

**【For immediate release】**



## **Hengan International Announces 2023 Interim Results**

**Profit Attributable to Shareholders amounted to RMB1.23 Billion  
Revenues of Three Core Business Segments Increased by about 15.1% Y-O-Y  
Stable and Healthy Liquidity  
Interim Dividend at RMB0.7 Per Share**

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*Multi-channel Sales Approach Performed Well  
Upgraded and Premium Products Continued to Expand Market Share*

(24 August 2023 — Hong Kong) — **Hengan International Group Company Limited** (“Hengan International” or the “Company”, SEHK stock code: 1044, together with its subsidiaries, the “Group”) announces today its interim results for the six months ended 30 June 2023.

During the period, Hengan fully grasped the consumption potential released by the transformation of consumption patterns. Hengan greatly expanded the e-commerce platforms and new retail channels through effective price stabilisation strategies and product line upgrades. It also promoted sales in traditional channels and created its new growth points. The effectiveness of the development of the Group's omni-channel continued to improve. Benefiting from the omni-channel strategy and continuous enhancement of the brand image, revenues of the Group's three core business segments (tissue, sanitary napkins and disposable diapers) maintained robust growth in the first half of the year, with a year-on-year increase of approximately 15.1%. As of 30 June 2023, the Group's overall revenue increased by 9.0% to approximately RMB12,204,605,000 as compared with the same period last year (2022 first half: RMB11,200,021,100). The Group's revenue is expected to maintain notable growth in the second half of 2023.

In the first half of 2023, the Group continued to step up its efforts in developing its e-commerce business and new retail market. In addition to promoting brands on traditional large-scale e-commerce platforms, it also strengthened penetration into other emerging e-commerce channels (such as Douyin (抖音)). During the period, 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 29.0% (2022 first half: 24.2%), growing about 30.0% year-on-year of which other new retail channels (including Retail Integrated, community group-buying, etc.) are progressing well with sales increasing by more than 30.0% year-on-year and accounting for more than 7.0% of the overall sales. The Group is also committed to developing premium products and continuously optimising its product mix, actively enhancing its brand image to meet domestic customers' pursuit of high-quality and diversified products. The premium tissue paper series "Cloudy Soft Skin" (雲感柔膚), the premium disposable diapers series "Q · MO" and sanitary napkins series “Sweet Dream Pants” (萌睡褲) continued to be well-received by customers and maintained a strong sales momentum during the period. The sales of various

upgraded and premium products also achieved satisfactory year-on-year growth, which increased over 15.0% year-on-year and continued to increase its proportion over the sales.

During the period under review, raw material prices dropped significantly in the second quarter, leading to intensified market promotions and price competition. In the face of fierce market competition, Hengan actively responded to the market changes, further expanded its market share and enhanced its leading position in the market. The price of wood pulp, the main raw material of tissue paper, remained high in the first quarter of the year. However, with continuous improvement in supply underpinned by logistics and production capacity, the price of wood pulp started to drop in the second quarter. Although the Group's upgraded products and premium product series both grew during the period, which helped partially offset the impact of the high-cost wood pulp inventory purchased earlier, the gross profit of the tissue paper business was still under pressure. In the first half of 2023, the Group's overall gross profit decreased by approximately 3.9% to approximately RMB 3,788,550,000 (2022 first half: RMB3,942,191,000), and the overall gross profit margin dropped to 31.0% (2022 first half: 35.2%) due to the impact of raw material prices. The positive impact of the decrease in the price of wood pulp has been gradually reflected in the cost of the tissue paper business since the second quarter of this year. The gross profit margin recorded an increase month-on-month, and is expected to continue to improve in the second half of the year.

During the period, operating profit fell approximately 9.8% to approximately RMB1,701,681,000 (2022 first half: RMB1,885,753,000). Although the Group achieved growth in sales, the depreciation of the Renminbi against the US dollar and the HK dollar during the period resulted in an operating foreign exchange loss before tax of approximately RMB182,426,000. However, the loss was significantly reduced by about 50.4% compared with the operating foreign exchange loss before tax in the first half of 2022. Therefore, profit attributable to shareholders of the Company was approximately RMB1,225,768,000 (2022 first half: RMB1,276,191,000), representing a year-on-year decrease of approximately 4.0%, mainly reflecting that the high-cost wood pulp inventory continued to affect the Group's gross profit margin during the period. Basic earnings per share was approximately RMB1.055 (2022 first half: RMB1.098).

The Board of Directors declared an interim dividend of RMB 0.70 per share (2022 first half: RMB0.70 per share) or RMB813,485,000 (2022 first half: RMB813,485,000) for the six months ended 30 June 2022, to maintain a stable dividend payment amounts to the shareholders.

Commenting on the Group's interim results, **Mr. Sze Man Bok, Chairman of Hengan International**, said, "In the first half of 2023, with the support of China's effective policies to stabilise the economy, China's economic recovery continued, and the gross domestic product in the first half of 2023 grew 5.5% year-on-year. Consumption also showed a steady growth momentum. In the first half of 2023, the total retail sales of consumer goods increased by 8.2% year-on-year, of which the total retail sales of daily necessities increased by 5%. However, negative factors such as the complex and severe international environment and interest rate hikes in Europe and the United States continued, the foundation for sustained economic recovery and development was not solid. Leveraging its comprehensive competitive advantages and effective sales strategies, Hengan continued to expand its market share, and further consolidated its strong business resilience."

### **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. Many domestic and foreign brands adopted aggressive sales strategies to expand into the mid-to-high-end market and attract more young

customers. Hengan has full confidence in its product quality and long-standing reputation among customers, and adheres to a rational and stable pricing strategy. In order to enhance the brand image and consolidate its leading position in the mid-to-high-end market and traditional sales channels, Hengan continued to promote product upgrades and premiumisation to meet consumers' demand for high-quality feminine care products and improve the Company's competitiveness, helping Hengan to stand out in the competition. The Group's upgraded sanitary napkin products, such as the "Sweet Dream Pants" (萌睡褲), were well received by customers due to their excellent quality and brand image, driving the sales growth of the overall sanitary napkin business.

The rapid increase in the penetration of new consumption patterns has exacerbated the fragmentation of channels. E-commerce platforms and other new retail channels (including online-to-offline (O2O) platforms, community group-buying) are thriving. The Group actively seized the opportunities of emerging consumption trends, actively expanded new sales channels, and consolidated its leading edge in traditional channels, which effectively boosted the sales of sanitary napkins and maintained a leading market share. During the period, the Group achieved satisfactory sales in new retail channels, and products of the 七度空間 series achieved the leading position in the sales in many new retail channels. Despite fierce market competition, the Group's sanitary napkin business still grew in revenue. In the first half of 2023, the revenue of the Group's sanitary napkin business increased by approximately 2.9% to approximately RMB3,219,295,000 (2022 first half: RMB3,128,524,000), accounting for approximately 26.4% (2022 first half: 27.9%) 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 the second half of 2023 will maintain a steady growth in its revenue.

The Group adhered to a stable pricing strategy, but the price of petrochemical raw materials (such as fluff pulp), the main raw material for sanitary napkins, rose, resulting in a year-on-year decrease of approximately 3.5 percentage points in the gross profit margin of the sanitary napkin business to approximately 61.8% (2022 first half: 65.3%). Benefiting from the steady increase in the proportion of premium brands and upgraded products and the decline in the cost of some petrochemical raw materials in the second quarter, the gross profit margin is expected to improve in the second half of 2023.

The Group's sanitary napkin brand 七度空間 continued to launch upgraded and premium products and strived to enhance its brand image. In recent years, the Group launched upgraded products such as "Ultra-thin" (特薄), "Extra-long – Night Use" (加長夜用) and "Pants-style" (褲型) series, which received an overwhelming response from the market. The "Fruit Moisturising Series" (果滋潤系列) launched last year and the key new series of this year "Heavenly Mountain Cotton Series" (天山絨棉系列) which uses rare and pure long staple cotton from snowy mountains, aim to meet the demand of today's customers for high-quality products, and their sales are expected to gradually increase. The Group signed female artists with bright and positive image, including actresses Zhao Jinmai and Zhang Jiani, as brand ambassadors of 七度空間, injecting youthful vitality into the brand. With the theme of "Freedom Without Limits", the Group launched a variety of promotional activities, such as brand ambassadors live streaming, meetings and limited-edition gift sets, based on the preferences of young female customers and white-collar women to further enhance the brand image and attract young and white-collar customers.

In addition, the "Pants-style" series still has great growth potential, with sales increasing over 76.0% year-on-year during the period. The Group will continue to step up its efforts in promoting the "Pants-style" series of products, and plans to launch an upgraded version of "Sweet Dream Pants" to attract

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

In addition, the Group will continue to 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 the first half of 2023, the national economy and consumer market gradually recovered, but the external environment was still full of challenges. The Group responded to the fierce price competition with stable prices and an omni-channel sales strategy, driving the continuous growth of tissue paper sales. The Group seized more market share by virtue of its strong capital and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group adhered to a stable pricing strategy and effective control of sales promotions. During the period under review, the revenue of the Group's tissue paper business surged approximately 22.7% to approximately RMB7,170,110,000 (2022 first half: RMB5,842,612,000), accounting for approximately 58.7% of the Group's overall revenue (2022 first half: 52.2%). The Group will continue to upgrade its products and increase the penetration rate of premium products. It is expected that the revenue of the Group's tissue paper business will maintain steady growth in the second half of 2023.

During the period, the Group was still affected by the elevated price of wood pulp. In the second quarter of 2023, the price of wood pulp started to come down. However, as it takes time to consume high-cost wood pulp inventory, the positive impact of the sharp decline in the cost of wood pulp did not fully reflect in the results in the first half of 2023. Therefore, the gross profit margin dropped to approximately 17.7% in the first half of 2023 (2022 first half: 23.1%). Nonetheless, the benefit of the reduction in wood pulp costs has been gradually reflected in the gross profit margin in the second quarter. The Group's gross profit margin in the second quarter improved significantly compared with the second half of last year. Therefore, the Group expects that the gross profit margin of the tissue paper business will continue to improve in the second half of the year.

Driven by the improvement of national health awareness and the growing demand for consumption upgrades, the Group's upgraded and premium tissue paper products achieved outstanding sales. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of more than 40.0% and accounted for more than 12.0% of the overall tissue paper sales. In terms of the Group's wet wipes business, the sales for the period was approximately RMB491,497,000 (2022 first half: RMB413,312,000), recording a sales growth of nearly 18.9%, accounting for approximately 6.9% of the overall sales of the tissue paper business (2022 first half: 7.1%). The wet wipes business has maintained a strong growth momentum in recent years, the Group will continue to increase its market share in the domestic wet wipes market and maintain its market leadership. The Group actively responded to the fragmentation of channels and the efforts and resources invested in strategic deployment in the early years has entered the harvest period. The sales of tissue paper in e-commerce channels increased by more than 40.0%, accounting for close to 33.3% of the overall sales of tissue paper. Meanwhile, emerging channels such as community group-buying also saw an increase of more than 40.0%, delivering stellar performance. In the future, the Group will continue its endeavours in expanding different sales channels, striving for the largest market share.

With the continuous enhancement of people's living standards and health awareness, the overall tissue paper market is full of opportunities. In the face of fierce market competition, the Group will develop more high-quality products to meet the diverse needs of customers, improve the cost-effectiveness of tissue paper production, and increase the production capacity of each production base, so as to fully grasp the business opportunities in the domestic tissue paper market and maintain its leading position in the tissue paper market. During the period, the Group's annual production capacity was approximately 1.47 million tonnes. It is expected that in the second half of 2023, production capacity will be gradually increased in Hunan, Hubei, Guangdong and other regions to respond to market conditions and meet the demand for sales growth.

### **Disposable Diapers**

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

The Group continues to develop high-quality baby and adult care products to meet customers' growing demand for product quality. During the period, sales of the flagship premium product "Q • MO" maintained satisfactory growth. It recorded a year-on-year growth of nearly 19.1%, and its proportion further increased to more than 35.0%. In the first half of 2023, 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 rose to more than 50.0% and more than 16.6%, respectively. Despite fierce market competition, benefitting from the enhanced brand image, the sales growth of the Group's premium product "Q • MO" and the improvement in sales resulting from the rebranding of the "Anerle" (安兒樂) brand to sport pants to meet the current consumer demands, which effectively offset the decline in sales from traditional channels and mid-to-low-end products. On the other hand, benefitting from the growing domestic adult incontinence products market and the continuous increase in the penetration rate of the Group's adult disposable diapers, the Group's adult disposable diaper business recorded a growth of approximately 45.1% during the period, accounting for approximately 29.2% of the overall diaper sales. Therefore, the sales of the Group's diaper business rebounded during the period, which increased by approximately 5.0% to approximately RMB665,304,000 (2022 first half: RMB633,513,000), accounting for approximately 5.5% of the Group's overall revenue (2022 first half: 5.7%). The Group believes that the adult disposable diaper market has considerable development potential. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business are expected to maintain growth in the second half of 2023.

In terms of gross profit margin, the price increase in petrochemical raw materials for disposable diapers led to an increase in costs of sales during the period, however, the increase in the proportion of sales of the higher-margin "Q • MO" products offset the impact of rising costs on the overall business profitability. Therefore, the gross profit margin of the diaper business grew approximately 36.0% (2022 first half: 35.3%). The gross profit margin of the diaper business is expected to remain stable in the second half of the year.

During the period, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding the baby diaper business, the Group continued to rebrand the "Anerle" brand, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today's customers, effectively driving an increase in sales. On the other hand, "Q • MO" magic breathing diapers, which have 3.6 times more vents than traditional diapers, has been well-received by the market. The Group will continue to optimise "Q • MO" products

to instill growth momentum into the Group's future development. With the dual-brand strategy, the Group expects the sales of the baby diaper business will maintain a steady growth in the second half of 2023.

In addition, as China 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 market share in Southeast Asia.

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

#### **Other Income and Household Products**

Regarding other income and household products, the Group's revenue for the year, which mainly includes revenues from raw material trading business, household products business, Wang-Zheng Group in Malaysia, and medical related products business, decreased by approximately 27.9% year-on-year to approximately RMB1,149,896,000 (2022 first half: RMB1,595,372,000). The decline was mainly due to the Group's preference to consume high-cost raw materials through production as soon as possible and to ensure the raw material trading business's profit, which caused the revenue from the raw material trading business to drop significantly about 34.7% to approximately RMB580,000,000 (2022 first half: approximately RMB890,000,000).

During the period, revenue from the household products business was approximately RMB 126,284,000 (2022 first half: RMB170,887,000), representing a year-on-year decrease of approximately 26.1%, accounting for approximately 1.0% of the Group's revenue, which was mainly due to the decline in the export business of household products.

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

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 fell in light of the end of epidemic. Thus, the sales of medical products decreased notably and recorded a revenue contribution of approximately RMB62,195,000 (2022 first half: RMB167,542,000). Although the revenue of medical products that have higher profit margin decreased, raw material trading business that has relatively lower margin saw a larger extent of year-on-year decline, therefore the overall gross profit margin of other businesses increased to approximately 25.4% (2022 first half:

20.4%).

### **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 the first half of 2023, turnover of overseas channel (including Wang-Zheng Group business) was approximately RMB 916,810,000 (2022 first half: RMB1,072,226,000), accounting for approximately 7.5% of the Group's overall sales (2022 first half: 9.6%).

During the period, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approximately 8.2% year-on-year to approximately RMB220,359,000 (2022 first half: RMB203,628,000), accounting for approximately 1.8% of the Group's overall sales (2022 first half: 1.8%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include adult and baby disposable diapers and tissue products, cotton products and processed papers. Its brands include "P Love" disposable adult diapers and "Carina" personal hygiene products. The Group leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's tissues and adult disposable diapers products into the Southeast Asian market.

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

### **E-commerce and New Retail Channel Strategies**

New consumption patterns and new forms of business that integrate online and offline channels are developing at an accelerated pace, and the online shopping market is expanding, thereby continuously unleashing consumption potential. In the first half of 2023, the national online retail sales of physical goods reached RMB6.06 trillion, representing a year-on-year increase of 10.8%, of which the online retail sales of consumer goods increased by 10.3%. In order to meet the ever-upgrading needs of customers, 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 period, the Group carried out higher quality products promotions for various brands in new channels, and its stable pricing strategy received positive responses from the market, thus further enhancing the Group's brand awareness and market share in online and other new retail channels.

In first half of 2023, the Group's e-commerce channels (including Retail Integrated and New Channel) maintained a robust development momentum and sales for the period soared over 30.0% to approximately RMB3.5 billion (2022 first half: RMB2.7 billion), bringing the proportion of e-commerce sales up to approximately 29.0% (2022 first half: 24.2%) of the Group's overall sales. During the period, new retail channels made over 30%, over 20% and over 50% of contribution for the sales of tissue paper business, sanitary napkin business, and disposable diaper business respectively. It is expected that the proportion of sales on new retail channels will be further increased in the future.

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

To cater for the new customer trends, the Group will interact with customers through livestream sales and other community activities, and strengthen the connection with young customers. The Group also appointed Xiao Zhan, a popular artist, as the brand ambassador of "Hearttex" to further enhance the brand influence, the Group will continue to increase its market share in the e-commerce and new retail

channels sector, thus injecting strong impetus for rapid growth in the future.

### **Selling and Administrative Expenses**

As the Group moderately increased its online marketing investment to capture the market opportunities and promote the Group's key selling products, the Group's selling and administrative expenses during the period amounted to approximately RMB2,564,705,000, representing a year-on-year increase of approximately 19.8%. The proportion of the Group's selling and administrative expenses to the total revenue for the period increased to approximately 21.0% (2022 first half: 19.1%). The Group believes that the total revenue is expected to continue to increase in the second half of the year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve.

### **Foreign currency risks**

Most of the Group's income is denominated in Renminbi. During the period, due to the depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group recorded an operating exchange loss of approximately RMB 182,426,000, the exchange loss significantly narrowed by approximately 50.4%, mainly due to significant decline in Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company, which mainly caused the recognition of operating exchange loss in last period (2022 first half: RMB 367,797,000).

As at 30 June 2023, apart from certain foreign currency swap contracts and foreign exchange options contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

### **Liquidity, Financial Resources and Bank Loans**

The Group has always maintained a solid financial position. As at 30 June 2023, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB 28,645,649,000 (31 December 2022: RMB21,563,284,000); super short-term commercial papers of RMB 5.0 billion (31 December 2022: Nil) and bank borrowings and other borrowings amounted to approximately RMB18,859,992,000 (31 December 2022: RMB17,029,952,000).

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

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 1.4% to 6.5% (2022 first half: from 0.4% to 3.8%)

As at 30 June 2023, the Group's gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) further improved to approximately 119.1% (31 December 2022: 87.2%), 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 23.9% (31 December 2022: negative 23.2%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position.

During the period, the Group's capital expenditure was approximately RMB989,348,000 (2022 first half:



RMB523,581,000). As at 30 June 2023, the Group had no material contingent liabilities.

## **Outlook**

Looking ahead to the second half of 2023, **Mr. Sze Man Bok, Chairman of Hengan International**, said, “With the Russo-Ukrainian War and the continuation of the tightening monetary policies of the world's major central banks, the global economic outlook will be clouded by recession, and the domestic economic development will also come under pressure. However, the long-term sound fundamentals of the Chinese economy remain unchanged. It is expected that China will continue to introduce policies and measures to stabilise the economy and expand domestic demand, supporting the recovery of the economy and consumer market. The Group will continue to pay close attention to the political and economic developments at home and abroad as well as 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 continued to increase, coupled with the uncertain outlook of the global economy affecting market demand, the price of wood pulp started to come down in the second quarter. Since the Group needs to consume the existing high-cost wood pulp inventory first, the positive impact of wood pulp price decrease 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.”

“Despite the intensified competition in the domestic daily necessities market, Hengan, leveraging its leading research and development and production capabilities and excellent brand image, coupled with its extensive nationwide distribution and diversified product portfolio, still demonstrated strong resilience in a challenging operating environment, successfully seized the opportunity of industry consolidation, and further expanded market share.”

“As a leader in the industry, Hengan centres around long-term development to formulate business strategies and allocate resources. The Group will actively implement the three core strategies, including “focus on main businesses”, “brand 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 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”, “Cloudy Soft Skin” and “Sweet Dream Pants”, so as to improve the Group’s profitability, further develop online and offline sales channels and promote the joint development of multi-channels to expand its customer base.”

“The Group will also continue to optimise the organisational structure, strengthen the construction of young professional team, improve team efficiency, and allocate resources to improve infrastructure and enhance supply chain efficiency, for example, the Group has completed its system upgrade in March this year and implemented the 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 customers’ 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 the second half of 2023.”

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

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### ***Company Background***

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

For further information, please contact:

**iPR Ogilvy Limited**

Callis Lau / Tina Law/ Lorraine Luk

Tel : (852) 2136 6952/ 2136 6181/ 2169 0467

E-mail : hengan@iprogilvy.com