees who threaten, intimidate and revenge the whistle-blowers and investigators, the Group will remove them from their posts or terminate their labour contracts. If they break the law, they will be referred to judicial authorities for prosecution. In 2022, Hengan had 4 corruption lawsuits filed and concluded against its employees.

Hengan has adopted various forms of measures such as rotation programmes, avoidance of relative recruiting and departure audit to promote the level of business integrity of the Group. It also strives to strengthen information sharing between members of the Board of Directors, managers and employees on internal control, anti-corruption and anti-commercial bribery through channels such as annual and semi-annual seminars, regular training, publicity and knowledge push from official account "Integrity building in Hengan", and orientation training so as to intensify anti-corruption awareness.

In addition, 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 requires suppliers to comply with the laws and regulations, such as 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》), and fights against commercial bribery and other unfair commercial practices. In addition, the Group has also entered into the *Integrity Agreement* (《廉潔協議書》) with suppliers, which has clarified suppliers' reporting obligations and violation responsibilities for commercial bribery/interest conflict. Hengan has adopted various forms of measures to promote the integrity in cooperation between the Group and suppliers, including procurement pricing meetings, supplier evaluation system, quality analysis meetings, analysis meetings for competitive products, as well as the business review meetings.

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V. HARMONIOUS AND WARM SOCIETY



Hengan is mindful of its responsibility to the community and takes an active part in causes of social welfare. 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 make utmost efforts to fight the pandemic, and show enthusiasm about and public welfare and philanthropy. They also care for the elderly and children, promote low-carbon living and support the development of culture and sports. In 2022, Hengan donated a total of RMB66 million to social welfare causes. The cumulative service hours of 362 volunteers reached 2,782.

In 2022, Hengan won numerous awards and received recognition from the community for its generous commitment to charity causes. In gratitude, Hengan will make continuous contributions to community investment and public welfare, and actively fulfils its social citizenship obligations.



The Driving Force for Good Award of 2021



The Responsible Business Leader of 2021



The Most Socially Responsible Brand of Listed Companies in China

1. Fighting against the Pandemic

Since the recurrence of the pandemic in 2022, some provinces and cities have imposed lockdowns. The Group has been highly concerned about the health and safety of the communities and has donated supplies to the affected regions to ensure adequate supplies for the prevention of the pandemic.

- On 11 January 2022, a new wave of the pandemic broke out in Xi'an. In response, Hengan, with the help of the China Women's Development Foundation, delivered supplies to the front line against the virus.



Hengan donated supplies to Xi'an during the pandemic

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- Following an outbreak in Quanzhou on 27 March 2022, Hengan Group donated RMB30 million, comprising RMB15 million in cash and RMB15 million worth of pandemic prevention supplies, in the spirit of “Support for Quanzhou and Stability for Nation”.



Hengan donated supplies to Quanzhou

- On 13 April 2022, a wave of infection hit Shanghai. In response, Hengan Group donated RMB6 million worth of supplies, comprising RMB5 million through China Children and Teenagers’ Fund and RMB1 million through Zhong Nanshan Medical Foundation of Guangdong Province and other organizations.



Hengan donated supplies to communities affected by the pandemic in Shanghai

2. Caring for Women

Hengan is committed to the empowerment of women in society and caring for women via a variety of means, including supporting girls’ right to education and caring for their mental health. In 2022, Hengan donated supplies to women and girls from underprivileged families, and for four consecutive years, it invested in the “Spring Bud Project” to hand out “Growth Energy Packs” and other supplies to girls to support their healthy growth.

- Hengan cares for women from economically disadvantaged families. In 2022, Hengan donated 8,000 boxes of supplies worth a total of RMB1.73 million to women and girls, in urgent need of help, from disadvantaged families in Guang’an, Sichuan Province.



Hengan donated supplies to women from economically disadvantaged families

- On 30 June 2022, China Children and Teenagers’ Fund, in collaboration with Hengan Group and Jiangxi Women’s Federation, kicked off the “Spring Buds for the Cause of the Party” — the 2022 “Children and Teenagers for the Cause of the Party” themed education campaign in Jinggang Mountain. At the event, China Children and Teenagers’ Fund and Hengan Group presented the “Creating the Future — Growth Energy Pack for Girls” to Spring Bud girls from Jinggangshan City for their adolescent growth.



2022 Hengan “Spring Bud” Project “Children and Teenagers for the Cause of the Party” themed education event

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- On 20 September 2022, a girl caring campaign named “Stability for Family and Nation, Creating Dreams of the Future, Supporting Growth” was launched by China Children and Teenagers’ Fund in collaboration with Hengan Group, Hami City Women’s Federation and Yiwu County Women’s Federation at Naomaohu Town Secondary School in Yiwu County, as part of Hengan’s continuous investment in the Spring Bud Project.



2022 Hengan “Spring Bud” Project
“Stability for Family and Nation,
Creating Dreams of the Future,
Supporting Growth” campaign.

3. Supporting Disaster-struck Areas

On 10 June 2022, multiple earthquakes struck Maerkang in Aba Prefecture, Sichuan Province, affecting more than 25,000 people. We were concerned about the well-being of people affected by the disaster and donated hygiene supplies to them.

- On 3 July 2022, Hengan Group joined hands with Sichuan Aba Women’s Federation and Maerkang Women’s Federation to launch a charity campaign named “Caring for Women and Children Affected by the 6.10 Maerkang Earthquake”. During the campaign, we donated RMB640,000 worth of Space 7 sanitary napkins, Anerle and Q•MO baby nappies to women and children in the affected areas in Caodeng, Ribu, Kangshan and Longerja townships of Maerkang.



Caring for women and children affected
by the 6.10 Maerkang Earthquake

4. Helping the Vulnerable

While pursuing business growth, Hengan does not forget to repay its hometown. In 2022, we signed on the fund-raising agreement issued jointly by the Federation of Trade Unions, the Federation of Industry and Commerce, and the General Association of Charities of Jinjiang to provide support for the new residents of Jinjiang. In this way, Hengan takes on the responsibility of an enterprise for the people and shows the spirit of an excellent Jinjiang enterprise.

- On 27 March 2022, the Federation of Trade Unions, the Federation of Industry and Commerce, and the General Association of Charity of Jinjiang jointly issued a fundraising initiative to provide support for new residents in Jinjiang, and Hengan Group was the first to support the initiative by donating RMB10 million in cash.



Donation for the “Initiative to Provide
Support for New Residents in Jinjiang”

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KPI SUMMARY TABLE

1. Environmental KPIs

The environmental KPIs in the ESG Report cover 23 production companies (27 production bases) and Weifang Thermal Power.

	2022	2021	2020	Unit
Waste gas emissions (Paper production sector)				
NO _x ¹	153	127	239	tonnes
SO ₂ ¹	55	38	59	tonnes
Smoke and Dust	16	16	24	tonnes
Dust particles ¹	21	19	19	tonnes
Waste water discharge²				
Total waste water discharge	5,042,726	4,625,679	4,729,837	tonnes
Waste water discharge (Paper production sector)				
Intensity of waste water discharge	3.1	3.0	3.1	tonnes/tonnes of paper
COD emissions	155	139	117	tonnes
Intensity of COD emissions	43.0	43.1	35.9	mg/L
N-NH ₃ emissions	9.1	10.6	2.9	tonnes
Intensity of N-NH ₃ emissions	2.5	3.3	0.9	mg/L
Waste emissions³				
Hazardous waste emissions	81	87	42	tonnes
Hazardous waste emission intensity	0.04	0.04	0.02	kg/revenue in RMB10,000
Non-hazardous waste emissions ⁴	106,515	112,011	155,282	tonnes
Non-hazardous waste emission intensity ⁴	47.1	53.9	66.3	kg/revenue in RMB10,000
GHG emissions⁵				
Direct emissions (Scope 1)	581,532	547,925	795,184	tCO ₂ e
Energy indirect emissions (Scope 2)	934,270	804,328	811,868	tCO ₂ e
Total GHG emissions	1,515,802	1,352,253	1,607,051	tCO ₂ e
GHG emission intensity	0.67	0.65	0.69	tCO ₂ e/revenue in RMB10,000
GHG emissions (Paper production sector)⁶				
GHG emissions	1,076,237	913,707	1,239,433	tCO ₂ e
GHG emission intensity	0.99	1.00	1.19	tCO ₂ e/tonnes of paper

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	2022	2021	2020	Unit
Energy consumption⁷				
Direct energy consumption⁸	2,109,050	1,974,687	2,763,465	MWh
Natural gas	89,474,684	81,502,433	95,311,855	m ³
Anthracite	178,672	171,135	271,228	tonnes
Indirect energy consumption⁸	1,651,601	1,400,313	1,427,984	MWh
Purchased electricity	100,747	89,892	96,614	10,000 kWh
Purchased steam and heat	2,318,874	1,805,002	1,662,649	GJ
Total energy consumption	3,760,651	3,375,000	4,191,459	MWh
Energy consumption intensity	1.7	1.6	1.8	MWh/revenue in RMB10,000
Energy consumption (Paper production sector)⁹				
Total energy consumption	341,472	293,339	385,458	tce
Energy consumption intensity	0.31	0.32	0.37	tce/tonnes of paper
Water consumption				
Total water consumption	8,536,171	8,053,423	9,148,196	tonnes
Including:				
Water consumption (Tap water)	4,950,245	5,753,050	7,804,200	tonnes
Water consumption (Reservoir water)	3,585,926	2,300,373	1,343,996	tonnes
Water consumption intensity	3.8	3.9	3.9	tonnes/revenue in RMB10,000
Water consumption (Paper production sector)¹⁰				
Water consumption ¹¹	6,138,848	4,791,613	6,387,404	tonnes
Water consumption intensity	5.6	5.2	6.1	tonnes/tonnes of paper
Packaging material consumption				
Total packaging material used	113,457	103,378	109,475	tonnes
Intensity of packaging material used	0.05	0.05	0.05	tonnes/revenue in RMB10,000

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Notes:

1. Due to the paper production increase in production companies in 2022, the emissions of NO_x, SO₂ and dust particles in 2022 are higher than those in 2021;
2. Due to the production increase in 2022, product adjustment in some production companies, and the testing and application of new production equipment, the waste water discharge in 2022 is higher than that in 2021, as well as the emissions of COD of paper production sector in 2022. However, the wastewater discharge intensity, COD discharge concentration and N-NH₃ discharge concentration were far less than the standard under the *Discharge Standard of Water Pollutants for Pulp & Paper Industry (GB3544-2008)* (《製漿造紙工業水污染物排放標準》);
3. Hazardous waste of the Group includes mercuric tubes, used batteries, cartridges, waste oil (such as lubes, engine oil), used ink bottles, used additive bottles, used detergent bottles, waste white mineral oil barrels etc.; non-hazardous waste includes sludge, wetproof, cinder, production waste, domestic waste, gypsum, coal ash, etc.;
4. Due to the craft upgrade in some production companies in 2022, the cinder, gypsum and other production wastes emissions decreased and the non-hazardous wastes in 2022 are lower than those in 2021;
5. 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 production increase in some production companies in 2022, the total energy consumption in 2022 is higher than that in 2021, causing an increase in the GHG emissions, while the GHG emissions intensity remains stable;
6. Since the paper production sector is the main source of the Group's GHG emissions, 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;
7. 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;
8. Due to the production increase in some production companies in 2022, the total energy consumption in 2022 is higher than that in 2021.
9. Since the energy consumption of paper production sector accounts for a relatively high proportion of that of the Group, the energy consumption and intensity of energy for production of each tonne of paper in the paper production sector are separately disclosed here; Due to the paper production increase in paper production business in 2022, the energy consumption of paper production sector in 2022 is higher than that in 2021, while the energy consumption intensity is lower than that in 2021, and which is 25% lower than the advanced value requirement of the *Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825-2015)* (《製漿造紙單位產品能源消耗限額》);
10. Since the water consumption of the paper production sector accounts for a large proportion of that of the Group, the water consumption and intensity of water for production of each tonne of paper in the paper production sector are separately disclosed here;
11. Due to the paper production increase in some production companies in 2022, the water consumption of paper production sector in 2022 is higher than that in 2021, while the water consumption intensity of paper production sector is still 81.2% lower than the national standard upper limit of water withdrawal per tonne of product specified in *Water Quotas Part 5: Paper Products (GB/T18916.5-2012)* (《取水定額第5部分：造紙產品》).

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2. Social KPIs

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

	2022	2021	2020	Unit
Employee Overview				
Total workforce	23,000	23,000	25,000	Person
By gender				
Male	42%	41%	41%	
Female	58%	59%	59%	
By age group				
Under 30	22%	24%	27%	
30–49	72%	71%	70%	
50 and above	6%	5%	3%	
By employee type				
Full time	99.996%	100%	100%	
Part-time	0.004%	0	0	
By region				
Northeast region	5.0%	5%	5%	
Fujian, Jiangxi	28.4%	31%	36%	
Guangdong, Guangxi, Hainan, Hunan, Hubei	19.6%	19%	17%	
North China region	5.0%	5%	4%	
East China region	13.5%	13%	12%	
Shandong, Henan	11.4%	11%	10%	
Northwest region	5.1%	5%	5%	
Southwest region	11.9%	11%	11%	
Hongkong and overseas	0.1%	/	/	
Proportion of female by job title				
General manager and above	12%	16%	13%	
Manager	30%	37%	35%	
Functional staff	40%	40%	39%	
Junior staff	92%	92%	89%	

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	2022	2021	2020	Unit
Employee turnover rate ¹				
By gender				
Male	33%	24%	27%	
Female	29%	22%	30%	
By age group				
Under 30	63%	35%	43%	
30-49	21%	18%	23%	
Aged 50 and above	28%	27%	34%	
By region				
Northeast region	20%	19%	23%	
Fujian, Jiangxi	34%	23%	30%	
Guangdong, Guangxi, Hainan, Hunan, Hubei	31%	24%	24%	
North China region	26%	17%	28%	
East China region	35%	24%	32%	
Shandong, Henan	22%	21%	27%	
Northwest region	37%	23%	33%	
Southwest region	32%	25%	33%	
Hongkong and overseas	0	/	/	
Development and Training				
Ratio of employees trained ²				
By gender				
Male	92%	80%	86%	
Female	77%	51%	51%	
By job title				
General manager and above	52%	42%	50%	
Manager	85%	61%	60%	
Functional staff	94%	68%	74%	
Junior staff	66%	58%	54%	
Average training hours of employees	12	10	8	Hour
By gender				
Male	14	15	13	Hour
Female	10	7	5	Hour
By job title				
General manager and above	6	4	4	Hour
Manager	13	9	7	Hour
Functional staff	13	11	10	Hour
Junior staff	9	9	6	Hour

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	2022	2021	2020	Unit
Health and Safety				
Incidence of occupational diseases	0	0	0	
Number of work injuries	69	51	70	Occurrence
Number of days lost due to work injury	2,883	3,033	3,147	Day
Number of work-related fatalities	0	0	0	Person
Supply Chain Management				
Total number of raw and auxiliary materials suppliers	624	663	728	Supplier
By country				
China	592	624	670	Supplier
America	5	5	7	Supplier
India	3	3	6	Supplier
Others	24	31	45	Supplier
Product Responsibility				
Percentage of recall for safety and health reasons	0	0	0	
Anti-corruption				
Number of concluded legal cases regarding corrupt practices brought against the Group's employees during the reporting period	4	2	2	Case
Community Investment				
Hengan Group's charitable and other donations	6,600	2,100	2,300	RMB10,000
Volunteer hours	2,782	1,196	1,116	Hour

Notes:

1. The calculation method of the Group's employee turnover rate is Employees in the specified category leaving employment during the reporting year / Total number of employees in the specified category at the end of the reporting year (excluding the turnover during the probation period);
2. The calculation method of the Group's employee training ratio is the number of employees in the specified category who took part in training / the total number of employees in the specified category.

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GRI STANDARDS INDEX

GRI Standards Number	Disclosure Title	Report Section(s)
GRI 2: General Disclosures 2021	2-1 Organization details	About the Group
	2-2 Entities included in the organization's sustainability reporting	About the Report
	2-3 Reporting period, frequency and contact point	About the Report Readers Feedback Form
	2-4 Restatements of information	No significant changes
	2-5 External assurance	/
	2-6 Activities, value chain and other business relationships	About the Group
	2-7 Employees	Healthy and High-quality Workplace — Protection of Rights and Interests
	2-8 Workers who are not employees	/
	2-9 Governance structure and composition	ESG Governance — Governance Structure
	2-10 Nomination and selection of the highest governance body	/
	2-11 Chair of the highest governance body	/
	2-12 Role of the highest governance body in overseeing the management of impacts	ESG Governance — Governance Structure
	2-13 Delegation of responsibility for managing impacts	ESG Governance — Governance Structure
	2-14 Role of the highest governance body in sustainability reporting	ESG Governance — Governance Structure
	2-15 Conflicts of interest	/
	2-16 Communication of critical concerns	ESG Governance — Material Topics ESG Governance — Stakeholders' Communication
	2-17 Collective knowledge of the highest governance body	ESG Governance — Governance Structure
	2-18 Evaluation of the performance of the highest governance body	/
	2-19 Remuneration policies	/
	2-20 Process to determine remuneration	/

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GRI Standards Number	Disclosure Title	Report Section(s)
	2-21 Annual total compensation ratio	/
	2-22 Statement on sustainable development strategy	ESG Governance — ESG Strategy
	2-23 Policy commitments	Healthy and High-quality Workplace — Protection of Rights and Interests
	2-24 Embedding policy commitments	Healthy and High-quality Workplace — Protection of Rights and Interests
	2-25 Processes to remediate negative impacts	Healthy and High-quality Workplace — Anti-corruption Initiative
	2-26 Mechanisms for seeking advice and raising concerns	Healthy and High-quality Workplace — Protection of Rights and Interests
	2-27 Compliance with laws and regulations	No significant violations
	2-28 Membership associations	About the Group
	2-29 Approach to stakeholder engagement	ESG Governance — Stakeholders' Communication
	2-30 Collective bargaining agreements	Healthy and High-quality Workplace — Protection of Rights and Interests
GRI 3: Material Topics 2021	3-1 Process to determine material topics	ESG Governance — Material Topics
	3-2 List of material topics	ESG Governance — Material Topics
	3-3 Management of material topics	ESG Governance — Material Topics ESG Governance — Stakeholders' Communication
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	/
	201-2 Financial implications and other risks and opportunities due to climate change	Green and Low-carbon Path — Climate Change
	201-3 Defined benefit plan obligations and other retirement plans	/
	201-4 Financial assistance received from government	/
GRI 202: Market Presence 2016	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	/
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	/
	203-2 Significant indirect economic impacts	/

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GRI Standards Number	Disclosure Title	Report Section(s)
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	/
	205-1 Operations assessed for risks related to corruption	/
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	Healthy and High-quality Workplace — Anti-corruption Initiative
	205-3 Confirmed incidents of corruption and actions taken	/
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Responsible Operation and Innovation — Service Enhancement
	207-1 Approach to tax	Refer to annual report
GRI 207: Tax 2019	207-2 Tax governance, control, and risk management	Refer to annual report
	207-3 Stakeholder engagement and management of concerns related to tax	Refer to annual report
	207-4 Country-by-country reporting	Refer to annual report
GRI 301: Materials 2016	301-1 Materials used by weight or volume	Environmental KPIs
	301-2 Recycled input materials used	/
	301-3 Reclaimed products and their packaging materials	Green and Low-carbon Path — Resource Management
GRI 302: Energy 2016	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	Green and Low-carbon Path — Climate Change
	302-5 Reductions in energy requirements of products and services	Green and Low-carbon Path — Climate Change
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	/
	303-2 Management of water discharge-related impacts	Green and Low-carbon Path — Resource Management
	303-3 Water withdrawal	Environmental KPIs
	303-4 Water Discharge	Environmental KPIs
	303-5 Water Consumption	Environmental KPIs
GRI 304: Biodiversity 2016	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	/

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GRI Standards Number	Disclosure Title	Report Section(s)
GRI 305: Emissions 2016	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	Environmental KPIs
	305-6 Emissions of ozone-depleting substances (ODS)	/
	305-7 Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	Environmental KPIs
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	Green and Low-carbon Path — Compliant Emission
	306-2 Management of significant waste-related impacts	Green and Low-carbon Path — Compliant Emission
	306-3 Waste generated	Green and Low-carbon Path — Compliant Emission
	306-4 Waste diverted from disposal	Green and Low-carbon Path — Compliant Emission
	306-5 Waste directed to disposal	Green and Low-carbon Path — Compliant Emission
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	Responsible Operation and Innovation — Joining Hands for Progress
	308-2 Negative environmental impacts in the supply chain and actions taken	Responsible Operation and Innovation — Joining Hands for Progress
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Social KPIs
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Healthy and High-quality Workplace — Protection of Rights and Interests
	401-3 Parental leave	/
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	The Group strictly abides by relevant laws and regulations

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GRI Standards Number	Disclosure Title	Report Section(s)
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	Healthy and High-quality Workplace — Health and Safety
	403-2 Hazard identification, risk assessment, and incident investigation	Healthy and High-quality Workplace — Health and Safety
	403-3 Occupational health services	Healthy and High-quality Workplace — Health and Safety
	403-4 Worker participation, consultation, and communication on occupational health and safety	Healthy and High-quality Workplace — Health and Safety
	403-5 Worker training on occupational health and safety	Healthy and High-quality Workplace — Health and Safety
	403-6 Promotion of worker health	Healthy and High-quality Workplace — Health and Safety
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	/
	403-8 Workers covered by an occupational health and safety management system	Healthy and High-quality Workplace — Health and Safety
	403-9 Work-related injuries	Social KPIs
	403-10 Work-related ill health	Healthy and High-quality Workplace — Health and Safety
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	Social KPIs
	404-2 Programs for upgrading employee skills and transition assistance programs	Healthy and High-quality Workplace — Talent Cultivation
	404-3 Percentage of employees receiving regular performance and career development reviews	Healthy and High-quality Workplace — Talent Cultivation
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Healthy and High-quality Workplace — Protection of Rights and Interests
	405-2 Ratio of basic salary and remuneration of women to men	/
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Healthy and High-quality Workplace — Protection of Rights and Interests
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	/
GRI 408: Child Labor	408-1 Operations and suppliers at significant risk for incidents of child labor	/
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	/
GRI 410: Security Practices 2016	410-1 Security personnel trained in human rights policies or procedures	/

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GRI Standards Number	Disclosure Title	Report Section(s)
GRI 411: Rights of Indigenous Peoples 2016	411-1 Incidents of violations involving rights of indigenous peoples	Not applicable
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Harmonious and Warm Society
	413-2 Operations with significant actual and potential negative Impacts on local communities	/
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	Responsible Operation and Innovation — Joining Hands for Progress
	414-2 Negative social impacts in the supply chain and actions taken	/
GRI 415: Public Policy 2016	415-1 Political contributions	Not applicable
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Responsible Operation and Innovation — Product Quality
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Responsible Operation and Innovation — Product Quality
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	Responsible Operation and Innovation — Service Enhancement
	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
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	During the reporting period, the Group did not have corresponding violations

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ESG REPORTING GUIDE INDEX

KPI	Description	Report 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.	Green and Low-carbon Path — Resource Management Green and Low-carbon Path — Compliant Emission
A1.1	The types of emissions and respective emissions data.	Environmental KPIs
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity.	Environmental KPIs
A1.3	Total hazardous waste produced and, where appropriate, intensity.	Environmental KPIs
A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Environmental KPIs
A1.5	Description of emissions target(s) set and steps taken to achieve them.	Green and Low-carbon Path — Climate Change
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Green and Low-carbon Path — Compliant Emission
A2	Use of Resource	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Green and Low-carbon Path — Climate Change Green and Low-carbon Path — Resource Management
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Environmental KPIs
A2.2	Water consumption in total and intensity.	Environmental KPIs
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Green and Low-carbon Path — Climate Change
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Green and Low-carbon Path — Climate Change Green and Low-carbon Path — Resource Management
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Environmental KPIs
A3	The Environment and Natural Resources	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Green and Low-carbon Path — Climate Change
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green and Low-carbon Path — Climate Change

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KPI	Description	Report Section(s)
A4	Climate Change	
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Green and Low-carbon Path — Climate Change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Green and Low-carbon Path — Climate Change
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.	Healthy and High-quality Workplace — Protection of Rights and Interests
B1.1	Total workforce by gender, employment type, age group and geographical region.	Social KPIs
B1.2	Employee turnover rate by gender, age group and geographical region.	Social KPIs
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.	Healthy and High-quality Workplace — Health and Safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Social KPIs
B2.2	Lost days due to work injury.	Social KPIs
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Healthy and High-quality Workplace — Health and Safety
B3	Development and Training	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Healthy and High-quality Workplace — Talent Cultivation
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Social KPIs
B3.2	The average training hours completed per employee by gender and employee category.	Social KPIs

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KPI	Description	Report 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.	Healthy and High-quality Workplace — Protection of Rights and Interests
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Healthy and High-quality Workplace — Protection of Rights and Interests
B4.2	Description of steps taken to eliminate such practices when discovered.	Healthy and High-quality Workplace — Protection of Rights and Interests
B5	Supply Chain Management	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Responsible Operation and Innovation — Joining Hands for Progress
B5.1	Number of suppliers by geographical region.	Responsible Operation and Innovation — Joining Hands for Progress Social KPIs
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Responsible Operation and Innovation — Joining Hands for Progress
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Responsible Operation and Innovation — Joining Hands for Progress
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Responsible Operation and Innovation — Joining Hands for Progress
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.	Responsible Operation and Innovation — Product Quality Responsible Operation and Innovation — Service Enhancement
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Social KPIs
B6.2	Number of products and service related complaints received and how they are dealt with.	Responsible Operation and Innovation — Service Enhancement Social KPIs
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Responsible Operation and Innovation — Product Innovation
B6.4	Description of quality assurance process and recall procedures.	Responsible Operation and Innovation — Product Quality
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Responsible Operation and Innovation — Information Protection

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KPI	Description	Report 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.	Healthy and High-quality Workplace — Anti-corruption Initiative
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.	Healthy and High-quality Workplace — Anti-corruption Initiative
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Healthy and High-quality Workplace — Anti-corruption Initiative
B7.3	Description of anti-corruption training provided to directors and staff.	Healthy and High-quality Workplace — Anti-corruption Initiative
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.	Harmonious and Warm Society
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Harmonious and Warm Society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Harmonious and Warm Society Social KPIs

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

READERS FEEDBACK FORM

Thank you for reading the “Hengan 2022 Environmental, Social and Governance Report”. In order to provide more valuable information to the Group’s stakeholders and improve the ability and level of social responsibilities, Hengan sincerely invites you to put forward comments or suggestions about this report.

You can fill out the feedback form and send the form in any of the following ways:

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 the Group’s 2022 ESG Report?

<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible
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 2. How would you rate the social and environmental responsibilities of Hengan?

Social Responsibility	<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible
Environmental responsibility	<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible

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

<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible
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 4. How would you rate the clarity, accuracy and completeness of the information, data and indicators disclosed in this Report?

Clarity	<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible
Accuracy	<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible
Completeness	<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor	<input type="checkbox"/> Terrible

 5. Do you think the contents and formatting of this Report are easy to read?

<input type="checkbox"/> Yes	<input type="checkbox"/> Neutral	<input type="checkbox"/> No
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 6. Feel free to share any comments or suggestions you may have on the Group and this Report:
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