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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1044)

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

"Growing with You for a Better Life"

2022 ANNUAL RESULTS FINANCIAL SUMMARY

	2022 *RMB'000*	2021 *RMB'000*	Change %
Revenue	**22,615,878**	20,790,144	8.8%
Gross profit margin (%)	**34.0%**	37.4%	
Operating Profit	**2,869,154**	4,543,591	–36.9%
Profit attributable to shareholders	**1,925,249**	3,273,601	–41.2%
Less: Exchange (losses)/gains from operating activities — net after tax	**(901,210)**	113,581	–893.5%
Profit attributable to shareholders (Excluding exchange (losses)/gains from operating activities — net after tax)	**2,826,459**	3,160,020	–10.6%
Earnings per share			
— Basic	**RMB1.657**	RMB2.786	–40.5%
— Diluted	**RMB1.657**	RMB2.786	–40.5%
Dividends			
— Interim (paid)	**RMB0.70**	RMB1.00	
— Final (proposed/paid)	**RMB0.70**	RMB0.70	
Accounts receivable turnover (days)	**48**	56	
Finished goods turnover (days)	**43**	50	
Current ratio (times)	**1.4**	1.2	
Rate of return (%)	**9.9%**	17.2%	

* *For identification purposes only*

RESULTS

The Board of Directors of Hengan International Group Company Limited (the "Company" or "Hengan International" or "恒安國際") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2022, together with the comparative figures for the previous year, as follows:

Consolidated statement of profit or loss

	Note	Year ended 31 December **2022** *RMB'000*	2021 *RMB'000*
Revenue	*2*	**22,615,878**	20,790,144
Cost of goods sold		**(14,926,379)**	(13,017,826)
Gross profit		**7,689,499**	7,772,318
Selling and distribution costs		**(3,369,466)**	(3,153,718)
Administrative expenses		**(1,519,347)**	(1,372,575)
Net impairment losses on financial assets		**(19,231)**	(9,425)
Other income and other gains — net		**87,699**	1,306,991
Operating profit		**2,869,154**	4,543,591
Finance income		**445,865**	294,662
Finance costs		**(468,159)**	(465,565)
Finance costs — net		**(22,294)**	(170,903)
Share of net losses of associates		**(13,574)**	(43,122)
Profit before income tax	*3*	**2,833,286**	4,329,566
Income tax expense	*4*	**(883,986)**	(1,039,362)
Profit for the year		**1,949,300**	3,290,204
Profit attributable to:			
Shareholders of the Company		**1,925,249**	3,273,601
Non-controlling interests		**24,051**	16,603
		1,949,300	3,290,204
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*5*	**RMB1.657**	RMB2.786
— Diluted	*5*	**RMB1.657**	RMB2.786

Consolidated statement of comprehensive income

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit for the year	**1,949,300**	3,290,204
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(238,713)**	(14,428)
Items that will not be subsequently reclassified to profit or loss		
— Currency translation differences	**368,951**	–
Total comprehensive income for the year	**2,079,538**	3,275,776
Attributable to:		
Shareholders of the Company	**2,047,519**	3,268,302
Non-controlling interests	**32,019**	7,474
Total comprehensive income for the year	**2,079,538**	3,275,776

Consolidated balance sheet

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**7,099,255**	7,296,727
Right-of-use assets		**1,192,081**	979,055
Construction-in-progress		**969,210**	509,647
Investment properties		**166,696**	216,293
Intangible assets		**656,976**	724,778
Prepayments for non-current assets		**460,660**	468,652
Deferred income tax assets		**532,204**	544,762
Investments in associates		**43,576**	53,330
Financial assets at fair value through profit or loss		**212,572**	194,342
Long-term bank time deposits		**2,895,490**	4,035,960
		14,228,720	15,023,546
Current assets			
Inventories		**4,544,935**	4,162,477
Trade and bills receivables	*7*	**2,931,887**	2,970,182
Other receivables, prepayments and deposits		**1,920,248**	1,881,213
Current income tax recoverable		**42,168**	7,427
Derivative financial instruments		**1,490**	913
Restricted bank deposits		**302**	303
Cash and bank balances		**18,667,492**	18,246,687
		28,108,522	27,269,202
Total assets		**42,337,242**	42,292,748
Equity			
Equity attributable to shareholders of the Company			
Share capital		**123,345**	123,345
Other reserves		**3,143,018**	2,862,648
Retained earnings		**16,257,244**	16,051,047
		19,523,607	19,037,040
Non-controlling interests		**252,130**	243,410
Total equity		**19,775,737**	19,280,450

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	9	**2,001,334**	739,342
Lease liabilities		**16,636**	10,843
Deferred income tax liabilities		**149,433**	224,633
		2,167,403	974,818
Current liabilities			
Trade and bills payables	8	**2,920,685**	2,565,486
Other payables and accrued charges		**1,671,547**	1,455,267
Contract liabilities		**453,741**	225,627
Derivative financial instruments		**32,838**	5,028
Lease liabilities		**18,109**	17,607
Current income tax liabilities		**268,564**	280,712
Borrowings	9	**15,028,618**	17,487,753
		20,394,102	22,037,480
Total liabilities		**22,561,505**	23,012,298
Total equity and liabilities		**42,337,242**	42,292,748

1. Basis of preparation and principal accounting policies

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments and unlisted preference shares) at fair value through profit or loss, which are carried at fair value.

(i) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group assessed the adoption of these new and amended standards and concluded that they did not have a significant impact on the Group's results and financial position.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 31 December 2022 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023

Standards and amendments		Effective for annual periods beginning on or after
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKFRS 16	Lease liability in a sale and leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2. Revenue and segment information

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

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

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

	2021				
	Sanitary napkins products *RMB'000*	Disposable diapers products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Segment revenue	6,167,719	1,293,759	10,713,445	4,468,751	22,643,674
Inter-segment sales	(51,189)	(74,314)	(871,016)	(857,011)	(1,853,530)
Revenue of the Group	6,116,530	1,219,445	9,842,429	3,611,740	20,790,144
Segment profit	2,712,686	77,951	422,558	43,245	3,256,440
Unallocated costs					(19,840)
Other income and other gains — net					1,306,991
Operating profit					4,543,591
Finance income					294,662
Finance costs					(465,565)
Share of net losses of associates					(43,122)
Profit before income tax					4,329,566
Income tax expense					(1,039,362)
Profit for the year					3,290,204
Non-controlling interests					(16,603)
Profit attributable to shareholders of the Company					3,273,601
Other items for the year ended 31 December 2021					
Additions to non-current assets	157,674	43,390	373,306	66,026	640,396
Depreciation of property, plant and equipment and investment properties	172,309	38,910	528,608	50,453	790,280
Depreciation of right-of-use assets	12,107	3,444	23,401	7,551	46,503
Amortisation charge	19,769	–	324	14,025	34,118
As at 31 December 2021					
Segment assets	4,190,495	1,279,550	11,414,922	2,163,264	19,048,231
Deferred income tax assets					544,762
Current income tax recoverable					7,427
Investments in associates					53,330
Financial assets at fair value through profit and loss					194,342
Long-term time deposits					4,035,960
Cash and bank balances					18,246,687
Unallocated assets					162,009
Total assets					42,292,748
Segment liabilities	1,027,890	272,345	2,434,935	453,465	4,188,635
Deferred income tax liabilities					224,633
Current income tax liabilities					280,712
Borrowings					18,227,095
Unallocated liabilities					91,223
Total liabilities					23,012,298

3. Profit before income tax

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

	2022	2021
	RMB'000	*RMB'000*
Crediting		
Government grants income *(Note)*	**546,165**	477,502
Interest income from cash and cash equivalents	**330,056**	282,629
Income from long-term and short-term bank time deposits	**537,444**	679,024
Fair value gains on financial assets at fair value through profit and loss	**–**	41,908
Exchange gains from financing activities — net	**115,809**	12,033
Realised fair value gains on derivative financial instruments	**5,889**	15,449
Charging		
Depreciation of property, plant and equipment	**793,670**	783,973
Depreciation of right-of-use assets	**53,694**	46,503
Amortisation of intangible assets	**33,410**	34,118
Employee benefit expense, including Directors' emoluments	**2,134,375**	1,946,671
Marketing and advertising expenses	**1,067,215**	957,548
Repairs and maintenance expenses	**145,835**	151,343
Losses on disposal of property, plant and equipment, intangible assets and right-of-use assets	**69,245**	31,339
Utilities and various office expenses	**867,427**	731,600
Transportation and loading expenses	**1,068,499**	891,176
Short-term and low-value lease expenses	**74,217**	86,684
Net impairment losses on financial assets	**19,231**	9,425
Exchange losses/(gains) from operating activities — net	**912,865**	(109,152)
Provision for inventories write-down	**13,095**	6,594
Share of net losses of associate	**13,574**	43,122
Unrealised fair value losses on derivative financial instruments	**31,348**	4,174
Interest expenses on borrowing after deducting interest expenses of RMB11,087,000 (2021: RMB5,978,000) capitalised in construction-in-progress	**466,638**	464,225

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

4. Income tax expense

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

	2022	2021
	RMB'000	*RMB'000*
Current income tax		
– Current tax on profits for the year	**770,263**	931,197
– PRC withholding income tax	**176,016**	208,848
Deferred income tax, net	**(62,293)**	(100,683)
Income tax expense	**883,986**	1,039,362

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

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

Also, according to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy" (財稅[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知") issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in Mainland China were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the foresaid preferential tax rate.

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

(c) The profits of Mainland China subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to investors in Hong Kong, or at a rate of 10% for other foreign investors. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's Mainland China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

5. Earnings per share

(a) Basic

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

	2022	2021
Profit attributable to shareholders of the Company (RMB'000)	**1,925,249**	3,273,601
Weighted average number of shares outstanding (thousands)	**1,162,121**	1,174,893
Basic earnings per share (RMB)	**1.657**	2.786

(b) Diluted

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

For the year ended 31 December 2022 and 2021, share options is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

6. Dividends

	2022	2021
	RMB'000	*RMB'000*
Interim, paid, RMB0.70 (2021: RMB1.00) per ordinary share *(Note)*	**813,485**	1,175,121
Final, proposed/paid, RMB0.70 (2021: RMB0.70) per ordinary share *(Note)*	**813,485**	813,485
	1,626,970	1,988,606

Note:

The dividends paid in 2022 amounted to RMB1,626,970,000 (2022 interim: RMB0.70 per share, 2021 final: RMB0.70 per share). The dividends paid in 2021 amounted to RMB2,705,920,000 (2021 interim: RMB1.00 per share, 2020 final: RMB1.30 per share).

A final dividend in respect of the year ended 31 December 2022 of RMB0.70 per share, amounting to a total dividend of RMB813,485,000 was proposed by the Board of Directors at a meeting held on 22 March 2023, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 22 May 2023. These financial statements do not reflect this dividend payable.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK$0.797985 per share using the exchange rate of HK$ to RMB on 21 March 2023, which is 0.87721.

7. Trade and bills receivables

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2022 and 2021, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 30 days	**961,667**	1,178,212
31–180 days	**1,724,960**	1,615,586
181–365 days	**189,311**	137,069
Over 365 days	**117,196**	97,335
	2,993,134	3,028,202
Less: provision for impairment	**(61,247)**	(58,020)
Trade and bills receivables — net	**2,931,887**	2,970,182

As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximated their fair values as at the balance sheet date.

8. Trade and bills payables

At 31 December 2022 and 2021, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 30 days	**1,609,093**	1,638,196
31–180 days	**1,299,393**	912,070
181–365 days	**8,270**	3,550
Over 365 days	**3,929**	11,670
	2,920,685	2,565,486

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

9. Borrowings

	2022	2021
	RMB'000	*RMB'000*
Non-current		
Long-term bank loans — unsecured	**1,999,000**	650,305
Long-term bank loans — secured	**2,334**	4,237
Other borrowings — unsecured	**–**	84,800
	2,001,334	739,342
Current		
Short-term bank loans — unsecured	**14,319,923**	15,206,140
Current portion of long-term bank loans — unsecured	**415,433**	1,991,500
Current portion of other borrowings — unsecured	**84,800**	8,320
Trust receipt bank loans	**206,419**	279,919
Current portion of long-term bank loans — secured	**2,043**	1,874
	15,028,618	17,487,753
Total borrowings	**17,029,952**	18,227,095

(a) Short-term commercial papers

During 2022, following short-term commercial papers were issued and matured:

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

BUSINESS REVIEW

In 2022, high inflation and sharply tightened monetary policies in major advanced economies curbed global demand and hindered the pace of global economic recovery. The volatile coronavirus epidemic situation and geopolitical tensions have also added uncertainties to the global economy. Under the impact of the epidemic control measures, China's gross domestic product ("GDP") increased by only 3.0% year-on-year to RMB121.02 trillion in 2022. The epidemic has disrupted economic activities and weakened consumer sentiment. In 2022, the total retail sales of consumer goods decreased by 0.2% year-on-year. The overall operating environment was very challenging, and high raw material prices accelerated industry consolidation. Leveraging its strong competitive advantages and effective sales strategies, Hengan seized the opportunity of eliminating the weak and retaining the strong in the industry, further expanded its market share, and demonstrated strong business resilience.

Under the New Normal in the post-pandemic era, the popularisation of new consumption patterns is accelerating, and the market penetration of domestic e-commerce platforms and new retail channels continues to increase. Hengan stimulated the consumption potential released by the transformation of consumption patterns. During the year, Hengan greatly expanded the e-commerce platforms and new retail channels through effective price stabilisation strategies and continuous launch of upgraded products. It also promoted sales and created new growth points in traditional channels, and achieved good results in omni-channel development. Therefore, for the year ended 31 December 2022, the Group's revenue increased by 8.8% to approximately RMB22,615,878,000 (2021: RMB20,790,144,000) as compared to last year. Benefitting from the ongoing omni-channel strategy and continuous enhancement of the brand image, the Group's revenue is expected to maintain growth in 2023.

In 2022, the Group continued to step up its efforts in developing its e-commerce business and new retail market. In addition to promoting brands on traditional large-scale e-commerce platforms, it also strengthened penetration into other emerging e-commerce channels (such as Douyin ("抖音")) to actively seize business opportunities and market share. During the year, the Group further increased its proportion of e-commerce sales (including Retail Integrated ("零售通") and New Channel ("新通路")) to close to approximately 26.9% (2021: 23.1%), of which other new retail channels (including online-to-offline (O2O) platform, community group-buying, etc.) have also made good progress with sales accounting for more than 13.0% of the overall sales. The Group is also committed to developing premium products and continuously optimising its product mix, while enhancing its brand image to cater to domestic consumers' pursuit of quality of life and high-quality diversified products. The premium tissue paper series "Cloudy Soft Skin" (雲感柔膚) and the premium disposable diapers series "Q • MO" were well received by consumers during the year and maintained a strong sales momentum. The sales of various upgraded and premium products also achieved good year-on-year growth.

During the year under review, rising raw material prices and operating costs brought huge challenges to the industry, which accelerated market consolidation of eliminating the weak and retaining the strong. Hengan, with its advantage of scale, strong brand, and rapid adaptability, successfully expanded its market share against the sluggish market. However, the price of wood pulp, the main raw material of tissue paper, remained high during the year due to geopolitical upheavals, the epidemic, and inflation, and rose to a record high in the second half of the year. Focusing on the long-term development of the brand, the Group adopted a stable pricing strategy and restrained sales promotions during the year. Although the Group's upgraded products and premium product series both grew significantly during the year, which helped partially offset the impact of the soaring price of raw material for tissue paper production, the gross profit of the tissue paper segment was still under significant pressure. In 2022, the Group's overall gross profit decreased by approximately 1.1% to approximately RMB7,689,499,000 (2021: RMB7,772,318,000), and the overall gross profit margin dropped to approximately 34.0% (2021: 37.4%) due to the price hike in raw material. Although the price of wood pulp is expected to drop from the high level, the extent of the decline is still uncertain. In addition, the Group still needs to consume the existing high-cost inventory in most of the first half of 2023. It is expected that the positive impact of the decrease in wood pulp price will be reflected in the cost of the tissue paper segment in the second half of 2023, and the gross profit margin will improve by then.

During the year, operating profit fell approximately 36.9% to approximately RMB2,869,154,000 (2021: RMB4,543,591,000). Although the Group's sales achieved market-defying growth, the sharp depreciation of the Renminbi against the US dollar and HK dollar during the year resulted in a substantial foreign exchange loss before tax of about RMB912,865,000 in the Group's operations. Therefore, profit attributable to shareholders of the Company was approximately RMB1,925,249,000 (2021: RMB3,273,601,000), representing a year-on-year decrease of approximately 41.2%. If deducting the operating foreign exchange loss (net after tax), profit attributable to shareholders of the Company would only decrease by approximately 10.6% year-on-year. Basic earnings per share was approximately RMB1.657 (2021: RMB2.786).

The Board of Directors declared a final dividend of RMB0.70 per share (2021: RMB0.70 per share) for the year ended 31 December 2022, together with the interim dividend of RMB0.70 per share (2021 first half: RMB1.00 per share) already paid, total dividend for the year amounted to RMB1.40 per share (2021: RMB1.70 per share) or RMB1,626,970,000 (2021: RMB1,988,606,000), accounting for approximately 84.5% (2021: 60.7%) of the profit attributable to shareholders of the Company. This ratio is calculated by dividing total dividend by the profit attributable to shareholders of the Company.

Sanitary Napkin

China has the world's largest feminine care products market. The growing awareness of feminine care and increasing spending power in China have led to a continuous expansion of the feminine care products market. However, the market competition is very fierce. During the year, many domestic and foreign brands adopted price reductions and aggressive sales promotion strategies to tap into the mid-to-high-end market and young consumers, in an attempt to seize market share in third- and fourth-tier cities. Instead of blindly fighting the price wars, Hengan adhered to a rational and stable pricing strategy to maintain its brand image, and accelerated product upgrades and premiumization, continued to enhance its brand image and strengthen the Group's leading position in the mid-to-high-end market and traditional sales channels. The Groups' upgraded sanitary napkin products, such as the "Ultra-thin for Teen Girls" (少女特薄) and "Pants-style" (褲型) series, were well received by consumers due to their excellent quality and brand image, driving the sales growth of the overall sanitary napkin business.

New consumption patterns have accelerated the fragmentation of sales channels. E-commerce platforms and other emerging retail channels (including O2O platforms, community group-buying) continue to flourish. The Group fully captured the opportunities of new consumption trends, actively expanded emerging channels, and maintained its leading edge in traditional channels, which effectively boosted sales of sanitary napkins and maintained market share. During the year, the Group achieved satisfactory sales in new retail channels. Despite the severe epidemic situation and fierce market competition, the Group's sanitary napkin business still saw growth in its revenue. In 2022, the revenue of the Group's sanitary napkin business increased by approximately 0.7% to approximately RMB6,156,060,000 (2021: RMB6,116,530,000), accounting for approximately 27.2% (2021: 29.4%) of the Group's overall revenue. Driven by the higher proportion of upgraded and premium products and the continuous growth of traditional sales channels, it is expected that the Group's sanitary napkin business in 2023 will maintain a steady growth in its revenue.

As the Group adhered to a stable pricing strategy and the price of petrochemical raw materials, the main raw material for sanitary napkins, dropped due to the decline in petroleum and commodity prices in the second half of the year, the gross profit margin of the sanitary napkin business improved in the second half of the year compared to the first half of the year. The overall gross profit margin in 2022 dropped by approximately 3.7 percentage points to approximately 66.8% (2021: 70.5%), which slightly improved from 65.3% in the first half of 2022. Benefiting from the steady increase in the proportion of premium and upgraded products which offset the temporary rising cost pressure, the gross profit margin is expected to remain stable in 2023.

The Group's sanitary napkin brand, 七度空間 has always been a leader in the domestic market, and has long secured a leading position in terms of sales volume and market share. The Group continued to launch upgraded and premium products to enhance the brand image, cater to the premiumization trend of the feminine care products market and meet consumer needs. In recent years, the upgraded products such as the "Ultra-thin" (特薄), "Extra-long — Night Use" (加長夜用) and "Pants-style" series, were well received by the market. Among them, the newly launched "Fruit Moisturizing series" (果滋潤系列) received an overwhelming response, resulting in a continuous rise in the market share of this product. During the year, the Group "Space 7" signed female artists with bright and positive image, including actress Zhao Jinmai, as brand ambassadors to inject youthful vitality into the brand. With the theme of "Freedom Without Limits", the Group launched a variety of promotional activities, such as brand ambassadors live streaming and lucky draws, to further enhance the brand image and tap into young consumers.

In addition, the "Pants-style" series has immense growth potential. The Group will continue to vigorously promote the "Pants-style" series of products to consumers, and plans to launch an upgraded version of "Sweet Dream Pants" (萌睡褲) to attract more consumers and further increase market penetration. The Group believes that the upgraded version of the 七度空間 series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group expand its market share and increase the revenue contribution of premium products. Meanwhile, the Group will continue to expand new retail channels and increase the sales proportion of new retail channels, strive to develop higher quality products for new retail channels, adhere to a stable price strategy, and maintain stable growth in traditional channels, promoting the Group's long-term development and consolidating the Group's leading position.

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

Tissue Paper

In 2022, the epidemic repeatedly impacted the Chinese economy and the overall retail market, but the Group turned the crisis into an opportunity with a flexible and pragmatic strategy, and the sales of tissue paper bucked the market downturn and achieved a substantial growth. The epidemic resurgence further raised the national health awareness, and the demand for tissue paper remained robust. In the face of rising costs and fierce market competition, some small and medium-sized tissue paper companies have withdrawn from the market. The Group gained more market share by virtue of its strong capital and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group adhered to a stable price strategy and effectively control sales promotions. During the year under review, the revenue of the Group's tissue paper business increased remarkably by approximately 24.4% to approximately RMB12,248,011,000 (2021: RMB9,842,429,000), accounting for approximately 54.2% of the Group's overall revenue (2021: 47.3%). The Group will continue to upgrade its products and increase the penetration rate of premium products. It is expected that the revenue of the Group's tissue paper business will maintain rapid growth in 2023.

During the year, the Group was affected by the sharp rise in the price of wood pulp due to factors such as the tight supply of wood pulp and logistics disruption. The wood pulp price surge exerted significant pressure on the Group's gross profit, which dropped to approximately 20.7% in 2022 (2021: 26.4%). Although the price of wood pulp has shown signs of a slight decline recently, it is expected that the positive impact of the drop in wood pulp price will be reflected in the cost of sales in the second half of 2023 after the Group consumes the existing high-cost wood pulp inventory. Therefore, the gross profit margin of the Group's tissue paper business is expected to improve in the second half of the year.

Amid the epidemic, the demand for tissue paper products remained at a high level. The Group's premium tissue paper products garnered very encouraging sales results. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of close to 80.0% and accounted for more than 10.0% of the overall tissue paper sales. In terms of the Group's wet wipes business, the sales for the year amounted to approximately RMB841,993,000 (2021: RMB735,612,000), recording a sales growth of nearly 14.5%, accounting for approximately 6.9% of the overall sales of the tissue paper business (2021: 7.5%). The wet wipes business has maintained a good growth momentum in recent years, the Group will continue to expand its market share in the domestic wet wipes market and maintain its leading position in the wet wipes market. The Group actively responded to the fragmentation of sales channels and the efforts and resources invested in implementing an omni-channel strategy in the early years has entered the harvest period. The sales of tissue paper business in e-commerce channels increased by more than 46.0%, accounting for more than 34.0% of the overall sales of tissue paper. Meanwhile, emerging channels such as O2O platforms and community group-buying also saw an increase of more than 17.0%, delivering stellar performance. In the future, the Group will continue its endeavors in expanding different sales channels, striving for the largest market share.

Against the background of the improving living standards of people and the continuous high level of health awareness, there are lots of opportunities in the overall tissue paper market. In the face of fierce market competition, the Group will continue to strive to meet the diversified needs of consumers, develop more high-quality products, improve the cost-effectiveness of tissue paper production, increase the production capacity of production bases and build new production capacity to seize business opportunities in domestic tissue paper and expand market share, consolidating the leading position in the tissue paper market. During the year, the Group maintained its production capacity at approximately 1.42 million tons and increased production capacity in Hunan, Hubei, Guangdong and other regions. The Group expects the production capacity will increase further in the coming year to actively cope with future market conditions and to support sales growth.

Disposable Diapers

The improvement of people's living standards and the ageing population continue to promote the growth of China's adult disposable diaper market. The change in parenting concept and the trend of consumption upgrade have also promoted the continuous increase in the penetration rate of baby disposable diapers, and there is enormous room for development in China's disposable diaper market.

In order to meet consumers' growing demand for product quality, the Group continued to develop high-quality baby and adult care products. During the year, sales of the flagship premium product "Q • MO" maintained growth momentum and saw a year-on-year growth of nearly 17.4%, and its proportion further increased to more than 30.0%. Meanwhile, benefiting from the growing domestic adult incontinence products market and the higher penetration rate of the Group's adult disposable diapers, sales of the Group's adult disposable diaper business grew approximately 12.9% during the year, accounting for approximately 23.7% of the overall diaper sales. In 2022, the Group strived to strengthen the development of e-commerce and maternity sales channels. The proportion of sales of e-commerce and maternity sales channels increased to more than 60.2% and approximately 18.5%, respectively. However, due to fierce market competition, the sales growth of the Group's premium products only partly offset the decline in the sales of mid-to-low-end products and products in traditional channels. As a result, the sales of the Group's disposable diaper business still fell approximately 1.4% to approximately RMB1,202,347,000 (2021: RMB1,219,445,000), accounting for approximately 5.3% (2021: 5.9%) of the Group's overall revenue. The Group believes that the adult disposable diaper market has considerable development potential. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business is expected to resume sales growth in 2023.

In terms of gross profit margin, the gross profit margin of the disposable diaper business saw a decline in the light of the rise in the cost of sales caused by the price increase in petrochemical raw materials for disposable diapers during the year. However, since the increase in the proportion of sales of the higher-margin "Q • MO" products and adult disposable diapers offset part of the impact of rising costs on the overall business profitability, the gross profit margin for the full year slightly dropped to about 36.9% (2021: 37.7%), while the gross profit margin of the disposable diaper business improved in the second half of 2022 as compared with 35.3% in the first half of the year.

During the year, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding the baby diaper business, the Group reshaped the "Anerle" brand, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today's consumers. On the other hand, "Q • MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very popular in the market. The Group will continue to optimise "Q • MO" products to instill growth momentum into the Group's future development. Through the dual-brand strategy, after a year of sorting out, the Group expects the sales of the entire baby diaper business to resume stable growth in 2023.

In addition, as the country pays more and more attention to the development of the elderly care industry, there will be huge room for development in the field of domestic adult care products. The Group will invest more resources in the development of adult care products, so that the "ElderJoy" (安而康) brand and its products can fully penetrate the domestic market and at the same time expand the market share in Southeast Asia.

In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternity stores, nursing homes and hospitals. On the one hand, it will seize new business opportunities brought by new retail. On the other hand, through the cooperation with maternity stores, nursing homes and hospitals, it will expand the Group's potential customer base, and provide a one-stop product sales chain, bringing sustainable growth momentum to the disposable diaper business, supporting the long-term development of the adult care business and continue to tap the growth potential of the adult care market.

Other Income and Household Products

Regarding other income and household products, the Group's revenue for the year, which mainly includes revenues from raw material trading business, household products business, Wang-Zheng Group in Malaysia, and medical related products business, decreased by approximately 16.7% year-on-year to approximately RMB3,009,460,000 (2021: RMB3,611,740,000). The decline was mainly due to the tight supply of raw materials and the higher demand for tissue paper products during the year, resulting in an increase in the demand for raw materials. Therefore, the Group's preferred to keep raw materials in reserve for production, which caused the revenue from raw material trading business to drop significantly to approximately RMB1.6 billion (2021: approximately RMB2.5 billion).

Revenue from the household products business was approximately RMB325,962,000 (2021: RMB314,614,000), representing a year-on-year increase of approximately 3.6%, accounting for approximately 1.4% (2021: 1.5%) of the Group's revenue, which was mainly because the export business of household products gradually picked up as the epidemic situation began to improve in other regions.

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

Looking ahead, the Group believes that the growth potential in the business of household products is immense. The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness. In addition to the revenue from the household products segment, the Group's other income also includes revenue from Wang-Zheng Group in Malaysia and other medical related products. As for the business of other medical products, the demand for medical products rose significantly due to the resurgence of the epidemic. Thus, the sales of medical products increased notably and recorded a revenue contribution of approximately RMB272,922,000 (2021: RMB108,065,000). As medical products have higher profit margin, it therefore effectively boosted the overall gross profit margin of other businesses to approximately 19.7% (2021: 11.0%).

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 37 countries and regions, with 54 direct partnerships with major clients or distributors. In 2022, turnover of overseas channel (including Wang-Zheng Group business) was approximately RMB2,086,791,000 (2021: RMB1,709,260,000), accounting for approximately 9.2% of the Group's overall sales (2021: 8.2%).

During the year, with the easing of the epidemic and the reopening of the region, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approximately 17.1% year-on-year to approximately RMB411,704,000 (2021: RMB351,553,000), accounting for approximately 1.8% of the Group's overall sales (2021: 1.7%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include "Dry Pro" disposable diapers and "Carina" personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult disposable diapers into the Southeast Asian market.

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

E-commerce and New Retail Channel Strategies

New consumption patterns and new forms of business that integrate online and offline channels are developing at an accelerated pace, and the online shopping market is expanding, thereby continuously unleashing consumption potential. In 2022, the national online retail sales of physical goods reached RMB12 trillion, an increase of 6.2%, of which the online retail sales of consumer goods increased by 5.7%. In order to meet the ever-upgrading needs of consumers, the Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities. During the year, the Group carried out higher quality products promotions for various brands in new channels, which received positive responses from the market and further enhanced the Group's brand awareness and market share in online and other new retail channels.

In 2022, the Group's e-commerce channels (including Retail Integrated and New Channel) maintained a strong development momentum and sales for the year soared over 26.8% to approximately RMB6.1 billion (2021: RMB4.8 billion), bringing the proportion of e-commerce sales up to approximately 26.9% (2021: 23.1%) of the Group's overall sales.

In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin), improve data analysis capabilities for end customers, and conduct precision marketing to boost conversion rates, and strive to achieve the strategic goal of becoming a global top-tier supplier of daily products. In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide differentiated products that suit the characteristics and preferences of consumers in each channel, and continuously improve the seamless omni-channel consumer experience in both online and offline channels.

The Group will consistently introduce products into the new retail market with higher quality products and stable prices to reduce the impact on other channels, while maintaining its competitiveness. In view of the new consumer trends, the Group will also actively build a brand community, interact with consumers through livestream sales and other community activities, and strengthen the connection with young consumers. The Group also appointed Xiao Zhan, a popular artist, as the brand ambassador of "Hearttex" to further enhance the brand influence, and continue to leverage new consumption models such as limited-edition products, community group-buying and livestream sales to attract consumers and increase the Group's market share in the e-commerce and new retail channels sector while grasping the opportunities brought by the digital economy to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize the opportunities arising from the post-epidemic economic recovery, put forward effective sales strategies and conduct end-consumer data analysis, continue precise positioning and optimise the product portfolio to bring satisfactory return for shareholders. During the year, the Group faced the challenge of an approximately over 15.4% increase in transportation costs due to geopolitical tension and the epidemic. In addition, as the Group granted share options to certain directors and employees of the Group in January 2022, the share option expenses apportioned during the year were approximately RMB66,189,000. As a result, the Group's selling and administrative expenses during the year amounted to approximately RMB4,888,813,000, representing a year-on-year increase of approximately 8.0%. However, as the increase in the Group's total revenue was greater than the increase in expenses, the proportion of the Group's selling and administrative expenses to the total revenue for the year slightly dropped to approximately 21.6% (2021: 21.8%). The Group believes that the total revenue is expected to continue to increase in the coming year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve continuously.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi. During the year, due to the sharp depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group's operating exchange gain turned to a loss of approximately RMB912,865,000 (2021: exchange gain of approximately RMB109,152,000), which was mainly attributed to the sharp depreciation of Renminbi against the H.K. dollar during 2022, resulting in an exchange loss of approximately RMB721 million in respect of Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company.

As at 31 December 2022, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Appointment of Professional Consultant

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

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2022, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB21,563,284,000 (31 December 2021: RMB22,282,950,000); and bank borrowings and other borrowings amounted to approximately RMB17,029,952,000 (31 December 2021: RMB18,227,095,000).

In December 2021, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion. From March to June 2022, the Group issued short-term commercial papers in four batches of RMB4.5 billion in total with the coupon rates ranging from 2.1% to 2.5% per annum and a tenor of 180 days, which were fully repaid during the year.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 5.2% (2021: from 0.4% to 3.7%)

As at 31 December 2022, the Company moderately utilised internal cash to repay all short-term commercial papers, so the Group's gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) further improved to approximately 87.2% (31 December 2021: 95.7%), while the net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 23.2% (31 December 2021: negative 21.3%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position. During the year, the Group's capital expenditure was approximately RMB1,327,206,000 (2021: RMB640,396,000). As at 31 December 2022, the Group had no material contingent liabilities.

In February 2023, the Group completed the issuance of the first tranche of super short-term commercial papers on the National Association of Financial Market Institutional Investors, with an aggregate principal amount of RMB1,500,000,000, with a coupon rate 2.40% per annum. The super short-term commercial papers will mature in 180 days from the respective issue date.

Share Option Scheme

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

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

On 21 December 2022, the Group granted 1,526,000 share options ("Share Options") to certain employees of the Group to subscribe for a total of 1,526,000 ordinary shares in the share capital of the Company. The exercise price of the share options granted is HK$40.30 per share.

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

Human Resources and Management

During the year, the Group actively improved the efficiency of human resources, raised the salaries of employees to the industry level, and implemented a more scientific and reasonable 'target remuneration' system by linking the salary system with the staff duties and responsibilities and task goals, thus stimulating the staff enthusiasm for work, and improving work efficiency. As at 31 December 2022, the Group employed approximately 23,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

Latest Awards

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

Awards/Honours	Organisation
Top 500 Most Valuable Chinese Brands	GYbrand 2022
All-Asia Executive Team 2022 rankings: Most Honoured Company: Hengan International, Best IR Program, Best ESG, Best CEO (Mr. Hui Ching Lau) and Best CFO (Mr. Li Wai Leung) in the consumer staples sector category	Institutional Investor
Ingenious Product of China's Tissue Paper & Hygiene Products Industry in 2022	The 29th China International Disposable Paper Expo Award Ceremony and Ingenious Product List
Asia's Best CEO (Hui Ching Lau) and Best CFO (Li Wai Leung)	Corporate Governance Asia
Winner of the 4th China's Best Managed Companies Awards	Deloitte China
Top 10 China's Most Chosen Brands	"Asia Brand Footprint 2022" report by Kantar Worldpanel

Corporate Social Responsibility

Hengan continues to implement the concept of sustainable development, comprehensively coordinates environmental and social responsibilities, establishes and improves the four-level ESG management structure, and deeply cultivates various fields such as product innovation, quality assurance, energy conservation and carbon reduction, talent cultivation, health and safety, and philanthropy, leading the company to steadily achieve 100 billion in 100 years with sustainable development.

Hengan has continuously improved the transparency of ESG information disclosure, actively responded to ESG rating questionnaires at home and abroad and greatly improved its ratings. Among them, its MSCI ESG rating was upgraded from B to BB, and S&P Global CSA score was higher than 78% of its peers. In addition, Hengan was included in the top 200 of Hong Kong Quality Assurance Agency's Corporate Social Responsibility Index Plus this year for the first time. In February 2023, the Group was included in the 2022 Forbes China Top 50 Sustainable Development Industrial Enterprises.

In 2022, the Group won awards such as "Best Environmental, Social and Corporate Governance (ESG)" by *Institutional Investors* and "Most Socially Responsible Brand of Chinese Listed Companies", and CEO Mr. Hui Ching Lau was awarded "Best Investor Relations (Chairman/CEO)" by *Institutional Investors*.

Innovative Research and Development

Adhering to the "consumer-oriented" market principle, the Group is committed to its corporate vision of becoming a "global top-tier supplier of daily products through sustainable innovation and provision of high-quality products and services", regards innovation capability as the driving force for corporate development, and continuously optimises its product portfolio to provide the public with high-quality and reliable personal and household hygiene products.

In response to consumers' rising demand for environmental protection, the Group vigorously introduces and cultivates innovative talents, and establishes a complete product research and development system and high-level corporate standards to strictly regulate product design and development. Based on the advantages of innovation capability, the Group focuses on the development of safer and healthier eco-friendly products, striving to develop products that are environmentally friendly and reliable in terms of quality.

With the main objective of developing reusable and recyclable materials that reduce the use of resources, we planned to establish sustainable development platform for plastics during the reporting period to study the Reduce, Reuse, Recycle (3R) and Degradable (1D) of plastics.

Philanthropy

As a leading enterprise in the industry, Hengan sets an example by setting a benchmark for fulfilling corporate social responsibility and promoting the development of public welfare undertakings, and actively participates in charity events. In 2022, during the period of epidemic prevention and control, the Group paid close attention to community health and provided all possible support to China to ensure supplies. In response to the earthquake, the Group donated hygiene products worth RMB520,000 including sanitary napkins and disposable diapers to the disaster-stricken areas in Maerkang City, Aba Prefecture, Sichuan Province. The Group attaches great importance to women's health and education. We have been investing in the Spring Bud project for four consecutive years, and donated supplies worth RMB1.73 million in total to women and girls in need in Guang'an City, Sichuan Province. The Group also gives back to its hometown and promotes the local economic development of enterprises. In 2022, the Group donated RMB19 million in cash and materials for the fundraising initiative of Caring for the New Residents of Jinjiang.

Environmental Protection and Carbon Reduction

Hengan closely follows the national strategy to cope with climate change, formulates a sustainability plan, steps up its efforts in energy conservation, emission reduction and environmental protection, and actively promotes green production, contributing to the transformation of the national low-carbon economy and the goal of carbon peak and carbon neutrality. In 2022, Hengan's greenhouse gas (GHG) emission intensity was 0.67 tCO2e/revenue in RMB10,000; the energy consumption per unit product of the papermaking sector of the Group was 0.31 tonnes of standard coal, far lower than the advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825–2015) (420kg standard coal/ton); the recycling of wastewater from paper production was greater than 99%, the water consumption per tonne of paper in the Hengan's papermaking segment was 5.6 tonnes, far lower than the national standard upper limit of water withdrawal per tonne of product specified in GB/T18916.5 Water Quotas Part 5: Paper Products.

Hengan promotes the fulfilment of environmental and social responsibilities in the value chain. The Group joined the Green Recycled Plastics Supply Chain Joint Working Group, served as the vice chairman and planned to establish a sustainable development platform for plastics to enhance the green attributes of products. The Group 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. In 2022, six paper production subsidiaries of Hengan received the Forest Stewardship Council (FSC) Chain of Custody (CoC) Certification, and 100% of pulp suppliers of Hengan obtained FSC or PEFC (Programme for the Endorsement of Forest Certification Schemes) certificates.

During the reporting period, Fujian Hengan Homecare Products Co., Ltd., a subsidiary of the Group, was named "2021 Green Factory" by the Ministry of Industry and Information Technology. In addition, Hengan was also awarded the "2022 Green Sustainable Development Contribution Award" at the 2022 International Green Zero-carbon Festival and the ESG Summit.

Talent Development

The Group actively responds to human rights principles such as the Universal Declaration of Human Rights, earnestly protects the rights and interests of employees, provides employees with comprehensive remuneration and benefits policies and career development channels, achieving a win-win situation between corporate value and personal value. Hengan actively carries out the principle of equal employment and shows no discrimination towards employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc.

The Group formulated the "Overall Framework of the Talent Training System" and the talent management mechanism to provide employees with comprehensive skills and quality training at different levels and stages, and select outstanding employees through multiple channels to enter the promotion channel. The Group also cultivates internal trainers and builds an inward talents training base. In 2022, the Group provided employees with diversified training programs, such as the Executive Development Programme (EDP), a mid-to-senior management training programme, in cooperation with Xiamen University, to help employees improve their professionalism and shape new business cognition and thinking.

As of the end of 2022, Hengan had a total of approximately 23,000 employees, of which 58% were female employees, the total number of training hours exceeded 260,000 hours, the number of management positions promoted was 78, and the percentage of employees joining the labour union was 100%.

Health and Safety

Hengan formulates comprehensive safety management policies and objectives, implements sound management and established control procedures, and continuously improves safety management capabilities and performance. The Group established and passed the ISO 45001 Occupational Health and Safety Management System certification. It set up a Safety Management Committee as a comprehensive safety management leadership and decision-making body, and built a safety management process for the entire life cycle and comprehensive safety risks emergency measures to create a safe and healthy working environment. Hengan has steadily implemented the comprehensive safety management strategy and successfully entered phase II of the comprehensive safety management this year, striving to become a model enterprise in safety management in the industry.

The Group is committed to maintaining the occupational health and safety of its employees. It regularly organised fire training and drills, and carried out safety production month activities this year to raise the safety awareness and strengthen self-protection capabilities of all employees. In 2022, the Group had no work-related fatalities, the incidence of occupational diseases was 0, and the number of working days lost due to work injury was 2,883 days.

Hengan cares about the mental health of employees. It carries out various cultural activities to enrich the leisure time of employees, regularly visits the families of employees in difficulty and employees with disabilities, providing support and assistance and improving employees' sense of happiness.

Outlook

Looking ahead to 2023, with the further relaxation of China's epidemic control policies, the orderly implementation of various policies and measures for stabilising the economy and expanding domestic demand is expected to support the gradual recovery of the economy and consumer market. However, the Russo-Ukrainian War continues to impact global trade, and inflation remains at a high level despite signs of slowing. In addition, the monetary policies of central banks led by the U.S. Federal Reserve are expected to remain tight, posing challenges to global economic development and China's economic growth. The Group will continue to pay close attention to the development of the epidemic at home and abroad and changes in market trends, respond flexibly and make prudent decisions.

Against the backdrop of resumption of production and the release of new production capacity in wood pulp mills around the world, the supply of wood pulp is expected to gradually increase this year. Although the price of wood pulp has recently dropped, the downward trend is still not obvious. Since the Group needs to consume the existing high-cost wood pulp inventory first, the positive impact of the decrease in wood pulp price is expected to reflect in the cost of the tissue paper business in the second half of the year, and the gross profit margin will improve by then. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other materials.

The competition in the domestic daily necessities market has become increasingly fierce. Leveraging its solid research and development and production capabilities and positive brand image, coupled with its extensive nationwide distribution and diversified product portfolio, Hengan still demonstrated strong resilience in a challenging operating environment, successfully seized the opportunity of industry consolidation, and gained market share against the market trend.

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

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

The Group will also continue to optimise the organisational structure, improve team efficiency, and allocate resources to improve infrastructure and enhance supply chain efficiency, such as cloudification of the SAP system, and strive to improve the quality of the system, so as to effectively monitor operational data and improve operational visibility to formulate appropriate business strategies.

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

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

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of RMB0.70 (2021: RMB0.70) per share to shareholders, whose names appear in the register of members of the Company on Monday, 29 May 2023 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Monday, 22 May 2023 (the "2023 AGM"), the Proposed Final Dividend will be payable on Friday, 2 June 2023.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2023 AGM

The 2023 AGM is scheduled to be held on Monday, 22 May 2023. For determining the entitlement to attend and vote at 2023 AGM, the register of members of the Company will be closed from Wednesday, 17 May 2023 to Monday, 22 May 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at 2023 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 16 May 2023.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2023 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2022, the register of members of the Company will also be closed from Monday, 29 May 2023 to Tuesday, 30 May 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 25 May 2023.

REVIEW OF ACCOUNTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising another four independent non-executive directors, has discussed with management and reviewed the consolidated financial statements for the year ended 31 December 2022. The figures contained in the financial statements set out in page 1 to 14 of this announcement of the Group's results for the year ended 31 December 2022 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

The Company did not redeem any of the Company's shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold or redeemed any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2022.

ACKNOWLEDGEMENT

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

BOARD OF DIRECTORS

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

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 22 March 2023