



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

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



2020

Environmental, Social and
Governance Report



CONTENTS

FOREWORD	2
1. ABOUT THE REPORT	2
2. ABOUT THE GROUP	4
3. MAJOR HONOURS IN 2020	5
I. ESG STRATEGY AND GOVERNANCE	6
1. SUSTAINABLE DEVELOPMENT COMMITMENTS	6
2. ESG GOVERNANCE FRAMEWORK	7
3. ESG RISK AND RESPONSE	8
4. MATERIALITY ASSESSMENT	10
5. RESPONSE TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGS) OF UN	12
6. STAKEHOLDER COMMUNICATION	13





II. ENVIRONMENT	14
1. CLIMATE CHANGE	15
2. FOREST POLICY	22
3. PACKAGING MATERIALS	23
4. WATER RESOURCE MANAGEMENT	24
5. WASTE MANAGEMENT	25
6. WASTE GAS MANAGEMENT	26
III. PRODUCTS	27
1. R&D AND INNOVATION	28
2. RESPONSIBLE PROCUREMENT	30
3. QUALITY ASSURANCE	34
4. CUSTOMER RELATIONSHIP	41
IV. EMPLOYEES	44
1. HEALTH AND SAFETY	44
2. EMPLOYEE MANAGEMENT	50
V. PUBLIC WELFARE	60
KPI SUMMARY TABLE	65
1. ENVIRONMENTAL KPIS	65
2. SOCIAL KPIS	68
GRI STANDARDS INDEX	71
ESG REPORTING GUIDE INDEX	78
READERS FEEDBACK FORM	82



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



FOREWORD

1. About the Report

Since the first Environmental, Social and Governance Report (the “ESG Report”) was released in 2017, Hengan International Group Co., Ltd. has issued ESG reports for five consecutive years. The ESG Report elaborates the Group’s concepts, practices and achievements of its sustainable development and social responsibility in 2020 from the environmental and social aspects.

Scope of the Report

The ESG Report covers three major business segments of the Group – paper production, post-processing of paper and personal hygiene products (including sanitary napkins and diapers). Revenue from other business segments of the Group accounts for a very small percentage of total revenue and has a minimal impact on the overall performance of the Group, so it is not included in the scope of the ESG Report.

The ESG report covers the period from 1 January 2020 to 31 December 2020 (the “reporting period”). All information in the ESG Report is disclosed from the Group level, except for the environmental KPIs, which only include KPI data from 23 production companies (27 bases) and Weifang Hengan Thermal Power Co., Ltd. No significant adjustment is made to the disclosure scope of the ESG Report, compared with that of the 2019 ESG Report which was published in May 2020.

Reporting principles

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





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

- ▶ **“Materiality”**: The Group identifies key ESG issues through stakeholder engagement and materiality assessment;
- ▶ **“Quantitative”**: The ESG Report states the Group’s key environmental and social KPIs on a quantitative basis; quantitative information is accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate;
- ▶ **“Balance”**: The ESG report provides an unbiased picture of the Group’s environmental and social performance;
- ▶ **“Consistency”**: The relevant disclosure and statistical methods of the ESG Report are consistent with those used in the 2019 ESG Report without any significant changes.

Report availability

The ESG Report is published in electronic edition, which is available on the HKEx website (<https://www.hkex.com.hk>) and the Group’s website (<http://www.hengan.com>). The ESG Report is published in Chinese and English. In the event of any discrepancies in the interpretation of the two texts, the Chinese text shall prevail.

Reference description

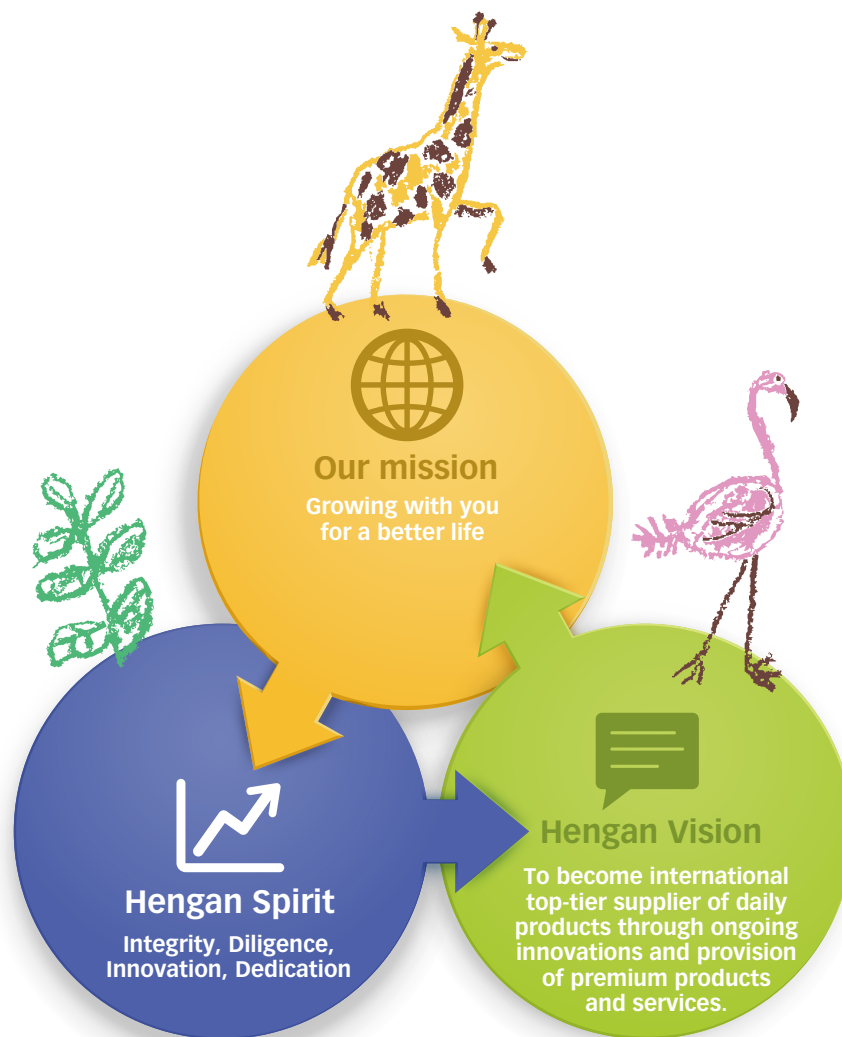
For ease of expression, Hengan International Group Co., Ltd. and its subsidiaries are also referred to as “Hengan Group”, “Hengan” or “the Group” in the ESG Report.





2. About the Group

Hengan, established in 1985, is a well-known domestic manufacturer of tissue paper and women and children hygiene products. Hengan was successfully listed on the Stock Exchange of Hong Kong on 8 December 1998; on 7 June 2011, it was officially admitted as a Hang Seng Index constituent stock. For more than 22 years since its listing, the Group is under sustained and sound development. Hengan's three leading products, women sanitary napkins, baby diapers and tissue paper, take leading market shares in the domestic market.





Hengan has always insisted on ongoing innovation. Since 2002, the Group has engaged world famous management consulting companies including Thomas Group of the United States, Booz & Company of the United States and International Business Machines (IBM) Corporation, for full-scale management reforms to enhance its core competitiveness for three times respectively. At the same time, the Group has fully applied the excellent performance management system. At the end of 2013, a third-wave management reform aiming at informatisation and platformisation, was started to create an information-based and visualised operation platform and promote the operation of a platform-based small team, so as to realise the strategic transformation, consolidate and enhance its core competitiveness. In recent years, Hengan has introduced world-leading production equipment, and meanwhile driven capacity expansion in paper production bases for tissue paper located in Jinjiang of Fujian Province, Changde of Hunan Province, Weifang of Shandong Province, Chongqing, Wuhu of Anhui Province and Changji of Xinjiang Uygur Autonomous Region. Its tissue paper production capacity has listed top of the industry. Driven by the implementation of “The Belt and Road Initiatives”, Hengan has also expedited its overseas business development by acquiring listed companies in Malaysia and investing in and building plants in Indonesia and Russia. Those practices have further extended its industrial chain and layout in the international markets.

The Group firmly sticks to low carbon, green and sustainable development. In 2016, Hengan Group and its CEO, Mr. Hui Lin Chit were respectively awarded “the International Carbon-Value Award” and “the Carbon-Value Innovator Award” by the World Economic and Environmental Conference; In 2020, Mr. Hui Lin Chit was ranked 8th on the list of “China’s Top 100 CEOs” by Harvard Business Review and this is the fifth time he makes the list. In 2020, Hengan was awarded the Green Supply Chain Demonstration Enterprise under “The Belt and Road Initiatives” and Mr. Hui Lin Chit was titled “National Advanced Individual of Private Economy in the Fight against COVID-19”.

3. Major Honours in 2020

- ▶ “The Belt and Road Initiatives” High-level Round Table Committee on Economic and Environmental Cooperation: Green Supply Chain Demonstration Enterprise under “The Belt and Road Initiatives”
- ▶ The Central Civilisation Commission: The Sixth “National Civilised Unit”
- ▶ China Council for Brand Development: No. 6 in the list of “2020 China Brand Valuation Evaluation” of Enterprise Brand-light industries
- ▶ Deloitte: 2020 “Best Managed Companies”
- ▶ Phoenix New Media: “Action League 2020 Charity Ceremony”, “Top 10 Annual Public Welfare Projects”
- ▶ The British brand evaluation agency “Brand Finance”: “2020 Brand Valuation China 500”
- ▶ Gelonghui: “Best Listed Companies in Greater China 2020”, “Annual Best Investment Value Award”
- ▶ China Society for Promotion of the Guangcai Program: CEO Mr. Hui Lin Chit was titled “National Advanced Individual of Private Economy in the Fight against COVID-19”



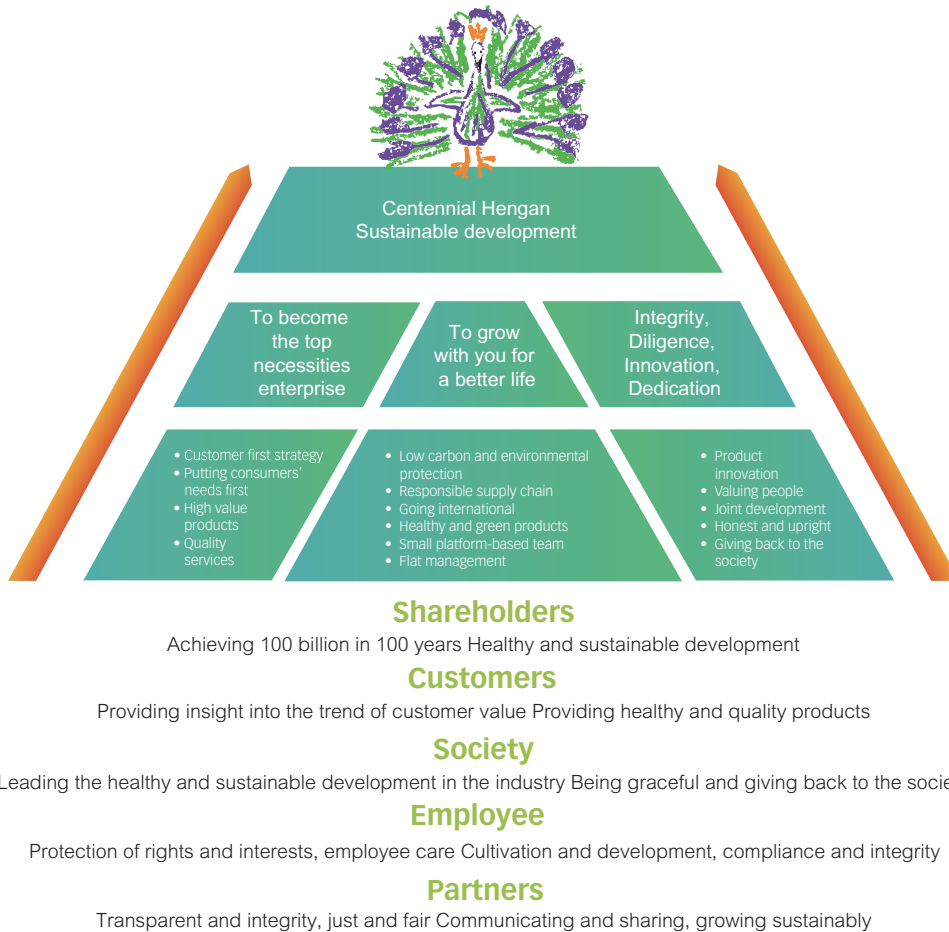


I. ESG STRATEGY AND GOVERNANCE

1. Sustainable Development Commitments

Keep changing has always been a norm for Hengan. As the leader of China’s paper industry, Hengan actively responds and takes the initiative to explore sustainable development strategies and paths, continuously optimises the Group’s ESG management level, and integrates sustainable development into its management and daily operation.

Taking environmental and social sustainability as its responsibility, Hengan focuses on development philosophy, continuously optimizing raw material structure, accelerating forest system construction and improving product standards. Meanwhile, the Group is committed to developing green products and cultivating high-level talents to promote human health and well-being, and finally sets becoming a sustainable “Paper” maker as the development goal.



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

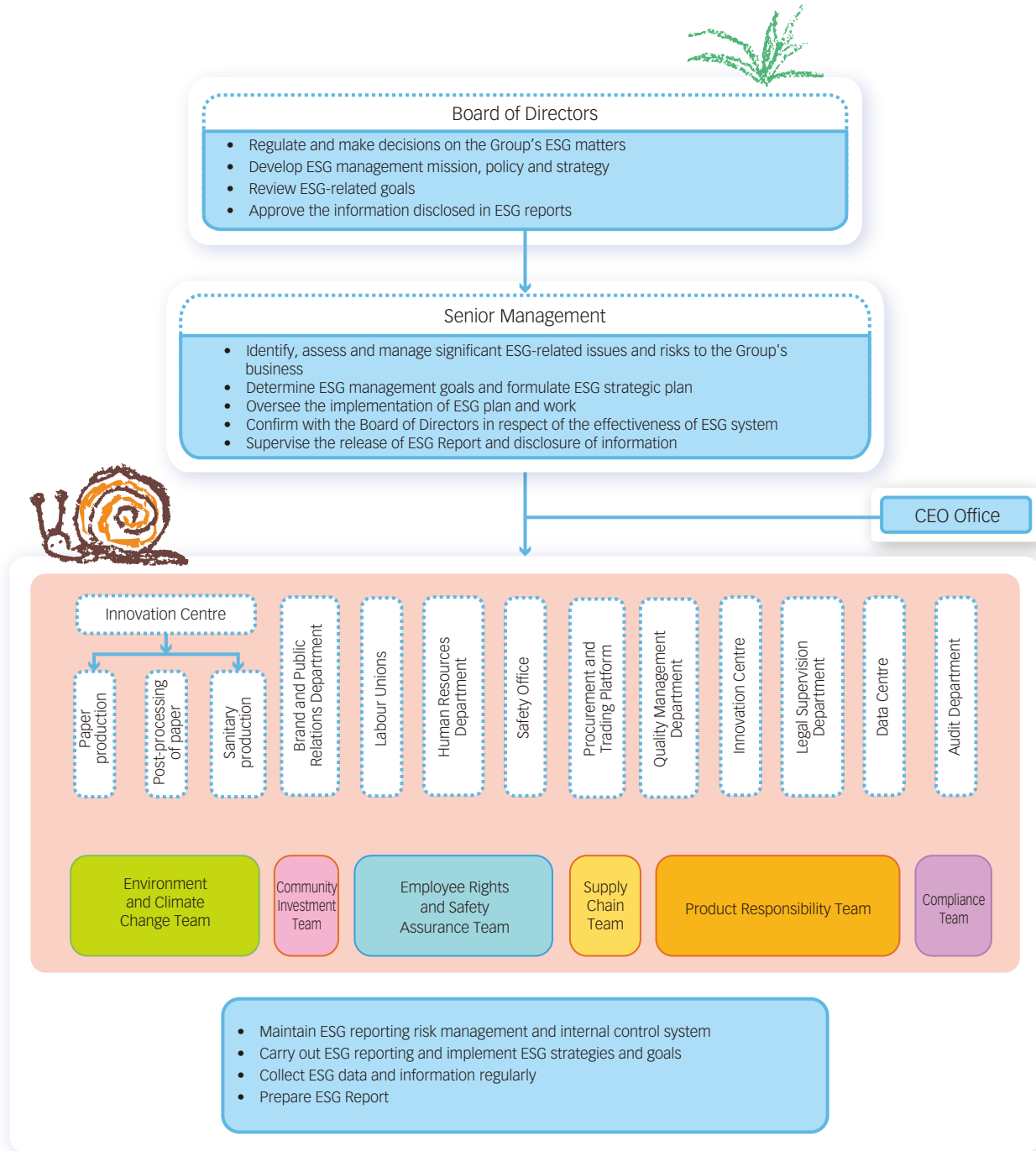
During the reporting period, the Group also actively participated in the Green Deposit Program of Bank of China (Hong Kong) to support the sustainable economic development.





2. ESG Governance Framework

The Group has established a top down ESG governance framework with three levels, which includes the Board of Directors, management and ESG working group. The framework clarifies the responsibilities of each level in terms of ESG supervision, management and execution to comprehensively promote the Group’s sustainable development.





3. ESG risk and response

Risk	Risk analysis	Risk response
Tightened environmental protection policies	With increasingly stringent environmental laws, regulations and standards related to the national and local paper industry, and further tightened discharge control indicators, China's paper industry is actively exploring a sustainable path of production. During the "14th Five-year Plan" period, China will accelerate the development of green and low carbon, improve the environmental quality, enhance the quality and stability of the ecosystem, and comprehensively improve the efficiency of resource utilization. This puts forward higher requirements for the paper industry to promote clean production, energy-saving and emission-reduction, as well as resource utilisation. Immediate efforts shall be made in carbon and pollution reduction, technology and efficiency improvement, and the acceleration of Forest Certification System construction among others.	<p>The Group expedites unified certification of the three systems (ISO 45001, ISO 9001, and ISO 14001). In 2020, all of Hengan Group's production companies and Weifang Hengan Thermal Power Co., Ltd within the scope of the ESG Report have completed system certification.</p> <p>As a member of China Paper Association and Fujian Paper Association, the Group actively participates in industry communication, looks out for new trends in environmental protection policy, cutting-edge technologies, sustainable development etc., and is involved in formulating and amending relevant industry standards.</p> <p>The Group's Standard Committee and Safety Management Committee monitor environmental issues to ensure environmental compliance and improve environmental performance.</p>
Rapid development of the market	<p>Consumption upgrade: Consumers are pursuing high-end, high-quality and high-performance products. If the proportion of high-end products in the overall product portfolio is not adjusted in time, the Group will fail to keep up with the pace of consumption upgrade.</p> <p>Healthy and green: China's green consumption is in its early stage, with huge potential. More and more consumers are willing to pay more for natural, safe, degradable and low-carbon products. Failure to grasp changes in consumer attitudes and improve the environmental sustainability of products in a timely manner will result in the risk of losing a large number of high-quality consumers with environmental protection awareness.</p> <p>Retail transformation: In recent years, retail transformation has continued to ferment, consumption habits have changed drastically, and retail sales have developed from offline to online and then to online and offline integration. As a result, traditional channels cannot satisfy all consumer groups.</p>	<p>The Group continues to implement the model of "Operation of a platform-based small team" (i.e. Amoeba with Hengan characteristics), focuses on functionality of the products, introduces new packaging and upgrades products.</p> <p>During the reporting year, the Group signed data analysis (data middle platform) cooperation contract with Alibaba, and in the future the Group will leverage this platform to analyse end user data to facilitate precise spending expenditures and design-related sales strategy so as to launch quality and premium products catering to customers' needs and keep leading position in the industry.</p> <p>The Group remains highly responsive to market and consumer demands. Relying on its production scale and technological advantages, the Group is committed to develop products and technologies which are sustainable and environmental – friendly, such as Bamboo π series and flushable wet wipes, which sold well in the reporting year.</p> <p>The Group strives to carry out "Omni-channel sales", expand the coverage of e-commerce channels, and introduce specific goods for e-commerce. As of the end of 2020, contribution of the Group's e-commerce channel revenue (including new retail) to the overall revenue was about 19.1%.</p> <p>The Amoeba strategy has been implemented in all units of the Group. With the rapid response of the Amoeba team established at various links in the supply chain to the market, Hengan continues to improve sales, production and administrative efficiency, and has launched products that best meet consumer needs.</p> <p>The Group will also increase resources of emerging sales channels such as community group buying and Online-to-Offline (O2O) sales, and attract customers with limited edition goods in the event of frequent e-commerce shopping festivals, so as to increase the Group's market share in e-commerce and new retail channels, which will give strong driver to our sales in the future.</p>





Risk	Risk analysis	Risk response
Lack of high-quality raw materials	China lacks raw materials for papermaking and relies greatly on imports of paper pulp. Hengan is committed to the development of green and low-carbon products, adheres to responsible procurement, and constantly optimises the structure of raw materials. Hengan's stringent requirements on raw materials in terms of safety, environmental protection and sustainability have posed higher risk of supply continuity.	The Group continuously optimizes supply chain management, so as to guarantee the quality and continuous supply of raw materials for papermaking.
Intensified climate change	<p>“Carbon neutrality” commitment: On 22 September 2020, President Xi Jinping announced that China will strive to peak carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060. As a leader in the paper industry, Hengan will also set its own goals in accordance with the national objective for 2060, so as to fulfil the “China Commitment”.</p> <p>Extreme weather and sea level rise: Climate change will cause sea level rise, and coastal areas will be more severely affected by natural disasters such as floods and typhoon; it will also have adverse effects on economic and social activities such as agriculture, forestry, animal husbandry and fishing. These will bring risks to production operations and raw material supply of Hengan.</p>	<p>The Group has established and improved the sustainable development governance framework to manage and respond to matters related to climate changes. In 2020, the Group set and published quantitative energy conservation and emission reduction targets, which will be monitored and reviewed annually for their progress of completion.</p> <p>The Group takes into account climate action, one of the UN's sustainable development goals, pays attention to relevant policy and regulatory trends and carbon emissions trading information, and timely modifies relevant internal systems. risks and opportunities related to climate change compliance are regularly assessed and corresponding measures are implemented. Furthermore, the Group promotes forest certification of products, maintains the high proportion of certified raw materials procured, and gradually pushes forward “Forestry-pulp-paper integration” to protect natural forests.</p> <p>Hengan promotes the utilisation of renewable energy to conserve energy and reduce energy consumption and carbon dioxide emissions.</p>
Development of Technology	<p>Production technology: The paper industry is a technology-intensive industry involving plant chemistry, microbiology, materials science, chemical engineering, machinery and automation, etc. It is interdisciplinary, multi-disciplinary and cross-cutting. Papermaking equipment is also developing towards informatization, datamation and intellectualization, so as to achieve high reliability and product quality performance. Being conservative and complacent, Hengan will stagnate and lag behind in the transformation of traditional industries.</p> <p>Environmental protection technology: As China attaches great importance to environmental protection and climate change adaption, papermaking process and equipment need to meet the requirements of energy conservation and environmental protection.</p>	<p>With the firm belief that “The more complicated the matter is, the simpler we shall decompose it”, Hengan has realised the all-round AI intelligence in self-production process, supply chain system and digital construction, etc. Since 2010, manual packaging has been upgraded to intelligent automatic packaging, achieving an overall intelligence for equipment. The entire industrial system has entered the era of intelligent automation, ranging from the source covering data entry, warehouse management and output.</p> <p>To build a team of technical talents, Hengan attracts, retains and trains high technical talents through double channels of career development, training system, Hengan management college, and school-enterprise cooperation.</p> <p>Hengan innovates continuously by utilising energy-saving and emission-reducing technologies, adopting global advanced technologies and equipment such as frequency conversion power-saving technology and turbine technology, and actively carrying out technological transformation projects such as low-nitrogen combustion transformation technology.</p>
Public health emergencies	Public health emergencies, such as COVID-19 outbreak in early 2020, have severe impact on public health. How to respond to public health emergencies reflects how capable an enterprise is to manage and operate in such situations. If an enterprise lacks management capabilities and there are no complete safety management structure and emergency procedures and measures, it cannot stabilise production and operation in face of emergencies.	Hengan promotes comprehensive safety management, establishes the Safety Management Committee and completes organisational structure and system for production safety management. In face of the epidemic, the Safety Management Committee responded quickly, consolidating resources, making deployment and arrangements, issuing relevant notices, manuals and forms, so as to ensure the health and safety of employees while guaranteeing the smooth production of materials under the situation of timely resumption.





4. Materiality assessment

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

➤ Step 1: Identify relevant ESG issues

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

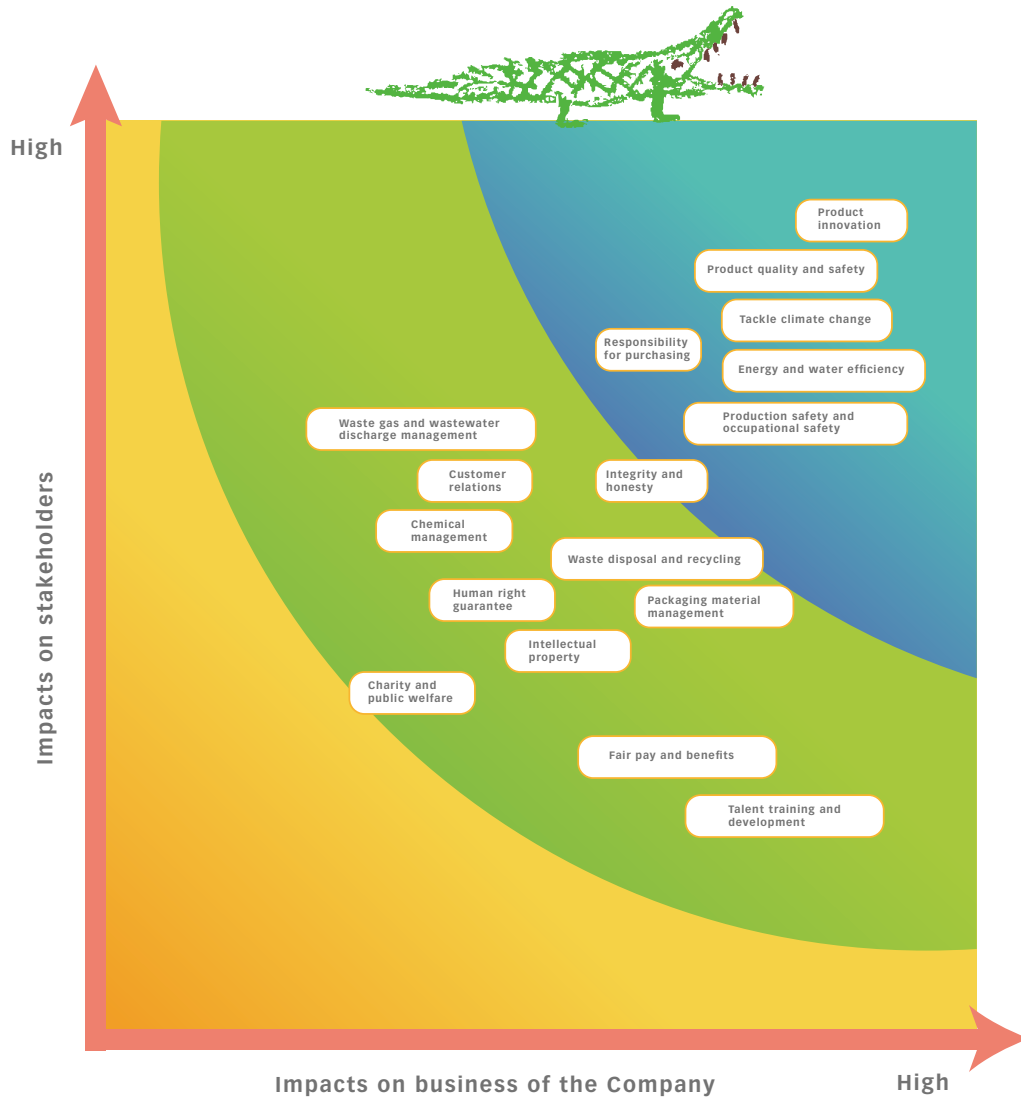
➤ Step 2: Score and sort

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

➤ Step 3: Assessment results

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







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

As an industrial leader, Hengan actively responds to the UN SDGs, protects the global environment, promotes social progress, and cares for human well-being.

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





6. Stakeholder Communication

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

Stakeholders	Communication mechanisms	Communication frequency	Stakeholders' expectations
Governments and regulators	Daily management Meetings communication Monitoring and inspections Policy consultation Reporting	Multiple per year	Abide by laws Pay tax in accordance with laws Support local development Support public health incident response
Shareholders	Shareholders' general meetings Information disclosure Investor relations activities	Multiple per year	Guarantee reasonable and stable income Safeguard right to know Improve corporate governance Improve risk control
Clients and consumers	Service hotline Enterprises' official websites Brand promotion activities	Daily	Provide healthy and premium products Innovate continuously Offer first-rate services
Employees	Labour unions Employee trainings Staff activities	Multiple per week	Protect rights and interests Provide promotion and development Guarantee work safety Provide epidemic prevention Provide equal opportunities Communicate democratically
Media	Interviews about business operation Corporate culture publicity Thematic activities	Multiple per year	Understand the fulfillment of corporate social responsibility Understand the enterprises' major events
Partners	Negotiation and communication Supplier investigation and evaluation Open bidding and tendering Communications and exchange visits	Multiple per month	Keep promise Advocate openness and fairness Promote cooperation and development Share success
Community	Charitable donation Cultural and sports support Voluntary service Publicity for environmental protection	Multiple per year	Support for local employment Promote social harmony Drive sustainable development Support for epidemic prevention
Environment	Regulators' monitoring and inspection result Third-party inspection bodies' inspection result ESG report	Multiple per year	Reduce emissions Conserve energy Protect forests Adapt to climate change





II. ENVIRONMENT

Target in 2021:

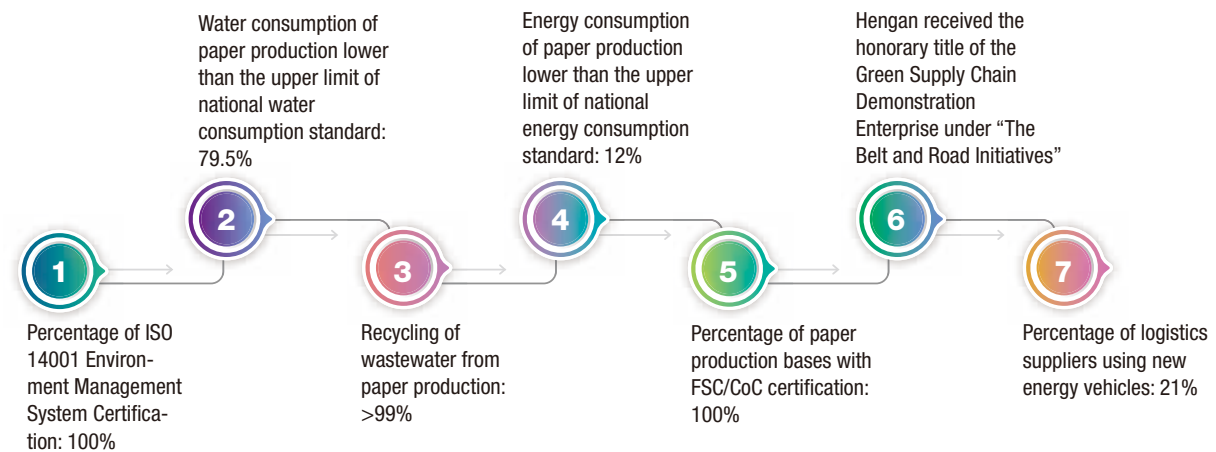
- Power consumption per tonne of paper in the papermaking sector: no more than 720kWh/t
- Water consumption per tonne of paper: remaining at the level of 5-6t/t paper;
- Wastewater discharge per tonne of paper: no more than 3 t/t paper

Target progress in 2020:

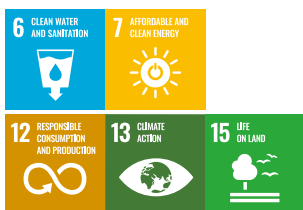
- Power consumption per tonne of paper in the papermaking sector: 779 kWh/t
- Water consumption per tonne of paper: 6.1 t/t paper;
- Wastewater discharge per tonne of paper: 3.1 t/t paper



Achievements in 2020



We respond to the following SDGs





Hengan is committed to clean production, resource saving, pollution reduction and climate change tackling for green and low-carbon production in traditional industries. The Group strictly follows the Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》), Law of the People’s Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the People’s Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), Law of the People’s Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢棄物污染環境防治法》) and other related laws and regulations. It identifies, monitors and manages essential environmental factors in accordance with the internal policies such as Identification Control Procedure of Environmental Factors (《環境因素識別控制程序》) and Monitoring and Measurement Control Procedure of Environment, Safety and Health (《環境安衛監視與測量控制程序》) to minimise the impact of production and operating activities on the environment.

Since 2003, Hengan has established and implemented the ISO 14001 environmental management system, and accepted the supervision and review by third party certification institutions and regulatory departments every year. As at the end of 2020, all of the Group’s production companies and Weifang Hengan Thermal Power Co., Ltd have established and passed ISO 14001 Environment Management System Certification, and the certification rate is 100%.

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

1. Climate Change

Hengan realises that climate change is tremendously affecting the whole world. Sea level rise, flooding, and extreme weather have posed threats to our normal life, and brought great uncertainty to enterprises’ operations and production, which results in increasing adaptation costs. Hengan always practices the concept of “green, low-carbon and sustainable development” in its daily operation and production, and conveys the concept of sustainable development in the value chain, striving to achieve the balance of social, ecological and economic benefits.

2012

Hengan Group becomes the one of the first batch of enterprises in China receiving the certificate of “Carbon Footprint” issued by the China Paper Association

2014

Hengan Group was recognised by CDP as the “Leader in Corporate Sustainability for 2014”

2016

Hengan Group and its CEO, Mr. Hui Lin Chit were respectively awarded the “International Carbon-Value Award” and the “Carbon-Value Innovator Award” by the World Economic and Environmental Conference

2018

Hengan Group won the “Business Award for Climate Change Response Organisation” from CDP

2020

Hengan Group was awarded the Green Supply Chain Demonstration Enterprise under “The Belt and Road Initiatives” by the organising committee of the 2020 High-level Round Table on “The Belt and Road Initiatives” Economic and Environmental Cooperation





As an initiator of the “Carbon footprint” course of China’s paper industry, the Group has a long-term scientific strategic plan for low-carbon and sustainable development. Hengan pays close attention to climate change, and takes No.13 climate action, one of the UN SDGs, into consideration in its daily business activities. It evaluates the risks and opportunities brought by climate change to the Group as follows:

Type of Risks	Climate-related Risks	Potential Financial Impact	Type of Opportunities	Climate-related Opportunities	Potential Financial Impact
Transitional	Updates of laws and regulations	Operating costs increase Asset value decrease	Energy sources	Involvement in carbon trading Application of clean technologies	Operating costs decrease Revenue increase Financing increase
	Energy-saving and emission-reducing technology	Capital investment increase R&D expense increase Asset value decrease	Resource efficiency	New R&D activities and development of new processes	Operating costs increase Revenue increase
	Changes in customer demands	Operating costs increase Revenue decrease Production cost increase	Market	Forestry-pulp-paper integration Expansion of foreign markets	Revenue increase Asset value decrease Operating costs decrease
	Reputation	Revenue decrease Financing decrease Operating costs increase Goodwill value decrease	Product/Service	Acceleration of forest certification Promotion of low-carbon products Delivering the concept of sustainability	Operating costs increase Financing increase Revenue increase
Physical	Acute: increase of extreme weather conditions	Revenue decrease Operating costs increase Asset value decrease	Climate resilience	Engagement in renewable energy projects Improvement of energy efficiency	Operating costs decrease Asset value increase Revenue increase
	Chronic: sea level rise	Revenue decrease Operating costs increase Asset value decrease			

With tackling climate changes and mitigating its impacts as the responsibility, the Group launches various activities with the purpose of achieving energy conservation, emission reduction and green production in the processes of product design, production, storage, logistics and supplier management to effectively fulfil the responsibility of ecological environment protection.





1) *Product design*

In the process of product design, the Group gradually introduces the concept of green environmental protection and sustainable development into the process of brand strategy evaluation and product design. Based on the Green Product Assessment: Paper and Paper Products (GB/T 35613-2017) (《綠色產品評價紙和紙製品》) that the Group has helped drafting, Hengan vigorously develops green products and sustainable technologies.

Hengan always regards products' ecological and environmental performance as the starting point of design and takes products' safety and health, recyclability and reusability into consideration. The Group develops natural plant fibres such as bamboo and soybean fibre non-woven fabrics, develops water washable products and improves their raw materials and technology to increase the proportion of wood pulp in wood pulp spunlace wipes, as well as researches and develops food-grade medicinal solution for baby wipes. Additionally, during the process of product design, the Group determines the significant environmental/hazardous factors of products and prepares corresponding control procedures, management schemes or emergency preparedness and response plans to minimise environmental impact.

2) *Green production*

The Group strictly complies with the rules in the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》), formulates the Hengan Group Energy Saving and Consumption Management Policy (《恒安集團節能降耗管理制度》), and is committed to improving energy efficiency, reducing energy consumption and using cleaner energy so as to achieve the purpose of reducing energy consumption and greenhouse gas emissions.

Hengan actively responded to the Country's policy of implementing energy conservation, emission reduction and elimination of backward production capacity, and continuously improved energy efficiency, so that the Group's energy and resource efficiency reached the domestic leading and international advanced level. In 2020, the energy consumption per unit product of the papermaking sector of the Group is 12% lower than the advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking (《製漿造紙單位產品能源消耗限額》) (GB31825-2015) ($\leq 420\text{kg}$ standard coal/ton), which is at the leading level in the industry.





In the process of production, the Group has applied various energy-saving technologies and equipment, such as:

- 📍 Install a waste heat boiler in the production workshop to recover the heat of the exhaust gas after natural gas combustion for steam production, which greatly reduced the amount of purchased steam;
- 📍 Water ring vacuum pumps are extensively replaced with turbines, greatly reducing energy consumption;
- 📍 The use of dryer cap heat preservation technology reduces the heat loss of steam and cuts down the amount of steam to be purchased;
- 📍 Frequency-conversion power-saving technology is widely used in all factories to reduce power consumption;
- 📍 Appropriate measures are taken to optimise process for power conservation by increasing the first time yield and preventing reworking.

In 2020, the Group continued to carry out renovation projects to further promote energy conservation and carbon reduction:

- 📍 The air heating system of Shandong Hengan Paper Co., Ltd. applies heat-recovering technology to further achieve energy saving and carbon reduction;
- 📍 The Group designed its plants using the cogeneration technology. Shandong Hengan Paper Co., Ltd. and Hengan (China) Paper Co., Ltd. built their own 110kv substations for photovoltaic power generation to provide electricity, heat and steam, which helped improve the energy efficiency;
- 📍 The roofs of plants and warehouses are used to run the green solar photovoltaic power generation, among which Hengan (China) Paper Co., Ltd.'s annual power generation has reached about 2 million kWh. At present, the projects under construction are located in subsidiaries in Henan, Shaanxi, Wuhu, Shangyu and Shandong.





3) **Warehousing and logistics**

With respect to warehousing, the Group vigorously promotes the digitalisation, visualisation and informatisation to improve efficiency and reduce energy consumption. The Group has introduced an advanced management concept and system, namely stereoscopic warehousing. Specifically, with the same capacity, a stereoscopic warehouse only covers an area of 1/4 of a traditional one and bears 1/3 of the comprehensive operating cost of the latter, while doubling the operating efficiency. Such warehouses, based on orders, automatically deliver products to designated outlets in an unmanned and visual manner, greatly increasing the amount of input and output, and reducing the corresponding power consumption of unit product. In addition, more than 95% of forklifts used in the Group’s warehouses are driven by electric power, reducing environmental pollution from the source.

With respect to logistics, the Group has been optimising logistics efficiency to reduce greenhouse gas in transportation and logistics.

- 📍 The sales network has been optimising, with logistics centres integrated, reducing the number of regional transfer centres (RTC) and improving the logistics efficiency;
- 📍 In regard to continuous route optimisation, the Group, in virtue of the traditional model of “Factory – RTC – Warehouse”, has been improving the proportion of direct delivery or coordinated delivery to reduce transport mileage;
- 📍 Logistics suppliers are encouraged to choose green new energy vehicles (NEVs) to reduce energy consumption and carbon dioxide emissions, and build a green transportation system. In 2020, 21% of the Group’s cooperative logistics suppliers adopted NEVs.



Stereoscopic warehouses in Neikeng, Fujian





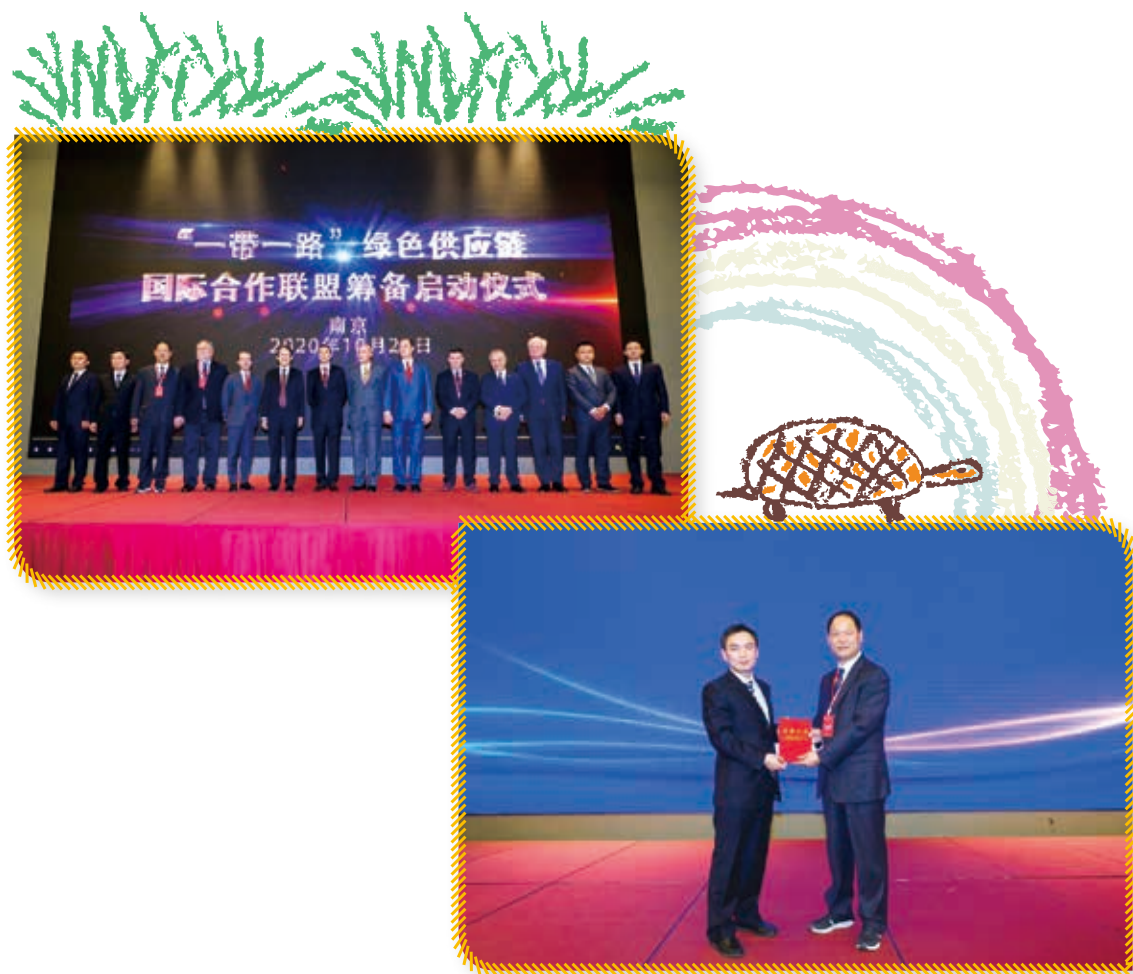
4) Cooperation with suppliers

With respect to supply chains, Hengan actively conducts cooperation with partners who practice environmental protection and low carbon, and passes the concept of sustainable development to more partners. Hengan prefers suppliers that perform well in energy conservation and environmental protection, and encourages suppliers to increase the use of environmentally friendly products and services.

The Group takes initiative to participate in external initiatives and conferences for sustainable development, and delivers ideas and experience of sustainable development on the supply chain by supplier exchange conferences, supplier visits and on-site investigation, etc.

Launching Ceremony for the Green Supply Chain International Cooperative Alliance under “The Belt and Road Initiatives”

On 28 October 2020, the All-China Environmental Federation joined hands with the embassies of Ukraine, Chile, Portugal, Colombia and other countries to organise a launching ceremony for the Green Supply Chain International Cooperative Alliance under “The Belt and Road Initiatives” in Nanjing, China. Hengan Group, as the only invited representative enterprise to attend the ceremony, was awarded the Green Supply Chain Demonstration Enterprise under “The Belt and Road Initiatives” by the organising committee. The committee then stated that Hengan Group, adhering to the concept of “Green, low-carbon, and sustainable development”, has been leading and driving the transformation and improvement of the household goods industry in China, becoming one of the global models in practicing sustainable development.





Engineer Exchange Conference

On 23 December 2020, Hengan Group Engineer Exchange Conference was held at Hengan Management College, during which 22 topics were discussed at 6 branch venues among 31 suppliers, universities and institutions within two days. At the conference, suppliers were invited to deliver their insights on topics such as “Degradable Biomaterials Status and Development”, “Paper Packaging - Sustainable Solutions for Urbanisation” and “Flexible Packaging Materials for Sanitary Products: Sustainable Packaging Materials”. In addition, discussions and sharing on technical innovation, application and research were conducted against topics such as product upgrade, product safety, sustainable development and cutting-edge technologies at branch venues.





2. Forest Policy

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

The paper products of the Group received the forest certificate by Forest Stewardship Council (FSC) in 2010, and passed the third parties’ certification audit every year. Six paper production subsidiaries of Hengan were FSC/CoC-certified in 2020. The percentage of certification was 100%.

Affected by the epidemic in 2020, water-borne transportation was not smooth and paper products of the Group sold to overseas customers declined sharply. Thus, about 10% of raw paper products manufactured and sold by the Group were FSC/CoC-certified, representing a slight decrease compared with that in 2019. In the future, the Group will properly increase the percentage of FSC-certified products according to client requirements, government regulations or market trend, etc.

Hengan adheres to the principle of “Sustainable use of resources and strict control; protecting the environment and benefiting our society”, strictly controls the production process and ensures that certified and non-certified products are clearly identified and isolated. The Group further executes its business policy, targets and commitment by means of publicity and training, establishing a document-based CoC supervision system, and assigning special personnel to maintain effective operation of system.

Hengan is committed to help suppliers to promote forest certification, requires suppliers to abide by the Group’s paper pulp purchase standards and encourages them to adopt FSC standards. Regular on-site supplier visits are arranged to promote sustainable forest stewardship. The Group’s suppliers establish relevant internal policies and procedures to guide sustainable forest management and harvesting practices, tracing and verifying the origin and legality of all wood raw material worldwide. In 2020, 90% of pulp suppliers of Hengan obtained FSC or PEFC (Programme for the Endorsement of Forest Certification Schemes) certificates.



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

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





3. Packaging Materials

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

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

In 2020, the sanitary product production segment of the Group carried out a series of packaging automation improvement projects. Each subsidiary has also introduced and promoted a batch of automatic packaging equipment in order to improve the automation of the packaging process, enhance the quality stability, and finally achieve the goal of reducing the waste of packaging materials.

Packaging automation improvement plan in 2020	Improvement direction
Transmission stability improvement of medium-sized packing products	To improve the stability of transmission of medium-sized products, control product spacing to prevent the product interconnection, improve tag quality and ensure the quality stability of automatic packing
Improvement of quarter-turn transmission of packaging machines	To reduce horizontal or missing packing products arising from poor transmission posture of medium-sized products
Sealing machine improvement of medium-sized packing products	To reduce the abnormalities of sealing machine for medium-sized packing products
Improvement of product tag quality	To reduce lost tags and repeated tags of medium-sized packing products and ensure the tag quality to satisfy relevant requirements
Improvement of poor-sealed medium-sized packing products	To reduce poor-sealed medium-sized packing products and prevent such products from the packing process

In addition, in order to reduce the environmental impact of packaging, the Group prefers degradable and recyclable packaging materials, and discusses with suppliers to develop green materials such as biodegradable materials and sustainable packaging materials. In 2020, 100% of paper packaging materials and 95% of plastic packaging materials of Hengan were recyclable.





4. Water Resource Management

1) *Water resource use*

Hengan's water consumption is mainly from production and daily use of water. With tap water and reservoir water as water source, water demands for daily operation can be satisfied. The Group strictly abides by the provisions of laws and regulations such as the Water Law of the People's Republic of China (《中華人民共和國水法》) and continues to evaluate and apply water-saving technologies to reduce water consumption. To improve the water conservation awareness of all employees, water conservation labels are set in workshops and living areas.

Pulping and papermaking require plenty of water. In order to reduce the consumption of fresh water, Hengan reuses water in different paper production procedures based on the water quality; excess discharged water, after treatment, can be used for other purposes. Small amount of wastewater produced in paper production is biochemically treated, and then recycled to the paper production workshop after ultrafiltration and reverse osmosis, realising water resource recycling, with more than 99% of paper production waste water recycled.

In 2020, the water consumption per ton of paper in the Hengan papermaking segment was 79.5% lower than the national standard upper limit of water withdrawal per ton of product specified in GB/T18916.5 Water Quotas Part 5: Paper Products (《取水定額第5部分：造紙產品》), leading the industry.

2) *Wastewater management*

The wastewater discharged by Hengan is mainly the production wastewater and domestic waste water produced during the production process. According to the Group's the Wastewater Treatment Measure (《廢水處理辦法》), all the paper production companies under Hengan have built sewage treatment stations. The wastewater is dealt with through slanting, air floatation, aerobic aeration, etc., thus meeting the discharge standard under the Discharge Standard of Water Pollutants for Pulp & Paper Industry (《製漿造紙工業水污染排放標準GB3544-2008》) before discharge. In 2020, the wastewater discharge intensity, COD discharge concentration and N-NH₃ discharge concentration of the Group's papermaking sector were far less than the national discharge standard.





5. Waste Management

In terms of non-hazardous wastes, Hengan classifies and recycles wastes in accordance with the Group’s Solid Waste Management Measures (《固體廢棄物管理辦法》), and applies the principle of “Reduction, reuse, recycle”, so as to improve the efficiency of resource utilisation.

Waste type	Method of disposal
Hazardous wastes	Detoxification treatment by entrusted qualified third parties
Daily generated wastes	Recycle and detoxification treatment by environmental sanitation department
General industrial solid wastes	<p>For solid waste with reuse and resource potential, the Group conducts multi-level recycling of waste:</p> <ul style="list-style-type: none"> 📍 Selling pulp to external paper box mills for recycling; 📍 Using sludge for incineration to produce electricity; 📍 Selling gypsum to cement factories for cement manufacturing; 📍 Selling fly ash to other companies for refining rare metals; 📍 Selling slag for brick manufacturing.

In addition, the Group reduces waste production and discharge by reducing waste of raw materials and conducting consumer education. The Group:

- 📍 has developed raw material consumption assessment indicators. Whether the raw material consumption exceeds the standard or not is directly linked to the salary of each position. Employees of each position are urged to control raw material consumption and enhance material utilisation, thus reducing the discharge of leftover materials;
- 📍 has realised the reduction of absorption of cotton and polymers in vacuuming by improving mesh screens, negative pressure, fans, pipes and conveyor belts, which further greatly reduced the amount of waste generated in addition to lowering costs;
- 📍 conveyed the concept of environmental protection and sustainable development to consumers through product packaging identification, and guided consumers to correctly dispose of waste after using products.





6. Waste Gas Management

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

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

In 2020, Hengan's subsidiaries actively implemented equipment replacement and technical transformation to further respond to the national emission reduction policy:

- 📍 Hengan (Chongqing) Living Paper Co., Ltd. implemented the low-nitrogen combustion technology reconstruction programme to reduce the generation of nitrogen oxides from the source;
- 📍 Hunan Hengan Living Paper Products Co., Ltd. carried out the project of ultra-low emission of flue gas from 75t circulating fluidised bed boilers to meet the requirements of ultra-low emission reform of coal-fired boiler gas emissions.



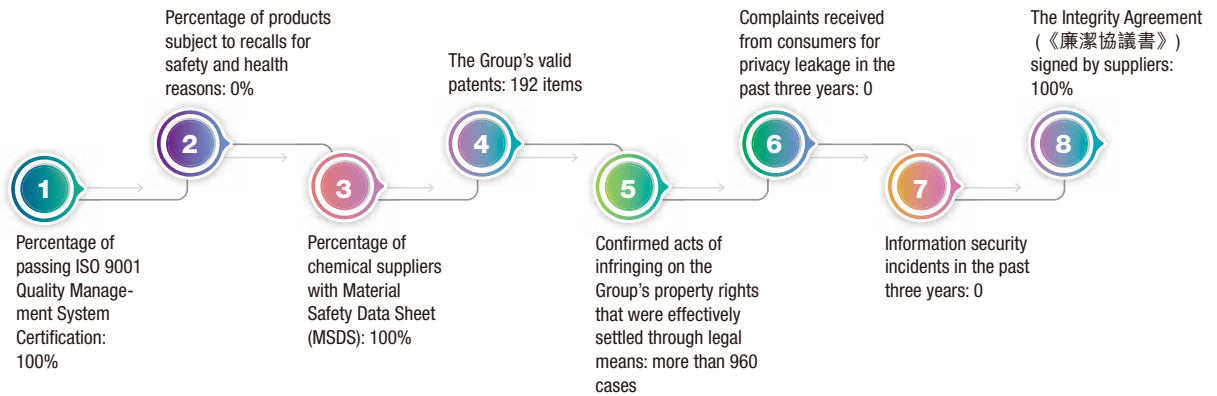


III. PRODUCTS

Hengan Group, adhering to the “consumer-oriented” business concept, continues to pursue innovation and reform, actively optimises product portfolio and strictly manages its suppliers to promote long-term and sound business development and provide quality personal and household sanitary products for the public.



Achievements in 2020



We respond to the following SDGs

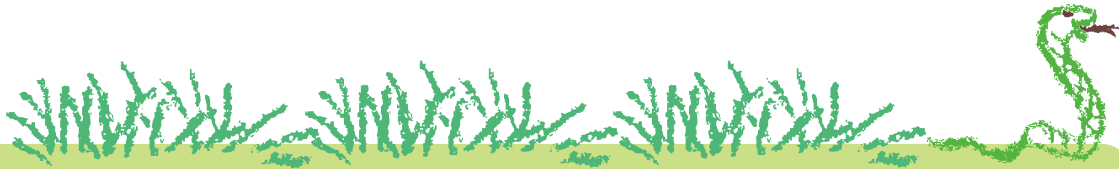




1. R&D and Innovation

1) Innovation capability

Over 35 years, the Group keeps investing in R&D, formulating advanced enterprise standards, and introducing internationally advanced production equipment to raise its technical and product levels, and retain the leading edge in the long-term competition against international renowned brands.



Product innovation

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

Standard innovation

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

Pattern innovation

The Group has established an innovation centre, which adopts project system for operation and evaluation, and manages projects according to work flow. The product development project applies performance appraisal method and incentive method aiming at promoting effective collaboration among team members to maintain its highly efficient operation.

In 2020, the Group's Innovation Centre included over 117 full-time R&D personnel, 77 of them with bachelor degree or above, 14 with master degree or above, 6 advanced R&D certificate holders (excluding management and economics categories), and 11 intermediate certificate holders. Those R&D personnel majored in paper production, chemistry, materials, electromechanical, industrial design and other disciplines and comprehensively carries out product innovation from four dimensions of technical research, product innovation, product development, and innovation management.

Hengan has actively carried out communication and cooperation with domestic and foreign research institutions, professional colleges, suppliers and other partners. In June 2020, Hengan achieved a strategic cooperation with the first domestic spunbond non-woven fabric production company. Driven by demands and development, both parties continued to pursue product research, development and innovation in new materials, new technologies and application of non-woven fabrics. In addition, the Group vigorously promotes the informatisation and intellectualisation of manufacturing and monitoring management systems and explores the construction and upgrade of smart factories to enhance the production efficiency.





In virtue of the Group’s innovative advantages, Hengan has launched various high-quality and green sanitary products such as “Hearttex”, “Bamboo π”, “PINO”, “Premium” and “Softclear”.

- 📍 **Bamboo π:** Sticking to the green concept, Bamboo π adopts bamboo as the raw material as its growth cycle is much shorter than that of wood to ease burden on forests. Meanwhile, “bamboo fibre” in bamboo pulp is more bacteriostatic, mite-proof, mothproof and deodorant, catering to consumers’ pursuit for health, environmental protection and life quality.
- 📍 **Hearttex:** “Cloudy Soft Skin” is rolled out in 2020, which adopts 100% virgin wood pulp and contains no transferable fluorescent brightener and chemical adhesives, with double-sided three-dimensional embossing, providing high-quality and skin-friendly usage experience for consumers.



Cloud Feeling

- 📍 **Super Mini:** The Group continues to leverage its leading advantages in this series of wet tissue paper, and launches upgraded products with the feature of “Super Mini”, such as flushable “Super Mini” wet tissue paper.

2) **Intellectual property rights**

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

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





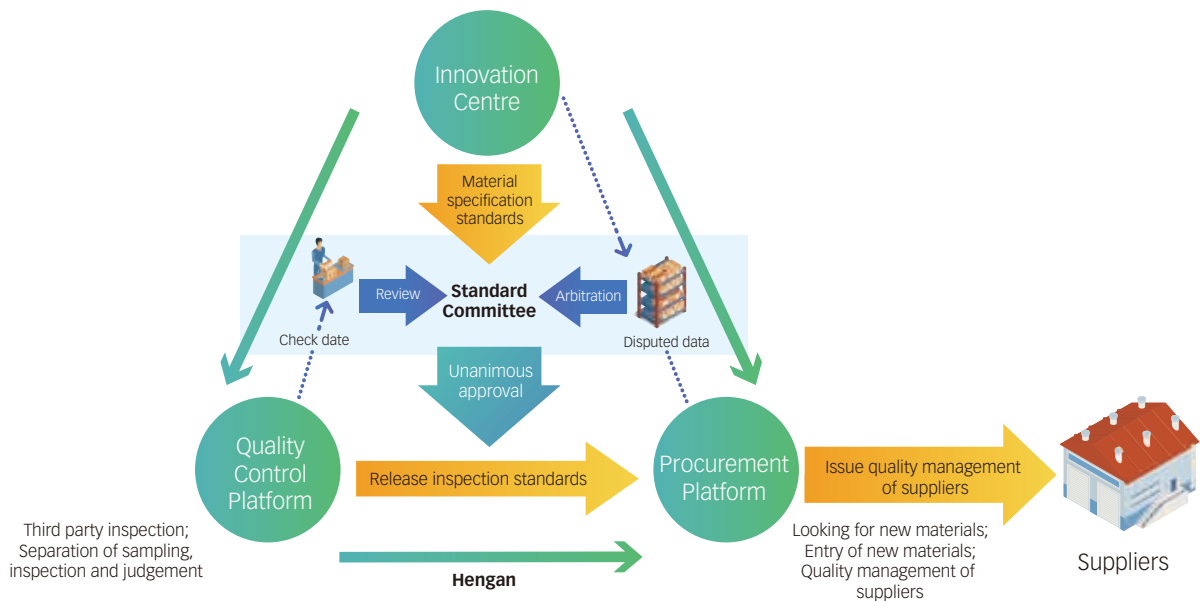
As at the end of 2020, the Group owned 192 valid patents, including 56 invention patents, 125 utility model patents and 11 design patents.

Hengan actively protects the Group’s intellectual property rights. As at the end of 2020, a total of 950 online and offline rights protection cases were effectively settled through legal means, and 14 special anti-counterfeiting cases were successfully resolved.

2. Responsible Procurement

With the continuous progress of the 3rd management reform for the Group and the establishment of platform strategy, Hengan has set up a procurement platform for centralised procurement management, and is committed to providing an end-to-end, fair and transparent procurement professional management platform.

Insisting on the strategy of “Separation of Three Powers” among the Procurement Platform, the Innovation Centre and the Quality Control Platform, the Group builds up a fair and transparent supplier management model featured with the “Iron Triangle”. Specifically, the Innovation Centre prepares material specification standards in accordance with product positioning (market/quality/cost, etc.). The Quality Control Platform inspects and manages quality in accordance with formal standards issued, provides inspection results from a third party and sets out corrective action plans. The Procurement Platform introduces, manages and instructs qualified suppliers in accordance with formal standards issued.



Based on the positioning and business targets of the Procurement Platform, the Group has formulated the Procurement Platform Management Regulations (《採購平台管理規定》), setting standards for sourcing and supplier management from procedure connection, function orientation, organisational structure, code of conduct and implementation assurance, to ensure the standardisation, specialisation and visualisation of the procurement platform.





1) **Supplier acceptance**

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

With regard to supplier acceptance, the Group, in compliance with the Suppliers On-Site Inspection Management Measures (《供應商現場考察評審管理辦法》), reviews qualifications and systems of supplier to be approved, to screen out qualified suppliers pending for verification. The Group requires suppliers to provide the following information, documents and records: factory status, quality policy and objectives, organisational structure and personnel allocation, production process, hardware facilities, customer composition, enterprise qualification, quality management system, production process management, traceability process and recall management, fire control management and pest control and prevention, chemicals and waste management. The Group will carry out assessment upon quality management, environmental and social risk, technology R&D and service management, etc.

Hengan has the following ESG requirements for suppliers:

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

Supplier approval criteria mainly include:

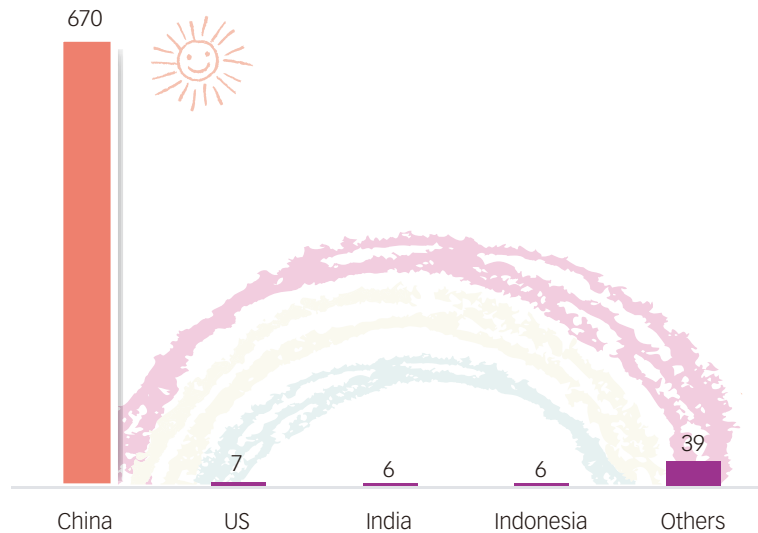
- 📍 Environment, safety and quality standards: certificate of environmental impact assessment, certificate of work safety standardisation, pollutant discharge permit, fire safety permit, ISO 9001, ISO 9002, ISO 14001, SA 8000, ISO 45001, UL, VDE, EMC, CCEE, CE, etc.;
- 📍 Special qualifications required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





On the premise of ensuring the quality of production materials, the Group preferentially selects local suppliers. As at the end of 2020, the number of the Group’s suppliers of raw and auxiliary materials by country is as follows:

Number of suppliers of raw and auxiliary materials by country



2) Supplier performance evaluation

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

The Group conducts daily inspection and supervision on suppliers with quality/delivery issues to assist them in continuous improvement. The Group will initiate the freezing/withdrawal procedure against suppliers that fail daily inspection/on-site annual review and monthly/annual performance evaluation, that present serious quality issues, behave illegally, etc. These suppliers will be removed from the list of qualified suppliers. In 2020, the Group eliminated 9 suppliers.





3) **Supplier ESG risk management**

The Group regards irreplaceable suppliers with high amount of procurement and supplying key raw materials as key suppliers. During the supplier on-site evaluation jointly carried out by the Quality Management Department and the Procurement Platform, the Group incorporates environmental and social factors into the evaluation indicators, and mainly identifies the sustainable development risks of suppliers from the following aspects:

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

In addition, code of conduct for employees during the tendering and bidding process, requirements of economic incentives during construction works, and code of conduct for procurement employee have also been stipulated by Hengan in such documents as the Management Policy of Hengan Group for Tendering and Bidding (《恒安集團招投標管理制度》), the Management Provisions of Hengan Group on Engineering Construction (《恒安集團工程建設管理規定》) and the Procurement Policy of Hengan Group (《恒安集團採購制度》). Hengan requires suppliers to comply with the laws and regulations, such as the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), and fights against commercial bribery and other unfair commercial practices. In addition, the Group has also entered into the Integrity Agreement (《廉潔協議書》) with suppliers, which has clarified suppliers' reporting obligations and violation responsibilities for commercial bribery/interest conflict. In 2020, Hengan signed the Integrity Agreement (《廉潔協議書》) with its suppliers with the coverage of 100%. Hengan has adopted various forms of measures, including procurement pricing meetings, supplier evaluation system, quality analysis meetings, analysis meetings for competitive products, as well as the business review meetings, to promote the integrity in cooperation between the Group and suppliers.





3. Quality Assurance

For the long-term quality management, Hengan vigorously absorbs advanced ideas from external sources and incorporates scientific quality management methods and successful experience into its management system to establish a sound quality management system.

Hengan strictly complies with the requirements of laws and regulations such as the Product Quality Law of the People’s Republic of China (《中華人民共和國產品質量法》). In addition, according to the Acquisition and Identification Control Procedures for Laws and Regulations (《法律法規的獲取、識別控制程序》), the Group regularly collects and evaluates laws and regulations regarding quality and standards information to form a quality compliance evaluation report.



Hengan quality management system

1) Quality management

The Group has passed ISO 9001 Quality Management System certification, CE certification, FDA certification and MSDS certification and introduced the comprehensive quality management and target management method, to guarantee the Group’s product quality level and compliance.

The Group monitors and measures the quality management system, conducts internal audits and management reviews, and accepts external reviews. As at the end of 2020, all of the Group’s production companies and Weifang Hengan Thermal Power Co., Ltd had established and passed ISO 9001 Quality Management System certification, and the certification rate was 100%. In 2020, the qualified rate of the Group’s products subject to sampling inspection by supervisors at or above the provincial level was 100%.

The Group has established a quality education and training system focusing on position quality training classes, junior training classes and senior training classes. In addition, the Group conducted quality safety training through quality training dojo and independent platform etc. for Hengan quality management, to enhance employees’ awareness of quality safety.

In 2020, Hengan’s production companies carried out the “Double Hundred” quality campaign through various forms such as special training, theoretical training and assessment, to comprehensively cultivate a quality culture and promote quality improvement. 37,881 rounds of participation were involved in this campaign, covering all employees. The first-pass rate of the assessment for theoretical training was 94% and finally, all employees passed the assessment.





Training for Poor Quality Cases

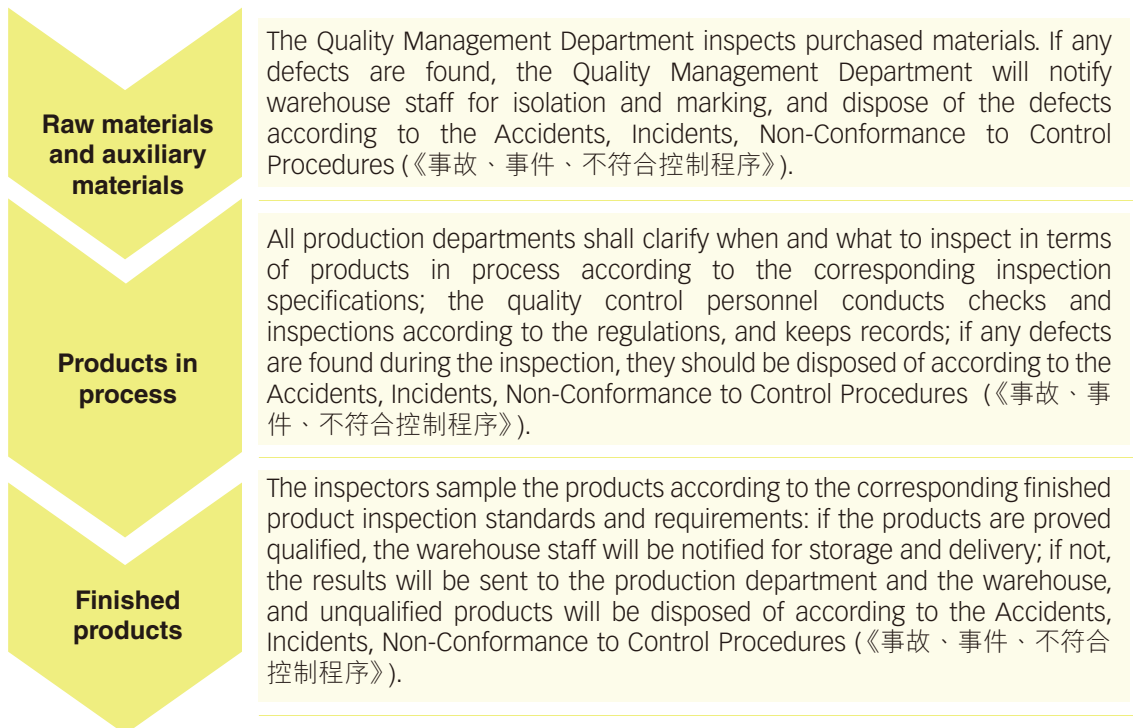


Assessment for Theoretical Training

As a standing director of the China Paper Association, the Group actively participates in the preparation and revision of national, local and industrial standards to improve the technical and quality level. As at the end of 2020, Hengan participated in the preparation and revision of 14 national standards, 5 industrial standards and 1 local standard.

2) *Quality detection*

In accordance with procedure documents such as the Control Procedure for Process and Product Monitoring and Measurement (《過程和產品的監視和測量控制程序》) and the Control Procedure for Corrective Actions and Preventive Measures (《糾正措施和預防措施控制程序》), Hengan requires whole-process detection to monitor and measure product quality from raw and auxiliary materials, products in process to finished products.





3) Chemical safety



In strict accordance with international, national, industrial and internal standards, the Group strictly controls the chemicals used, gives priority to natural and safe raw materials, and regularly identifies and eliminates highly concerned chemicals to maintain the health of users.

The Group strictly follows normative documents including the Management System for Quality Safety of Products and Materials (《產品、材料質量安全管理制度》), the Administrative Measures for Oils and Chemicals (《油類、化學品管理辦法》), the Material Safety Index List (《材料安全指標清單》), and the Additive Limitation List (《添加物限度清單》), and makes improvement on chemicals procurement, storage, usage and disposal.






In order to ensure the safety of products and raw materials, the Group implements SSOP (Sanitation Standard Operating Procedure) management in accordance with the principles of HACCP (Hazard Analysis and Critical Control Points) and CGMP (Current Good Manufacturing Practices). The Group also controls critical hazards for the purpose of product quality safety management throughout the whole process including R&D, procurement, production and delivery. In accordance with the Management System for Quality Safety of Products and Materials (《產品、材料質量安全管理制度》) and other systems, the Group ensures the safety of products and raw materials through the following four steps:





1) Chemicals procurement

When purchasing chemicals, the Group requires that:

-  non-toxic and non-hazardous chemicals that cause less pollution should be given priority;
-  Imported hazardous chemicals should be accompanied with corresponding labels or description in Chinese;
-  Suppliers should undergo strict selection and qualified business license and related "Safety production license" or "Business permit" should be provided by suppliers;
-  Related Material Safety Data Sheet (MSDS) should be provided by suppliers;
-  Suppliers of chemicals directly related to paper products should present certificates of non-toxic and non-hazardous chemicals issued by authoritative testing institutions or provincial centres for disease control and prevention.

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

2) Chemicals management

The Group has set up specific storage warehouse equipped with corresponding facilities and appointed responsible staff. Hazardous chemicals for temporary storage must be put in a fixed location, and the storage method and quantity must conform to the national standard Rules for Storage of Hazardous Chemicals (《常用化学危险品贮存通则》), and daily inspection must be conducted. Hazardous chemicals must be distributed according to a strict quota and the record must be kept. When storing, transporting, packaging and labelling hazardous chemicals, Provisions on Hazardous Chemicals Warehouse Management (《危险化学品仓库管理规定》) must be obeyed.





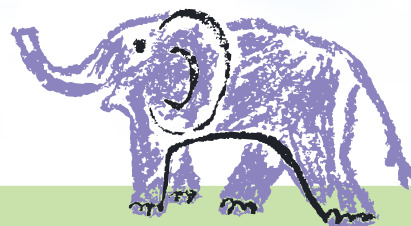
3) Chemicals usage

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

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

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





We do not allow additions

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

4) Chemicals phase-out

The Group takes the initiative to obtain external information such as industry standards, EU standards and the elimination of hazardous chemicals by external institutions to develop and updates Hazardous Chemicals List (《危險化學品清單》), which specifies identified highly toxic chemicals, highly irritating and corrosive chemicals, inflammable and explosive chemicals and general hazardous chemicals. According to aforementioned information, the Group phases out chemicals and seeks for safer alternatives.





5) Safety test

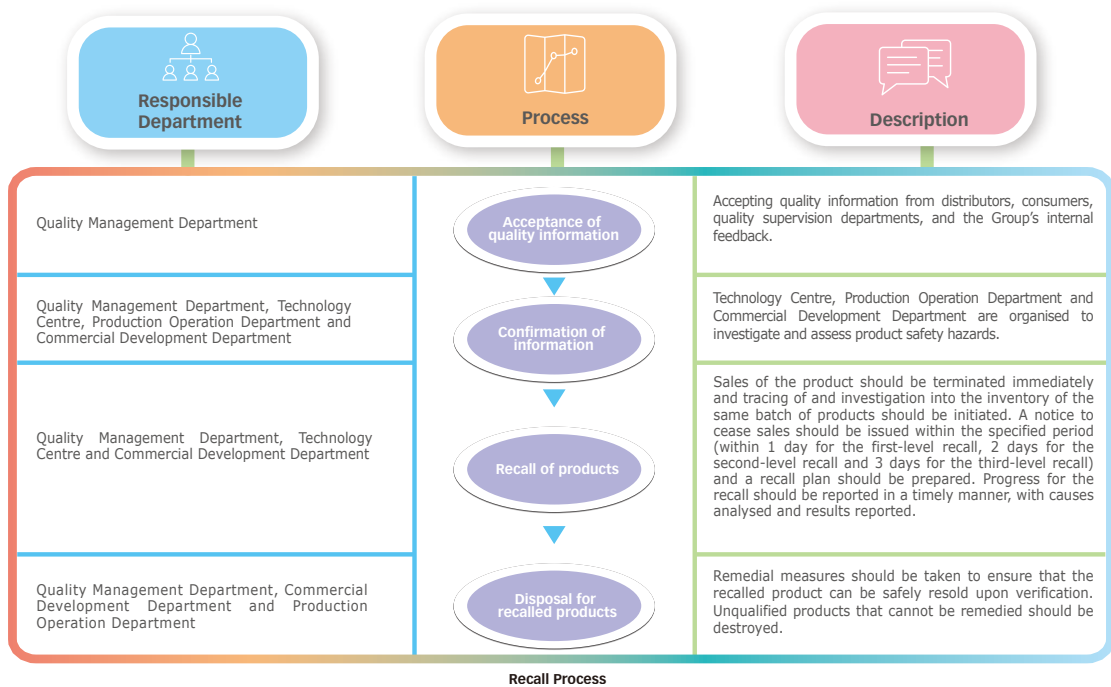
In accordance with Material Safety Index List (《材料安全指標清單》), GB15979-2002 Hygienic Standard for Disposable Sanitary Products, GB/T2912.1-2009 Textiles – Determination of formaldehyde – Part 1: Free and hydrolysed formaldehyde (water extraction method), Hygienic Standard for Cosmetics (2007) (《化妝品衛生規範》(2007年版)), ISO 10993-10: 2018 Biological evaluation of medical devices – Part 10: Irritation and persistent allergy test, European Pharmacopoeia (EP), United States Pharmacopoeia (USP) and other domestic and foreign testing standards, the Group conducts tests regarding biosafety, physical safety, human stimulus sensitisation safety and chemical safety indexes, and issues corresponding safety reports.

Meanwhile, the Group requires suppliers to entrust authoritative testing institutions to test chemicals and offer test reports following testing standards, such as Safety and Technical Specifications for Cosmetics (2015) (《化妝品安全技術規範(2015年版)》) and GB/T21603-2008 Chemicals – Test Method of Acute Oral Toxicity.

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

4) Products recall

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



In 2020, the Group did not engage in any product recall for safety or health reasons.





4. Customer Relationship

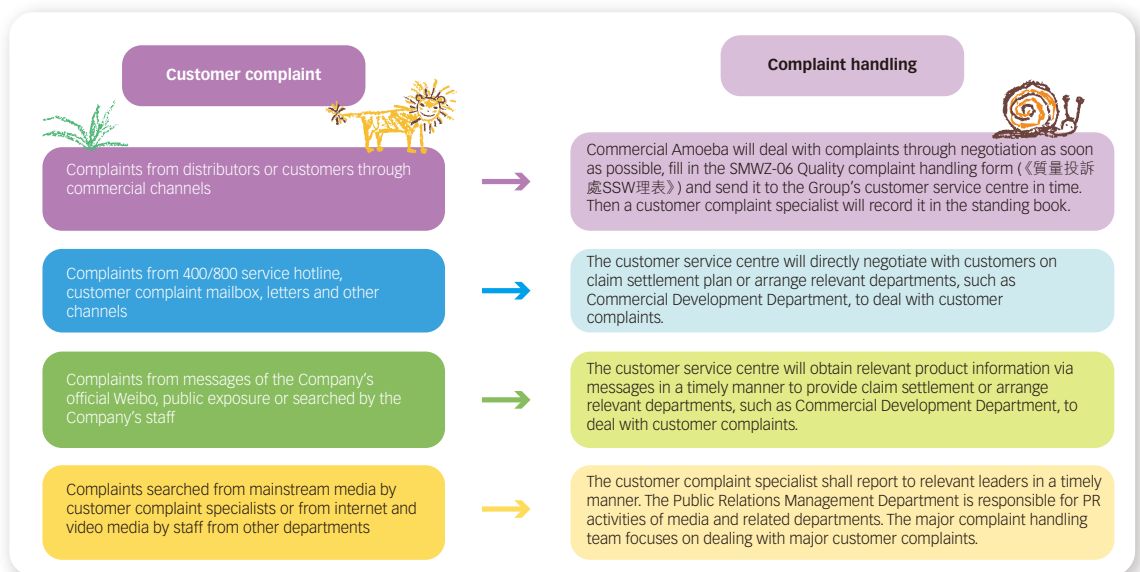
As a customer-centric company, the Group, in addition to producing comfortable, safe, healthy and innovative products, valued the customer satisfaction, expectations of product and personal privacy security.



1) Customer satisfaction and complaints

Hengan values customer satisfaction with products and services. Based on internal policies, such as Customer Satisfaction Survey Control Procedure (《顧客滿意度調查控制程序》), Hengan uses various information channels (such as website, e-commerce platform, hotline and callback) to survey and analyse customer (including clients and consumers) satisfaction, understand whether the Group has correctly captured and catered to customer needs and expectation, and evaluate the compliance of quality management system and customer requirements. Through results of satisfaction survey, the Group can make improvement accordingly and improve customer satisfaction constantly.

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





2) **Product information**

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



Product packaging layout review process

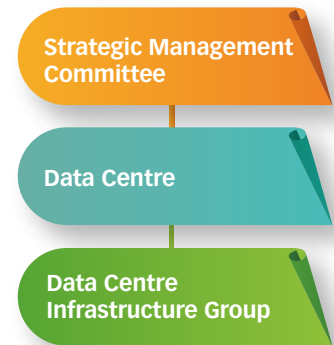
The Group strictly regulates the use of FSC marks and effectively controls the usage of FSC marks in the process of printing, publicity and product marking to ensure that the usage of marks complies with FSC requirements and also to protect consumer’s right to know.





3) *Privacy security*

The Data Centre is the executive department of the Group’s information security, and the CEO is the responsible person, who reports to the Strategic Management Committee of the Board of Directors. Hengan formulated Management Manual 1.0 for Data Centre (《数据中心管理工作手册1.0》) and the Hengan Group Digitalization Service and Building Management Policy (《恒安集团数字化服务与建设管理制度》), to standardise the data centre’s work, including data digitising planning, data services, demand management and promotion, IT support services, information construction and operation and maintenance, infrastructure management, etc., so as to strengthen information security management.



Hengan Information Security Governance Structure

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

In terms of information security management, Hengan classifies company secrets, personnel files and customer information as confidential information; drafting, circulation, verification, storage, transfer and destruction of such information require strict registration procedures. Meanwhile, confidential information is encrypted and access to the information is controlled, with accounts and passwords of all information systems under unified authentication management. Application for releasing information to the public shall follow the principle of “the person who releases the information shall guarantee its security” and shall be submitted to the relevant leaders of corresponding department for approval according to the management regulations of such department. An emergency Plan is in place so that the emergency operations are in strict compliance with the corresponding failure emergency plans under the Plan in case of sudden failure of the server.

The Group organises 6 cybersecurity drills every year, including 4 drills for security failures and 2 drills for security attacks. In order to test the cybersecurity situation and capacity against attacks, the Group managed to carry out drills for security attacks on Internet IP and external server in 2020.

Hengan classifies customer information as highly confidential information, and thus keeps the personal information collected from customers strictly confidential. No employees shall disclose any confidential commercial information concerning business, production formula, technology and document of the Group. Any intentional disclosure of confidential information about business and technology of the Group, resulting in losses that the Group has suffered or will suffer, is deemed as serious violation of the rules and regulations of the Group, and employment contracts of employees involved shall be terminated.

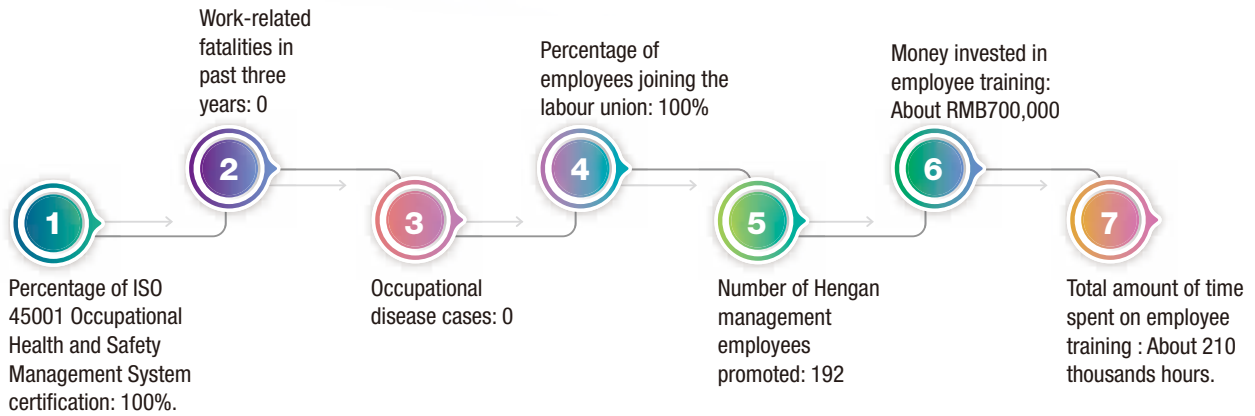
As at the end of 2020, the Group received no complaint from consumers for privacy leakage, and had no information security incident in the past three years.





IV. EMPLOYEES

Achievements in 2020



We respond to the following SDGs



Hengan respects labours and talents, and provides employees with competitive salaries, welfares, comprehensive training programmes and multi-channel promotion opportunities for developing full potential of the employees and bringing out the best in them. The Group cares about physical and psychological health of employees and has carried out various caring activities for its employees. In addition, Hengan continues to optimise safety system during enterprise operation, establish an honest and upright work culture and create a harmonious transparent working environment.

1. Health and Safety

Hengan observes laws and regulations including the Work Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》) and the Law of the People’s Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), and internal rules and disciplines, including the Comprehensive Safety Management Policy of Hengan Group (《恒安集團全面安全管理制度》), the Administrative Provisions on Maintenance of Fire-fighting System (《消防維保管理規定》) and the Employee Occupational Health Management (《員工職業健康管理辦法》).



The Group actively promotes the construction of occupational health and safety management systems and uses standardised management methods to ensure the health and safety of employees. As at the end of 2020, all of the Group’s production companies and Weifang Hengan Thermal Power Co., Ltd have established ISO 45001 Occupational Health and Safety Management System and have certified by third parties; the certification rate is 100%.



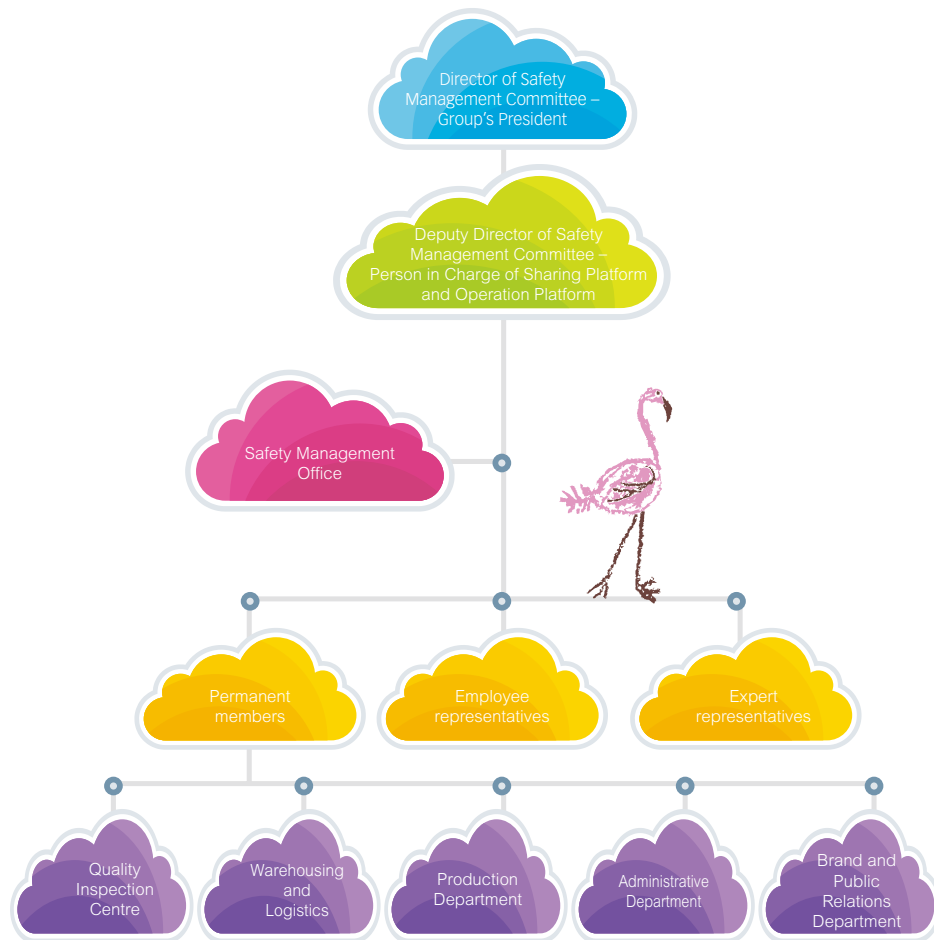


1) **Comprehensive safety management**

The Group progressively promotes the layout and development of comprehensive safety management to fully enhance safety management, ability and performance.

1. Comprehensive safety management organisation and its responsibilities

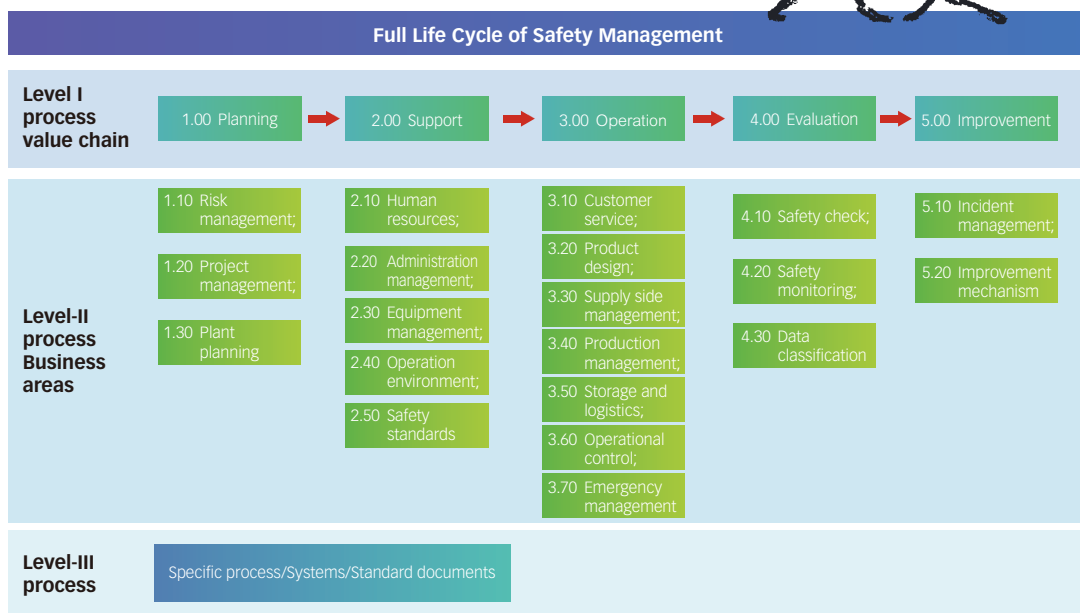
The Group established a Safety Management Committee to lead the management of safety affairs, make major safety decisions, and supervise the safety management of the Group. As the performer for Safety Management Committee, the Safety Management Office is responsible for checking business units for implementing safety rules & policies, and governing their implementation of work safety. In addition, the Safety Management Office is responsible for organising monthly safety meeting and annual and semi-annual safety report meetings to review the implementation of safety work.





2. Process of comprehensive safety management

The Group established a process framework covering the full life cycle of safety management, to manage the project planning, support, operation, evaluation and improvement as an organic whole, creating a safety management value chain (Level I process). The Group breaks all links in the value chain into several business areas according to the business and function distribution, and this process is called Level II process. Level III process means to make specific process or system document based on work requirements of each business area, so as to standardise safety work.



3. Safety environment

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

- 📍 Unacceptable risks: formulate targets and management plans of occupational safety;
- 📍 Acceptable risks: require business centres and production sites of the Group to lay down regulations on management of safe production and operation procedures, which shall specify detailed control measures for various potential hazard sources and risks, so as to ensure that those hazard sources and risks are under control;
- 📍 Potential urgent situations (i.e. fire, leakage of flammables, typhoon, accidental injuries, etc.): require formulating emergency plans and corresponding control procedures to control the situations mentioned in line with the emergency procedures.

In 2020, Hengan (Henan) Hygiene Products Co., Ltd. carried out comprehensive safety management – work safety renovation based on recognised various risks. This renovation covered 23 rectified items, including safety interlock, annual inspection of special equipment, safety barriers, inspection of lightning protections in buildings and installation of gas alarm in dining hall.





Safety interlock



Safety barrier

4. Education on safety

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

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



Safety training about eliminating commands against rules, operations against rules and violation of labour discipline on 17 September 2020





2) *Fire safety*

The Group takes seriously the maintenance of fire-fighting system and arranges Safety Office to take lead in supervision on maintenance of fire-fighting facilities and collection of maintenance plan and reports of each unit. The safety offices of all production companies are responsible for organising the maintenance of fire-fighting facilities of the Group, and sending the maintenance plans and reports to the Safety Office of the Group for filing. General Managers of all production companies are responsible for providing resources required for maintenance of fire-fighting system and ensuring the availability of fire-fighting facilities.

The Group's employees engaged in testing and maintenance of fire-fighting facilities must be employed with corresponding certificates. If the Group entrusts a third party to maintain fire-fighting systems, the third party must meet the working conditions and service standards for fire technical service institutions formulated by the Fire Department, so as to guarantee that all units have maintenance ability.

The Group organises regularly safety rules training, firefighting training and drills to raise the safety awareness and self-protection capabilities of all employees.

On the morning of 26 December 2020, the Group carried out an unannounced fire drill; problems encountered during the fire drill were analysed and targeted escape knowledge trainings and drills were carried out.






26 December unannounced fire drill





3) *Occupational health*







It is regulated by the Group that existing hazards at current workplace shall be identified and risk evaluation be carried out; necessary control measures are taken to eliminate and reduce risks, including but not limited to:

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

Hengan arranges annual physical examinations for employees and sets up a new gym at its headquarters for employees to work out and improve their health.

4) *Care during the epidemic*

During COVID-19 epidemic at the beginning of 2020, Hengan went all out to produce anti-epidemic materials and coordinated with the national epidemic prevention work. Moreover, the Group took all measures to control the epidemic after resumption of work and production:

-  Distributed a Manual for Epidemic Control Knowledge (《防控知識手冊》) to introduce knowledge of disinfection of COVID-19 and protection;
-  Built and ran Hengan Health Centre to conduct epidemic prevention for employees;
-  Cared about psychological health and avoided panic of employees by posting epidemic prevention posters and pushing all kinds of publicity materials on WeChat;
-  For employees back to work in advance, arranged shuttle buses to pick them up, reimbursed their air tickets, and distributed epidemic prevention materials (i.e. masks);
-  Allowed employees who are not necessary to work in office to work at home;
-  Each subsidiary built an emergency contact group and a hotline to coordinate local resources for mutual assistance.

During the epidemic, the Group paid employees 100% on time and achieved zero infection among nearly 25,000 employees.





2. Employee Management

1) Employment compliance

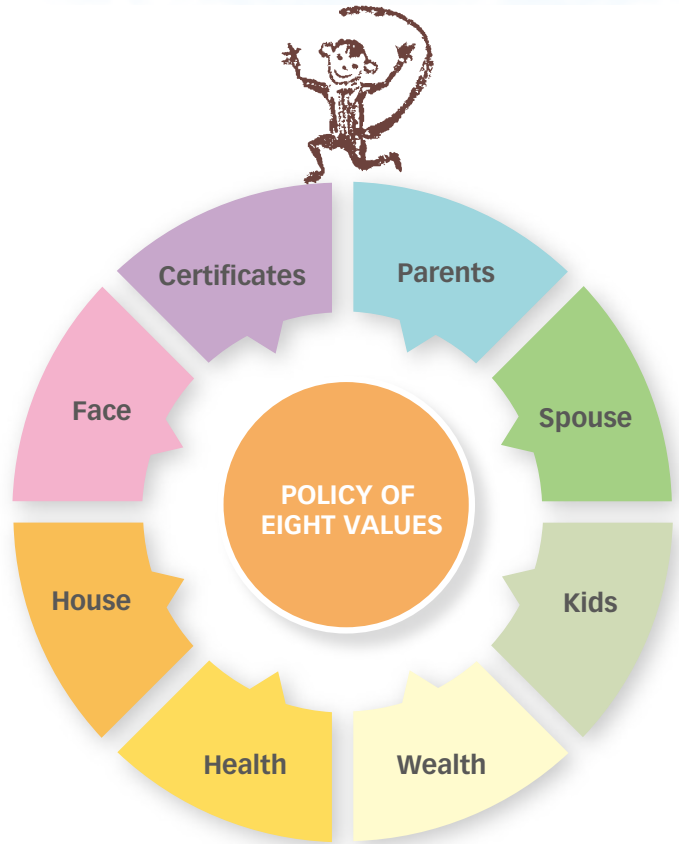
Hengan strictly complies with relevant laws and regulations, including Labour Law of the People’s Republic of China (《中華人民共和國勞動法》) and the Labour Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》), etc. The Group has proactively implemented a package of management policies for human resources, including Hengan Group Personnel Management Policy (《恒安集團人事管理規定》), Hengan Group Remuneration Management Policy (《恒安集團薪酬管理協定》), and Hengan Group Transparent Management Policy (《恒安陽光管理制度》), etc.

Hengan recruits employees needed by the Group, and provides employees with reasonable compensation and benefits, clear career promotion channels and scientific training plans so as to create good working atmosphere and development channel.

Hengan also has built the Sunshine Community to safeguard the legitimate rights and interests of employees, and has established and improved the structure of “Three columns” platform to promote employees’ self-innovation. In addition, the Group provides diversified activities for employees to enhance their sense of belonging and happiness.

The Group puts forward the policy of eight values for employees to realise their wish of respect parents, harmonious marriage, loving kids, comfortable living, satisfying work, happy learning, physical and mental health and decent living.

By the end of 2020, the percentage of employees joining the labour union reached 100% and contracts such as Collective Labour Contract (《集體勞動合同》), Collective Wage Agreement (《工資集體協議》) and Special Collective Contract for Female Employees (《女職工專項集體合同》) were signed between employees and the Group. Therefore, employees’ freedom of association and right to collective bargaining were guaranteed.





1. Recruitment and dismissal
Hengan provides all employees with equal opportunities, fair treatment and complete benefits. Hengan will not arbitrarily dismiss any employee, and the rights and obligations of Hengan and employees are clarified in the labour contract to protect the legitimate rights and interests of employees.

2. Remuneration and benefits
The Group adopts a scientific and reasonable "Target Wage" system, which is connected to job responsibilities and task goals of employees, so as to motivate employees' work enthusiasm. In accordance with the Hengan Group Remuneration Management Policy (《恒安集團薪酬管理協定》), the remunerations of the employees of the Group are no less than the local minimum wages. The Group regularly evaluates the reasonableness of employees' wages and determines whether to adjust the wages each year according to the operation performance of the previous year and the market salary situation.

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

In addition, employees enjoy the following benefits:

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

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

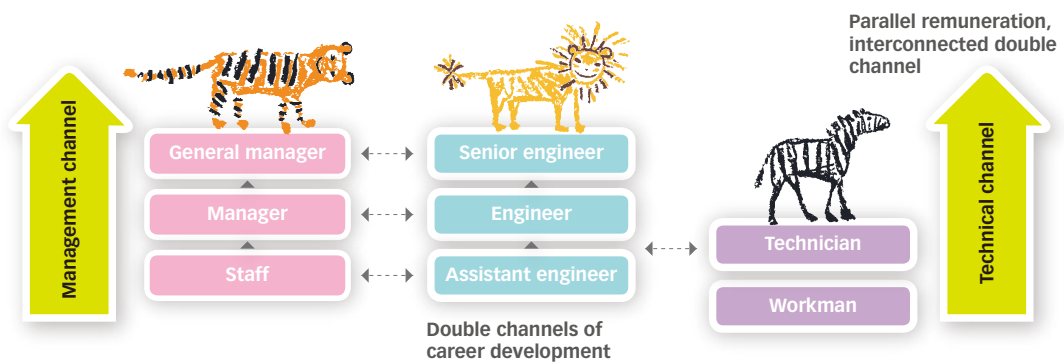




4. Promotion

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

- 📍 Management channel: Through effective management of the team, an employee can continue to expand his/her scope of management, and become a leader of the department and the enterprise;
- 📍 Technical channel: With continuous improvement of their professional knowledge and skills, an employee can become technical expert.



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

The Group developed a job rotation programme for eligible in-service employees, covering key positions, specific positions and routine positions, so as to help the Group to cultivate versatile talents and expand career development channels for employees.

In 2020, 192 management employees were promoted in Hengan.





5. Employee rights and interests and complaints

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

In order to ensure smooth communication between employees and the Group’s management, Hengan provides employees with multiple ways to propose suggestions on management and development of the Group: Hengan built the “Sunshine Community” platform and encourages employees to propose suggestions in the platform. Relevant department heads will respond so that problems can be dealt with timely or improvement can be made; Hengan carries out employee satisfaction surveys (including work and life satisfaction surveys on catering, accommodation and office condition conducted by each subsidiary) to enhance employees’ sense of belonging.

In 2020, the Group rebuilt the dining hall and offices after taking the result of employee satisfaction survey into consideration, to meet the demands of employees:



Dining hall before renovation



Dining hall after renovation

6. Anti-discrimination

Hengan actively carries out the principle of equal employment, and shows no discrimination towards employees or job applicants based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc. Employing disabled employees for different occupations in various production companies and arranging suitable positions for them, Hengan encourages them to work earnestly to give play to their social values.

In 2020, Hengan employed 83 disabled employees (about 0.33% of total employees) engaging in such positions as public facilities maintenance specialists, auxiliary workers, equipment technicians, security guards, production monitors, packaging team leaders, etc.





7. Benefit sharing

Hengan lays importance on the theme of “Create values, bear responsibility together, and share benefits” in operation and transformation, establishes and perfects the structure of “Three columns” platform to make the strategic platform go hand in and with the business model of Amoeba team.

The Group encourages Amoeba teams to step into entrepreneurship internally and has launched multiple strategic projects, such as commerce and trade Amoeba project, product category Amoeba, regional operation centre Amoeba and production Amoeba; those Amoeba teams with outstanding operation performance will be rewarded with commendation and bonus. This operation model stimulates the enthusiasm of the platform-based small team. In this way, the Group helps employees realise self-worth while promoting the rapid performance growth.

In 2020, the Group, for promotion of enterprise strategies, further detailed categories and adjusted salary scheme to ensure better reasonableness and competitiveness of salary. This also stimulated the enthusiasm and creativity of Amoeba employees.

8. Employee activities

In 2020, Hengan continued to carry forward corporate culture and organised diversified employee activities, so as to promote employee communication and cooperation between teams, which therefore helped enhance friendship and cohesion.

First Cultural Festival of Hengan Group

Hengan Group launched the first cultural festival themed “Return to start-up, make glorious achievements” on 6 May 2020. On the cultural festival, various recreational and sports activities, such as painting and calligraphy competition, creative group photo competition, basketball competition and fellowship team building, were carried out to enrich the leisure cultural life of employees.



**“Together for Better Tomorrow”
creative group photo competition**



**“Show the power, Courage to act”
basketball competition**



**“Sport makes me Happy” balloon
volleyball competition**



**“Passion and Youth” fellowship
team building**





“Employees centred; Service advanced” Union Service Team Building Activities

On 31 October 2020, the Labour Union of Hengan Group organised nearly 100 outstanding employees, including excellent union cadres, activists of union and representatives of advanced teams to take part in a two-day team building activity. The activity included trips to scenic spots and many team games, greatly raising the team spirit of employees.



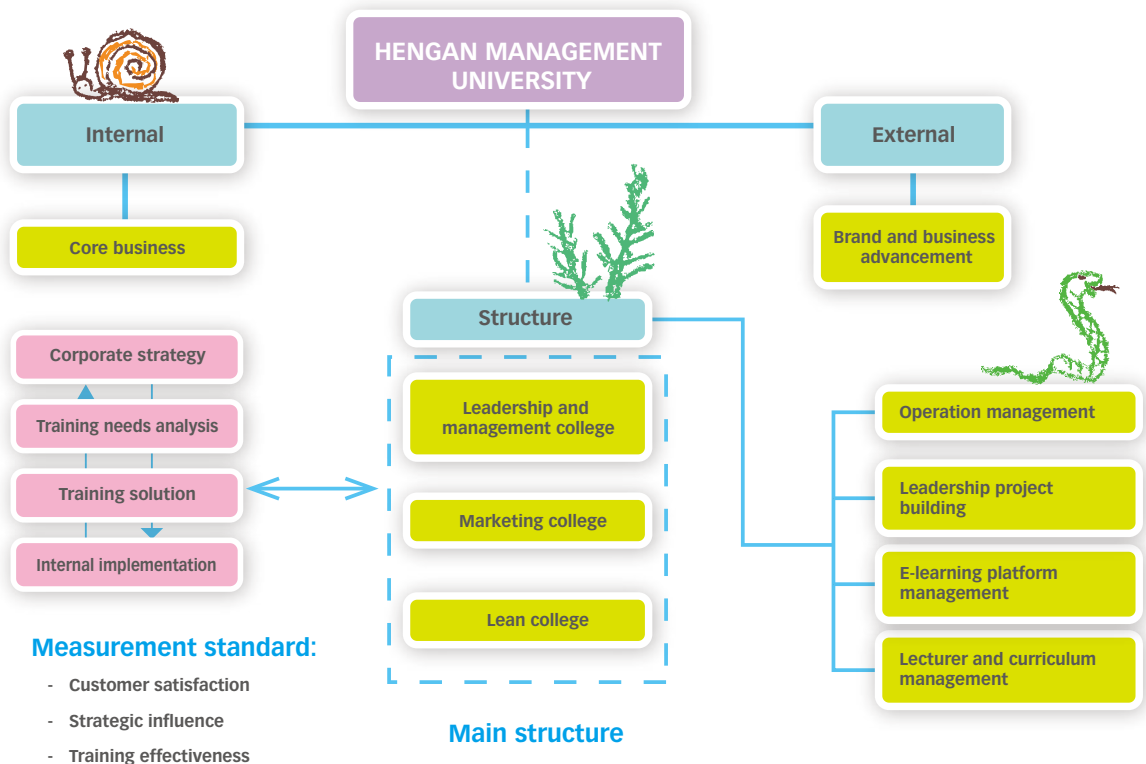
Trips to scenic spots



Games

2) *Talent development*

Hengan is committed to cultivating itself as a “Learning enterprise”. Hengan highlights training and education of employees and keeps expanding horizons of employees to enhance their comprehensive quality. Based on the Hengan Group Training Management Policy (《恒安集團培訓管理規定》), the Group has formed a unique talent cultivation system with the use of external excellent resources, internal instructors, and various training methods. In 2020, Hengan invested close to RMB700,000 in employee training.





The Group built its “Corporate University”, namely “Hengan Management University” to carry out all-round and staged skills & competence training for employees at all levels. Hengan Management University consists of 3 colleges, namely Leadership and Management College, Lean College and Marketing College, which are responsible for leadership and competence training, production management and technical training, marketing management and skills training respectively. Besides, the Group attaches great importance to the building and cultivation of internal teachers and instructors, and fully develops and uses internal training resources. Hengan has selected 1,650 internal trainers through open recruitment and trial teaching and is aimed to building an internal talents training base.

In 2020, Hengan continued to improve employees’ technical skills and management skills and tried to meet the needs of employees at all levels through various internal trainings, third-party open courses, post-ability-based quality model and online platform of management learning and training. The Group provides trainings concerning cutting-edge commercial knowledge to management, technical knowledge training to technology employees, and pre-employment training covering corporate culture, sustainable development and occupational development to new comers.

Hengan senior training class on digitalisation & intellectualisation

On 4 July 2020, led by Hui Ching Chi, Deputy Chief Executive Officer of Operation Service Centre and project manager of data centralization platform, a team consisting of the persons in charge of Operation Service Centre and Service Sharing Centre, heads of relevant departments and project team members was organised to attend the two-day senior training class on digitalisation & intellectualisation in Alibaba Xixi Park in Hangzhou.



Digitalisation & intellectualisation marketing strategic meeting

On 10 August 2020, Project Team of data centralization platform and Alibaba Group jointly held a three-day strategic meeting in Xiamen to promote the realisation of the 2C core strategies. It had greatly improved the strategic planning and management ability of digital marketing of the Group’s marketing management.





Training on process management for hygiene products production sectors

From 26 to 28 August 2020, the Hygiene Product Production Department organised all process managers and mechanical engineers of hygiene products production sectors to attend the “2020 Training on Process Management for Hygiene Products Production Sectors”, delivering training and exchanging information on on-site safety, quality, cost, process and on-site 6S management in workshops.



Pre-employment training

On 3 December and 4 December 2020, Hengan Management University held the “Fifth Pre-employment Training in 2020” for new comers, sharing information concerning development history, corporate culture, occupational psychology and career planning, etc.



The Group uses external resources and invites talents from cooperated universities & colleges to share new knowledge & skills with the Group’s talents: On the one hand, cooperate with Fuzhou University, Huaqiao University and others in forms of academic career class and job-oriented training class to promote the education level of grass-roots staff, with a total of 1,175 employees participating in the training; on the other hand, cooperate with Donghua University and build an Academician Workstation to accelerate innovative research and development in science and technology and cultivate innovative and technical talents for enterprises.





3) **Anti-corruption**

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

The Group formulated several policies such as Anti-Fraud Policy of Hengan Group (《恒安集團反舞弊制度》), Interest Conflict Management Policy of Hengan Group (《恒安集團利益冲突管理制度》) and Travel Expenses Management Policy of Hengan Group (《恒安集團差旅費管理制度》) in an effort to strengthen the anti-fraud structure, which clarified the anti-fraud responsibilities to standardise various business activities of the Group. In order to behave employees, the Group signs Letters of Commitment relating to Integrity with employees in sensitive positions and management positions, including Anti-Fraud Statement (《反舞弊聲明》), Interest Conflict Statement (《利益冲突聲明》) and Gift Policy Statement (《禮品政策聲明》).

The Group has established multiple reporting channels to get reporting clues from internal and external persons. Reporting clues will be accepted, preliminarily examined and investigated by personnel from different branches. Investigation results will be reported to the Group’s anti-fraud management team for review, evaluation, and verification, and then will be finally submitted to the Group President for approval. Employees and management who are confirmed in fraud events will get punished from the Group. Employees will be referred to judicial organs for prosecution for the fraud practices against the law.

Anti-fraud organizational structure





Reporting channels:

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

WeChat Official Account: Integrity in Hengan

Email: jubao@hengan.com

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

In order to protect whistle-blowers and investigators, the Group prohibits employees who receive reports or complaints or get involved in fraud investigation from offering information related to the report to any department or individual, and prohibits transferring reporting materials to the individual or department being reported. Otherwise, the person breaking the above rules will be deemed as engaging in fraud. The Group prohibits any illegal discrimination or retaliation and protects whistleblowers and investigators in the investigation. For employees who threaten, intimidate and revenge the whistleblowers and investigators, the Group will remove them from their posts or terminate their labour contracts; if they break the law, they will be referred to judicial organs for prosecution. In 2020, Hengan had concluded two lawsuits regarding corrupt practices against its employees. The two cases, which involved embezzlement by taking advantage of authorities or duties and corruption and bribery respectively, had been resolved through judicial channels.

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

In January 2020, the Audit Department of the Group took the lead in holding the annual seminar of the Group for 2020. Members of the Board of Directors, general managers and above of the Strategic Centre, Operation Service Centre and Services Sharing Centre, as well as the sales and production leaders of Amoeba all attended the seminar to learn and summarise the anti-fraud management policies.



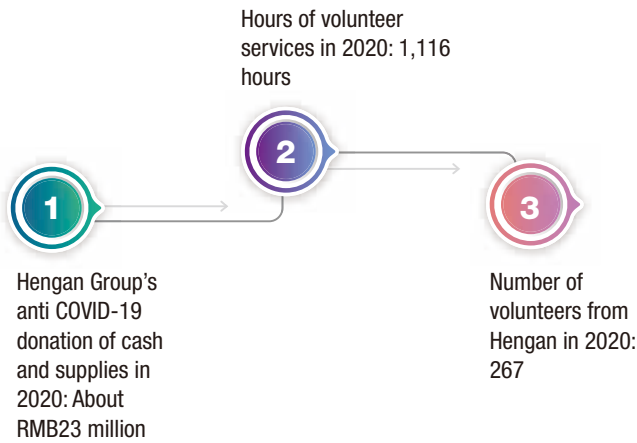
On 11 July 2020, Hengan Group convened the general managers and above of the headquarters to Jinjiang non-public enterprise legal education base to participate in the theme activity on integrity education. Through various forms such as visit, theme lecture and oath taking, the legal awareness, honest employment and fine tradition education was integrated in the activity to enhance the anti-corruption awareness of employees.





V. PUBLIC WELFARE

Achievements in 2020



We respond to the following SDGs



Hengan actively fulfils its obligations as a corporate citizen. While stabilising operations and creating economic benefits, it also considers social benefits, and shares achievements in development. Complying with the Management Policy for Hengan Group's Charity and Voluntary Activities (《恒安集團慈善與公益活動管理制度》), subsidiaries of the Group regularly evaluate the relationship between their public welfare activities and the communities where they are located and support local undertakings such as local charity, education, cultural and sports activities. They also concern about students, care for the elderly and children, and promote low-carbon living. In 2020, Hengan Group's anti COVID-19 donation of cash and supplies was about RMB23 million.





1) *Reach out to each other to maintain peace of family and country*

In 2020, the world was swept up in a coronavirus epidemic. In the face of the epidemic and disaster, Hengan Group upheld the concept of “Growing with you for a better life”. Working as one and doing everything we could, we did our best to support the first-line anti-epidemic work and to implement corporate social responsibility. Together with the people of the country, Hengan Group joined forces to fight against COVID-19.

Since the outbreak of the epidemic, Hengan actively allocated anti-epidemic supplies, and had repeatedly donated supplies and cash to the first-line in Hubei and Fujian, accumulating over RMB23 million. At the same time, Hengan Group integrated resources, imported mask production equipment, and with long-term experience in the field of sanitary products, put into production of safety medical masks, which could be quickly stored and allocated by the government to ensure the production and supply of anti-epidemic supplies.

- 📍 On 25 January (the first day of Chinese New Year), the first batch of 2,500 sterilising wet wipes donated by Hengan Group were delivered to the epidemic-stricken areas in Hubei Province;
- 📍 On 27 January, the Group donated 3,000 sets of ElderJoy adult diapers to Jinjiang Centre for Disease Control and Prevention for use by the first-line anti-epidemic medical staff of hospitals in Jinjiang;
- 📍 On 29 January, the Group rapidly assembled “Hearttex” high-quality tissue paper, “Hearttex” disinfecting wet wipes and “ElderJoy” medical adult diapers throughout the country, and donated RMB10 million worth of supplies and cash to Hubei and Fujian provinces through the Chinese Charity Federation, the Red Cross Society of Hubei Province and the Red Cross Society of Fujian Province;
- 📍 On 18 February, Hui Lin Chit, President of the Group, said that “Hengan will provide all” the sanitary napkins needed by front-line female medical staff in Hubei. By the end of the epidemic, the Group provided sanitary articles such as sanitary napkins and menstrual trousers for 100,000 first-line anti-epidemic female medical staff in Hubei;



On 15 February 2020, Hengan Group initiated the production of masks and protective suits.



Hengan Group donated anti-epidemic supplies to Hubei Province





- On 4 March, the Group again donated RMB5 million worth of supplies (including diapers, maternal products and protective suits) to relevant hospitals and welfare centres in Hubei through the Hubei Charity Federation;
- On 22 April, Hengan International, in conjunction with Far East Consortium International Limited, sponsored 500,000 “Banitore” medical masks to the Hong Kong Federation of Education Workers to enhance the protective capacity of Hong Kong teachers and students;
- On 11 May, the Group donated 1 million masks to all primary and secondary school teachers and students in Jinjiang, and at the same time, took out 5 million masks, which were sold directly and at half-price to teachers and students in demand throughout the city;
- On 1 June, Hengan International, in conjunction with Far East Consortium International Limited, again donated 1 million masks to Hong Kong elementary and secondary school teachers and students, Yan Chai Hospital and vulnerable communities in Sham Shui Po District;
- In September, Hengan donated a batch of “Banitore” diapers and “Hearttex” disinfecting wipes to support the nucleic acid testing team in Hong Kong to support their high-intensity work.



Hengan Group donated masks to primary and secondary schools in Jinjiang



Donation ceremony of masks in Yan Chai Hospital





2) *Care for children and guardian for youth*

► Snow-covered plateau filled with love

From 20 to 23 September 2020, for the purpose of the “Love, Change Life – Series of Public Welfare Activities for Hengan Group’s 35th Anniversary”, representatives of Hengan Group went to the snow-covered plateau to bring concern for the growth of children in Luolong County and Zuogong County, Changdu City, Tibet.

In order to promote the health awareness education regarding newborn infants in Luolong County and improve the local health conditions of newborn infants, the Group donated a total of 660,000 diapers to Luolong County, which could be used for three months for each newborn infant in the county hospitals born in the time span from 1 September 2020 to 1 September 2021, so as to continuously protect the healthy growth of infants in Tibetan areas.

The Group focused on the menstrual health and physical health of female students in primary and junior middle schools in Tibetan areas, providing “Space 7” sanitary napkins to 1,577 female students in grade 5 and grade 6 of primary schools and middle schools in Zuogong County. The sanitary napkins could be used by each student for half a year. At the same time, the Group, together with gynecological experts from People’s Hospital of Zuogong County, held 20 lectures themed “Space 7: Adolescent Physical Health” to enhance the health awareness of Tibetan girls. In addition, the Space 7 Line of the Group donated a “Hengan Group • Space 7 Charitable Library” to accompany Tibetan girls to grow up healthily in the ocean of knowledge.



Hengan “Galsang Flower Blooming, Cardamom Growing” donation ceremony



Donation ceremony of Hengan in Luolong County, Changdu City, Tibet

► Guardian for youth

The Group had been supporting the “Hello Girl” adolescent education project sponsored by China Children and Teenagers’ Fund for two consecutive years. In 2020, the Group donated RMB6.923 million worth of supplies to China Children and Teenagers’ Fund to carry out adolescent education activities in Shanghai, Sichuan, Jiangxi, Jiangsu, Shandong and other provinces and cities.

In 2020, Hengan won the award of “Top 10 Public Welfare Projects for the Year” from Action League. In the future, Hengan will, upholding the concept of “Growing with you for a better life”, continue to pay attention to the adolescent health problems of girls, and guard the healthy growth of the next generation.



Donation certificate is granted to Hengan





3) *Financial aid to education and poverty-alleviation*

In August 2020, Hengan held the activity of "Financial Aid to Education and Poverty-alleviation through Public Welfare Stalls". Through this novel way, the Group raised charitable funds and donated all the money to Charitable Grid Shop and Charitable Savings Office in Jinjiang to help the youth in need.



4) *Care for disadvantaged groups*

In 2020, volunteers from Hengan regularly visited the nurseries and old people's homes, providing the children and elderly with diapers and other personal hygiene products as well as sending blessings at festivals.



Public welfare activities of respecting to nursery and loving the elderly on the Double Ninth Festival



Visit to nursery





KPI SUMMARY TABLE

1. Environmental KPIs

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

	2020	2019	2018	Unit
Waste gas emissions (Paper production sector)				
NO _x ¹	239	307	331	tonnes
SO ₂ ¹	59	72	79	tonnes
Smoke ^{1,2}	24	35	36	tonnes
Dust ²	19	78	96	tonnes
Waste water discharge				
Total waste water discharge	4,729,837	4,775,877	3,969,592	tonnes
Waste water discharge (Paper production sector)				
Intensity of waste water discharge ³	3.1	3.0	2.8	tonnes/tonnes of paper
COD emissions	117	114	127	tonnes
Intensity of COD emissions	35.9	34.5	44.3	mg/L
N-NH ₃ emissions ⁴	2.9	5	6	tonnes
Intensity of N-NH ₃ emissions	0.9	1.6	2.0	mg/L
Waste emissions⁵				
Hazardous waste emissions ⁶	42	795	837	tonnes
Hazardous waste emission intensity	0.02	0.35	0.41	kg/revenue in RMB10,000
Non-hazardous waste emissions	155,282	200,213	204,307	tonnes
Non-hazardous waste emission intensity	66.3	89.0	99.6	kg/revenue in RMB10,000
GHG emissions⁷				
Direct emissions (Scope 1)	795,184	935,180	959,133	tCO ₂ e
Energy indirect emissions (Scope 2)	811,868	843,203	802,040	tCO ₂ e
Total GHG emissions	1,607,051	1,778,383	1,761,173	tCO ₂ e
GHG emission intensity	0.69	0.79	0.86	tCO ₂ e/revenue in RMB10,000
GHG emissions (Paper production sector)⁸				
GHG emissions	1,239,433	1,327,949	1,232,226	tCO ₂ e
GHG emission intensity	1.19	1.22	1.20	tCO ₂ e/tonnes of paper





	2020	2019	2018	Unit
Energy consumption⁹				
Natural gases	95,311,855	102,099,325	93,075,635	cubic metre
Anthracite	271,228	328,927	359,959	tonnes
Purchased electricity	96,614	100,151	97,511	10,000 kWh
Purchased steam and heat	1,662,649	1,839,302	1,754,677	GJ
Liquefied petroleum gas	0	243	/	kg
Total energy consumption	4,191,459	4,717,921	4,768,674	MWh
Energy consumption intensity	1.8	2.1	2.3	MWh/revenue in RMB10,000
Energy consumption (Paper production sector)¹⁰				
Total energy consumption	385,458	402,728	379,136	tce
Energy consumption intensity	0.37	0.37	0.37	tce/tonnes of paper
Water consumption				
Total water consumption	9,148,196	10,086,725	9,237,367	tonnes
Including:				
Water consumption (Tap water)	7,804,200	8,674,025	/	tonnes
Water consumption (Reservoir water)	1,343,996	1,412,700	/	tonnes
Water consumption intensity	3.9	4.5	4.5	tonnes/revenue in RMB10,000
Water consumption (Paper production sector)¹¹				
Water consumption	6,387,404	6,851,980	6,309,774	tonnes
Water consumption intensity	6.1	6.3	6.1	tonnes/tonnes of paper
Packaging material consumption				
Total packaging material used	109,475	108,540	92,172	tonnes
Intensity of packaging material used	0.05	0.05	0.04	tonnes/revenue in RMB10,000





Notes:

1. Due to the ultra-low emission transformation carried out by Weifang Hengan Thermal Power Co., Ltd. and other production companies and the decrease of overall energy consumption, the emissions of NO_x, SO₂ and Smoke in 2020 are lower than those in 2019;
2. Because the dust particle emission was not required to be monitored as per the emission permit of Hengan (China) Paper Co., Ltd. in 2020, the dust particles were not monitored and are thus not included in the statistical range, resulting in the decrease of dust particle emission in 2020 compared with that in 2019;
3. Due to reduction in paper production and product adjustment in some production companies in 2020, the waste water emission intensity, COD emissions and COD emission intensity increased in 2020;
4. Due to changes in the statistical approach of waste water of Shandong Hengan Paper Co., Ltd., the emission of N-NH₃ is lower than that in 2019;
5. Hazardous waste of the Group includes mercuric tubes, used batteries, cartridges, waste oil (such as lubes, engine oil), used ink bottles, used additive bottles, used detergent bottles etc.; non-hazardous waste includes sludge, wetproof, cinder, production waste, domestic waste, gypsum, coal ash, etc.;
6. As the Group did not carry out maintenance activities involving a large number of hazardous wastes in 2020, the hazardous wastes in 2020 decreased compared with that in 2019;
7. The GHG emissions mainly represent CO₂ emissions, including Scope 1: direct emissions, including anthracite and natural gas consumed during the production process; Scope 2: energy indirect emissions, including purchased electricity, purchased steam and heat. The GHG emissions are measured by carbon dioxide equivalent according to the Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Paper and Paper Products Manufacturers (Trial) (《造纸和纸制品生产企业温室气体排放核算方法与报告指南(试行)》) issued by the National Development and Reform Commission; as the overall energy consumption decreases, the GHG emissions in 2020 is lower than that in 2019;
8. Since the paper production sector is the main source of the Group's GHG emissions, the GHG emissions and the intensity of GHG emitted for production of each tonne of paper in the paper production sector are separately disclosed here;
9. The total energy consumption of the Group is calculated based on the use of natural gas, anthracite, purchased electricity, purchased steam and heat, in combination with the recommended values for the relevant parameters of commonly used fossil fuels in Appendix 1 of Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Paper and Paper Products Manufacturers (《造纸和纸制品生产企业温室气体排放核算方法与报告指南》) issued by the National Development and Reform Commission;
10. Since the energy consumption of paper production sector accounts for a relatively high proportion of that of the Group, the energy consumption and intensity of energy for production of each tonne of paper in the paper production sector are separately disclosed here;
11. Since the water consumption of the paper production sector accounts for a large proportion of that of the Group, the water consumption and intensity of water for production of each tonne of paper in the paper production sector are separately disclosed here.





2. Social KPIs

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

	2020	2019	2018	Unit
Employee Overview				
Total workforce	25,000	25,000	23,000	person
By gender				
Male	41%	41%	42%	
Female	59%	59%	58%	
By age group				
Under 20	2%	2%	3%	
20-29	25%	26%	28%	
30-39	39%	39%	38%	
40-49	31%	30%	29%	
50 and above	3%	3%	2%	
By employment type				
Full-time	100%	100%	100%	
Part-time	0	0	0	
By region				
Northeast region	5%	5%	/	
Fujian, Jiangxi	36%	31%	/	
Guangdong, Guangxi, Hainan, Hunan, Hubei	17%	18%		
North China region	4%	5%	/	
East China region	12%	12%	/	
Shandong, Henan	10%	12%		
Northwest region	5%	5%	/	
Southwest region	11%	12%	/	
Proportion of female by job title				
General manager and above	13%	14%	/	
Manager	35%	33%	/	
Functional staff	39%	39%	/	
Junior staff	89%	89%	/	





	2020	2019	2018	Unit
Employee turnover rate ¹	29%	/	/	
By gender				
Male	27%	/	/	
Female	30%	/	/	
By age group				
Under 20	49%	/	/	
20-29	43%	/	/	
30-39	26%	/	/	
40-49	18%	/	/	
50 and above	34%	/	/	
By region				
Northeast region	23%	/	/	
Fujian, Jiangxi	30%	/	/	
Guangdong, Guangxi, Hainan,				
Hunan, Hubei	24%	/	/	
North China region	28%	/	/	
East China region	32%	/	/	
Shandong, Henan	27%	/	/	
Northwest region	33%	/	/	
Southwest region	33%	/	/	
Development and Training				
Employee training ratio ²				
By gender				
Male	86%	77%	/	
Female	51%	45%	/	
By job title				
General manager and above	50%	49%	/	
Manager	60%	44%	/	
Functional staff	74%	55%	/	
Junior staff	54%	64%	/	





	2020	2019	2018	Unit
Average training hours of employees	8	9	11	hour
By gender				
Male	13	14	/	hour
Female	5	5	/	hour
By job title				
General manager and above	4	4	/	hour
Manager	7	6	/	hour
Functional staff	10	12	/	hour
Junior staff	6	6	/	hour
Health and Safety				
Incidence of occupational diseases	0	0	0	
Number of work injury	70	73	93	occurrence
Number of working days lost due to work injury	3,147	3,309	/	day
Number of work-related fatalities	0	0	/	person
Supply Chain Management				
Total number of raw and auxiliary materials suppliers	728	/	/	Supplier
By country				
China	670	/	/	Supplier
America	7	/	/	Supplier
India	6	/	/	Supplier
Indonesia	6	/	/	Supplier
Others	39	/	/	Supplier
Product Responsibility				
Percentage of recall for safety and health reasons	0	0	0	
Anti-corruption				
Number of concluded legal cases regarding corrupt practices brought against the Group's employees during the reporting period	2	0	/	case
Community Investment				
Hengan Group's anti COVID-19 contributions of cash and supplies	2,300	/	/	RMB10,000
Volunteer hours	1,116	521	/	hour

Notes:

1. The calculation method of the Group's employee turnover rate is Employees in the specified category leaving employment during the reporting year/ Total number of employees in the specified category at the end of the reporting year (excluding the turnover during the probation period);
2. The calculation method of the Group's employee training ration is the number of employees in the specified category who took part in training/the total number of employees in the specified category;
3. Hengan added some new social KPIs in 2020; therefore, the historical data of related KPIs had not been disclosed in 2019.





GRI STANDARDS INDEX

GRI Standards	Disclosure Title	Report Section(s)
Organizational profile	102-1 Name of the organization	About the Report
	102-2 Activities, brands, products, and services	About the Group
	102-3 Location of headquarters	About the Group
	102-4 Location of operations	About the Group
	102-5 Ownership and legal form	About the Group
	102-6 Markets served	About the Group
	102-7 Scale of the organization	About the Group
	102-8 Information on employees and other workers	Employees – Employee management
	102-9 Supply chain	Products – Responsible procurement
	102-10 Significant changes to the organization and its supply chain	No significant changes
	102-11 Precautionary Principle or approach	ESG Strategy and Governance
	102-12 External initiatives	ESG Strategy and Governance
	102-13 Membership of associations	ESG Strategy and Governance – ESG governance framework
Strategy	102-14 Statement from senior decision-maker	/
	102-15 Key impacts, risks, and opportunities	ESG Strategy and Governance – ESG risk and response Environment – Climate change
Ethics and integrity	102-16 Values, principles, standards, and norms of behavior	Employees – Employee management
	102-17 Mechanisms for advice and concerns about ethics	Employees – Employee management
Governance	102-18 Governance structure	ESG Strategy and Governance – ESG governance framework
	102-19 Delegating authority	ESG Strategy and Governance – ESG governance framework
	102-20 Executive-level responsibility for economic, environmental, and social topics	ESG Strategy and Governance – ESG governance framework





GRI Standards	Disclosure Title	Report Section(s)
	102-21 Consulting stakeholders on economic, environmental, and social topics	ESG Strategy and Governance – ESG governance framework
	102-22 Composition of the highest governance body and its committees	ESG Strategy and Governance – ESG governance framework
	102-23 Chair of the highest governance body	/
	102-24 Nominating and selecting the highest governance body	/
	102-25 Conflicts of interest	/
	102-26 Role of highest governance body in setting purpose, values, and strategy	ESG Strategy and Governance – ESG governance framework
	102-27 Collective knowledge of highest governance body	ESG Strategy and Governance – ESG governance framework
	102-28 Evaluating the highest governance body’s performance	/
	102-29 Identifying and managing economic, environmental, and social impacts	ESG Strategy and Governance – ESG risk and response
Governance	102-30 Effectiveness of risk management processes	ESG Strategy and Governance – ESG risk and response
	102-31 Review of economic, environmental, and social topics	ESG Strategy and Governance – Materiality assessment
	102-32 Highest governance body’s role in sustainability reporting	ESG Strategy and Governance – ESG governance framework
	102-33 Communicating critical concerns	ESG Strategy and Governance – Stakeholders communication
	102-34 Nature and total number of critical concerns	ESG Strategy and Governance – Stakeholders communication ESG Strategy and Governance – Materiality assessment
	102-35 Remuneration policies	/
	102-36 Process for determining remuneration	/
	102-37 Stakeholders’ involvement in remuneration	/
	102-38 Annual total compensation ratio	/
	102-39 Percentage increase in annual total compensation ratio	/





GRI Standards	Disclosure Title	Report Section(s)
Stakeholder engagement	102-40 List of stakeholder groups	ESG Strategy and Governance – Stakeholders communication
	102-41 Collective bargaining agreements	Employees – Employee management
	102-42 Identifying and selecting stakeholders	ESG Strategy and Governance – Stakeholders communication
	102-43 Approach to stakeholder engagement	ESG Strategy and Governance – Stakeholders communication
	102-44 Key topics and concerns raised	ESG Strategy and Governance – Stakeholders communication ESG Strategy and Governance – Materiality assessment
Reporting practice	102-45 Entities included in the consolidated financial statements	About the Report
	102-46 Defining report content and topic Boundaries	About the Report
	102-47 List of material topics	ESG Strategy and Governance – Materiality assessment
	102-48 Restatements of information	No significant changes
	102-49 Changes in reporting	About the Report
	102-50 Reporting period	About the Report
	102-51 Date of most recent report	About the Report
	102-52 Reporting cycle	About the Report
	102-53 Contact point for questions regarding the report	Readers feedback form
	102-54 Claims of reporting in accordance with the GRI Standards	About the Report
	102-55 GRI content index	GRI Standards Index
102-56 External assurance	/	
Management Approach	103-1 Explanation of the material topic and its Boundary	ESG Strategy and Governance – Materiality assessment
	103-2 The management approach and its components	ESG Strategy and Governance – ESG governance framework ESG Strategy and Governance – Stakeholders communication
	103-3 Evaluation of the management approach	ESG Strategy and Governance – Materiality assessment





GRI Standards	Disclosure Title	Report Section(s)
GRI201: Economic Performance	201-1 Direct economic value generated and distributed	/
	201-2 Financial implications and other risks and opportunities due to climate change	Environment – Climate change
	201-3 Defined benefit plan obligations and other retirement plans	/
	201-4 Financial assistance received from government	/
GRI202: Market Presence	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	/
	202-2 Proportion of senior management hired from the local community	/
GRI203: Indirect Economic Impacts	203-1 Infrastructure investments and services supported	/
	203-2 Significant indirect economic impacts	/
GRI204: Procurement Practices	204-1 Proportion of spending on local suppliers	/
GRI205: Anti-corruption	205-1 Operations assessed for risks related to corruption	/
	205-2 Communication and training about anti-corruption policies and procedures	Employees – Employee management
	205-3 Confirmed incidents of corruption and actions taken	/
GRI206: Anti-competitive Behavior	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Employees – Employee management
GRI301: Materials	301-1 Materials used by weight or volume	Environmental KPIs
	301-2 Recycled input materials used	/
	301-3 Reclaimed products and their packaging materials	Environment – Packaging materials
GRI302: Energy	302-1 Energy consumption within the organization	Environmental KPIs
	302-2 Energy consumption outside of the organization	/
	302-3 Energy intensity	Environmental KPIs
	302-4 Reduction of energy consumption	Environment – Climate change
	302-5 Reductions in energy requirements of products and services	Environment – Climate change
GRI303: Water and Effluents	303-1 Water withdrawal by source	Environment – Water resource management
	303-2 Water sources significantly affected by withdrawal of water	Not applicable
	303-3 Water recycled and reused	Environment – Water resource management





GRI Standards	Disclosure Title	Report Section(s)
GRI304: Biodiversity	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	/
	304-2 Significant impacts of activities, products, and services on biodiversity	/
	304-3 Habitats protected or restored	/
	304-4 IUCN Red List species and national conservation list Species with habitats in areas affected by operations	/
GRI305: Emissions	305-1 Direct (Scope 1) GHG emissions	Environmental KPIs
	305-2 Energy indirect (Scope 2) GHG emissions	Environmental KPIs
	305-3 Other indirect (Scope 3) GHG emissions	/
	305-4 GHG emissions intensity	Environmental KPIs
	305-5 Reduction of GHG emissions	Environment – Climate change
	305-6 Emissions of ozone-depleting substances (ODS)	/
	305-7 Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	/
GRI306: Effluents and Waste	306-1 Water discharge by quality and destination	Environmental KPIs
	306-2 Waste by type and disposal method	Environmental KPIs
	306-3 Significant spills	Not applicable
	306-4 Transport of hazardous waste	Environment – Waste management
	306-5 Water bodies affected by water discharges and/or runoff	/
GRI307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	The Group strictly abides by relevant laws and regulations
GRI308: Supplier Environmental Assessment	308-1 New suppliers that were screened using environmental criteria	Products – Responsible procurement
	308-2 Negative environmental impacts in the supply chain and actions taken	Products – Responsible procurement
GRI401: Employment	401-1 New employee hires and employee turnover	/
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employees – Employee management
	401-3 Parental leave	/
GRI402: Labor/Management Relations	402-1 Minimum notice periods regarding operational changes	The Group strictly abides by relevant laws and regulations





GRI Standards	Disclosure Title	Report Section(s)
GRI403: Occupational Health and Safety	403-1 Workers representation in formal joint management – worker health and safety committees	/
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Social KPIs
	403-3 Workers with high incidence or high risk of diseases related to their occupation	/
	403-4 Health and safety topics covered in formal agreements with trade unions	/
GRI404: Training and Education	404-1 Average hours of training per year per employee	Social KPIs
	404-2 Programs for upgrading employee skills and transition assistance programs	Employees – Employee management
	404-3 Percentage of employees receiving regular performance and career development reviews	Employees – Employee management
GRI405: Diversity and Equal Opportunity	405-1 Diversity of governance bodies and employees	Employees – Employee management
	405-2 Ratio of basic salary and remuneration of women to men	/
GRI406: Non-discrimination	406-1 Incidents of discrimination and corrective actions taken	Employees – Employee management
GRI407: Freedom of Association and Collective Bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	/
GRI408: Child Labor	408-1 Operations and suppliers at significant risk for incidents of child labor	/
GRI409: Forced or Compulsory Labor	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	/
GRI410: Security Practices	410-1 Security personnel trained in human rights policies or procedures	/
GRI411: Rights of Indigenous Peoples	411-1 Incidents of violations involving rights of indigenous peoples	Not applicable
GRI412: Human Rights Assessment	412-1 Operations that have been subject to human rights reviews or impact assessments	/
	412-2 Employee training on human rights policies or procedures	/
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	/





GRI Standards	Disclosure Title	Report Section(s)
GRI413: Local Communities	413-1 Operations with local community engagement, impact assessments, and development programs	Public welfare
	413-2 Operations with significant actual and potential negative impacts on local communities	/
GRI414: Supplier Social Assessment	414-1 New suppliers that were screened using social criteria	Products – Responsible procurement
	414-2 Negative social impacts in the supply chain and actions taken	/
GRI415: Public Policy	415-1 Political contributions	No political contributions
GRI416: Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	Products – Quality assurance
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Products – Quality assurance
GRI417: Marketing and Labeling	417-1 Requirements for product and service information and labeling	Products – Customer relationship
	417-2 Incidents of non-compliance concerning product and service information and labeling	During the reporting period, the Group did not have corresponding violations
	417-3 Incidents of non-compliance concerning marketing communications	During the reporting period, the Group did not have corresponding violations
GRI418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Products – Customer relationship
GRI419: Socioeconomic Compliance	419-1 Non-compliance with laws and regulations in the social and economic area	The Group strictly abides by relevant laws and regulations





ESG REPORTING GUIDE INDEX

KPI	Description	Report Section(s)
A1	Emissions	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Environment – Climate change Water resource management Waste management Waste gas management
A1.1	The types of emissions and respective emissions data	Environmental KPIs
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity	Environmental KPIs
A1.3	Total hazardous waste produced and, where appropriate, intensity	Environmental KPIs
A1.4	Total non-hazardous waste produced and, where appropriate, intensity	Environmental KPIs
A1.5	Description of emissions target(s) set and steps taken to achieve them	Environment – Climate change Water resource management Waste gas management
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Environment – Waste management
A2	Use of Resource	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environment – Climate change Packaging materials Water resource management
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Environmental KPIs
A2.2	Water consumption in total and intensity.	Environmental KPIs
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	Environment – Climate change
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Environment – Water resource management
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Environmental KPIs
A3	The Environment and Natural Resources	
General Disclosure	Policies on minimising the issuer’s significant impact on the environment and natural resources.	Environment – Climate change Forest policy
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment – Climate change Forest policy





KPI	Description	Report Section(s)
A4	Climate Change	
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Environment – Climate change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Environment – Climate change
B1	Employment	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employees – Employee management
B1.1	Total workforce by gender, employment type, age group and geographical region.	Social KPIs
B1.2	Employee turnover rate by gender, age group and geographical region.	Social KPIs
B2	Health and Safety	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employees – Health and safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Social KPIs
B2.2	Lost days due to work injury.	Social KPIs
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Employees – Health and safety
B3	Development and Training	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employees – Employee management
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Social KPIs
B3.2	The average training hours completed per employee by gender and employee category.	Social KPIs





KPI	Description	Report Section(s)
B4	Labour Standards	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employees – Employee management
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employees – Employee management
B4.2	Description of steps taken to eliminate such practices when discovered.	Employees – Employee management
B5	Supply Chain Management	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Products – Responsible procurement
B5.1	Number of suppliers by geographical region.	Products – Responsible procurement Social KPIs
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Products – Responsible procurement
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	Products – Responsible procurement
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Environment – Climate change
B6	Product Responsibility	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Products – Quality assurance
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Social KPIs
B6.2	Number of products and service related complaints received and how they are dealt with.	Social KPIs Products – Customer relationship
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Products – R&D and innovation
B6.4	Description of quality assurance process and recall procedures.	Products – Quality assurance
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Products – Customer relationship





KPI	Description	Report Section(s)
B7	Anti-corruption	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Employees – Employee management
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Social KPIs
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Employees – Employee management
B7.3	Description of anti-corruption training provided to directors and staff.	Employees – Employee management
B8	Community Investment	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities’ interests.	Public welfare
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Public welfare
B8.2	Resources contributed (e.g. money or time) to the focus area.	Public welfare Social KPIs





READERS FEEDBACK FORM

Thank you for reading the “Hengan 2020 Environmental, Social and Governance Report”. In order to provide more valuable information to the Group’s stakeholders and improve its ability and level of fulfilling social responsibilities, Hengan would welcome any feedback or suggestions you might have about this report.

You can send this form to any of the following:

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

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

1. How would you rate the Group’s 2020 ESG Report?

Excellent Good General Poor Very poor

2. How would you rate the economic, social and environmental responsibilities of Hengan?

Social Responsibility Excellent Good General Poor Very poor

Environmental responsibility Excellent Good General Poor Very poor

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

Excellent Good General Poor Very poor

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

Clarity Excellent Good General Poor Very poor

Accuracy Excellent Good General Poor Very poor

Completeness Excellent Good General Poor Very poor

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

Yes Neutral No

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

