



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



# 2022 INTERIM RESULTS

Corporate Presentation



August 2022



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



# AGENDA



Financial  
Highlights



Business  
Review



Outlook



Open  
Forum

# Financial Highlights



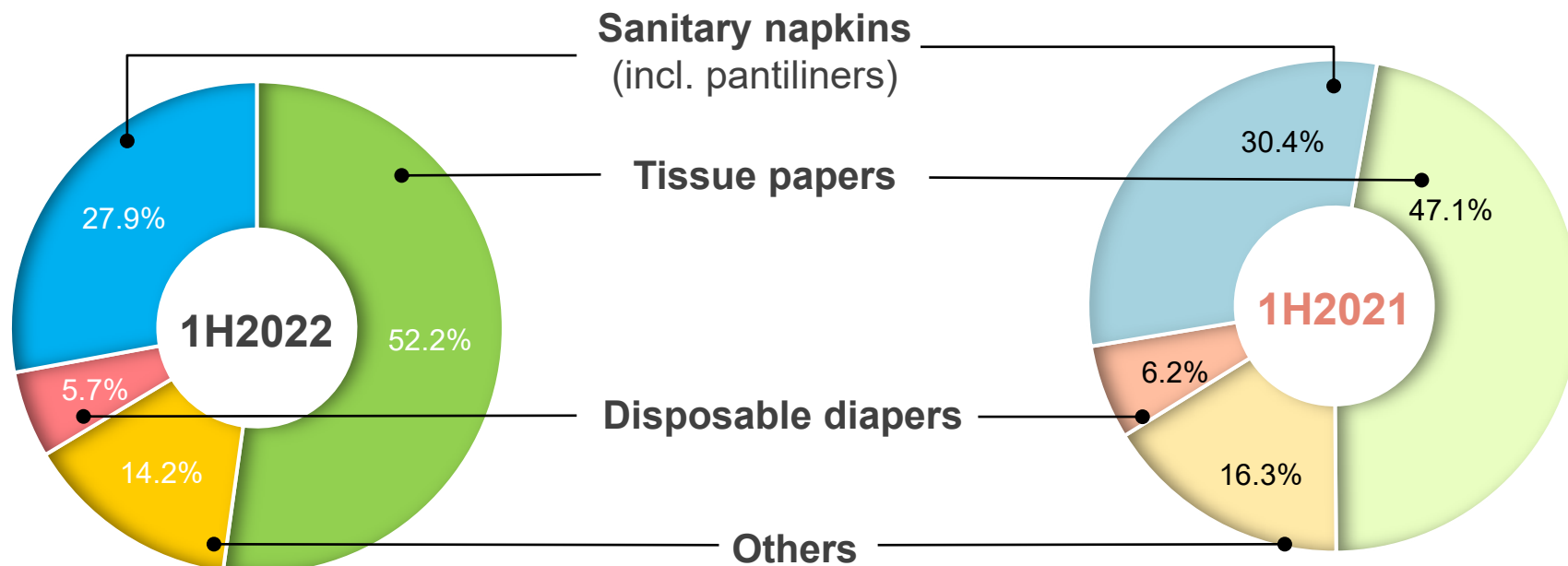
# Financial Highlights



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	2022	2021	Change
(RMB '000)	For the six months ended 30 June		
Revenue	11,200,021	9,973,914	↑ 12.3%
Gross profit	3,942,191	3,930,671	↑ 0.3%
Operating Profit	1,885,753	2,540,583	↓ 25.8%
Profit attributable to shareholders	1,276,191	1,860,292	↓ 31.4%
*Profit attributable to shareholders excluding exchange (losses) / gains from operating activities - net	1,643,988	1,846,108	↓ 10.9%
Earnings per share (RMB)			
– Basic	1.098	1.574	↓ 30.2%
– Diluted	1.098	1.574	↓ 30.2%
Dividend per share (RMB)			
– Interim	0.7	1.0	↓ 30.0%
*Exchange (losses) / gains from operating activities - net	(367,797)	14,184	↓ 2,693.0%

# Revenue Analysis



By Business Segment	2022	2021	Change
(RMB '000)	For the six months ended 30 June		
Tissue paper	5,842,612	4,696,522	↑ 24.4%
Sanitary napkins (incl. pantliners)	3,128,524	3,029,970	↑ 3.3%
Disposable diapers	633,513	619,668	↑ 2.2%
Others	1,595,372	1,627,754	↓ 2.0%

# Gross Profit Margin Overview

By Business Segment	2022	2021
(%)	For the six months ended 30 June	
Tissue paper	23.1%	29.2%
Sanitary napkins (incl. pantliners)	65.3%	70.0%
Disposable diapers	35.3%	36.2%
Others	20.4%	13.2%
Overall	35.2%	39.4%

## Major factors affecting overall gross profit margin

Margin decreased in 1H2022 due to:

➔ Increase in wood pulp prices and costs of petrochemical raw materials (e.g. Superabsorbent polymer and fluff pulp)



➔ Increase in premium & upgraded product mix with high GP margin

# Major Expenses



## Selling and distribution costs and administrative expenses

- Selling and distribution costs and administrative expenses accounted for approx. 19.1% of total revenue (1H2021: 19.3%)
- Major expenses are as follows:



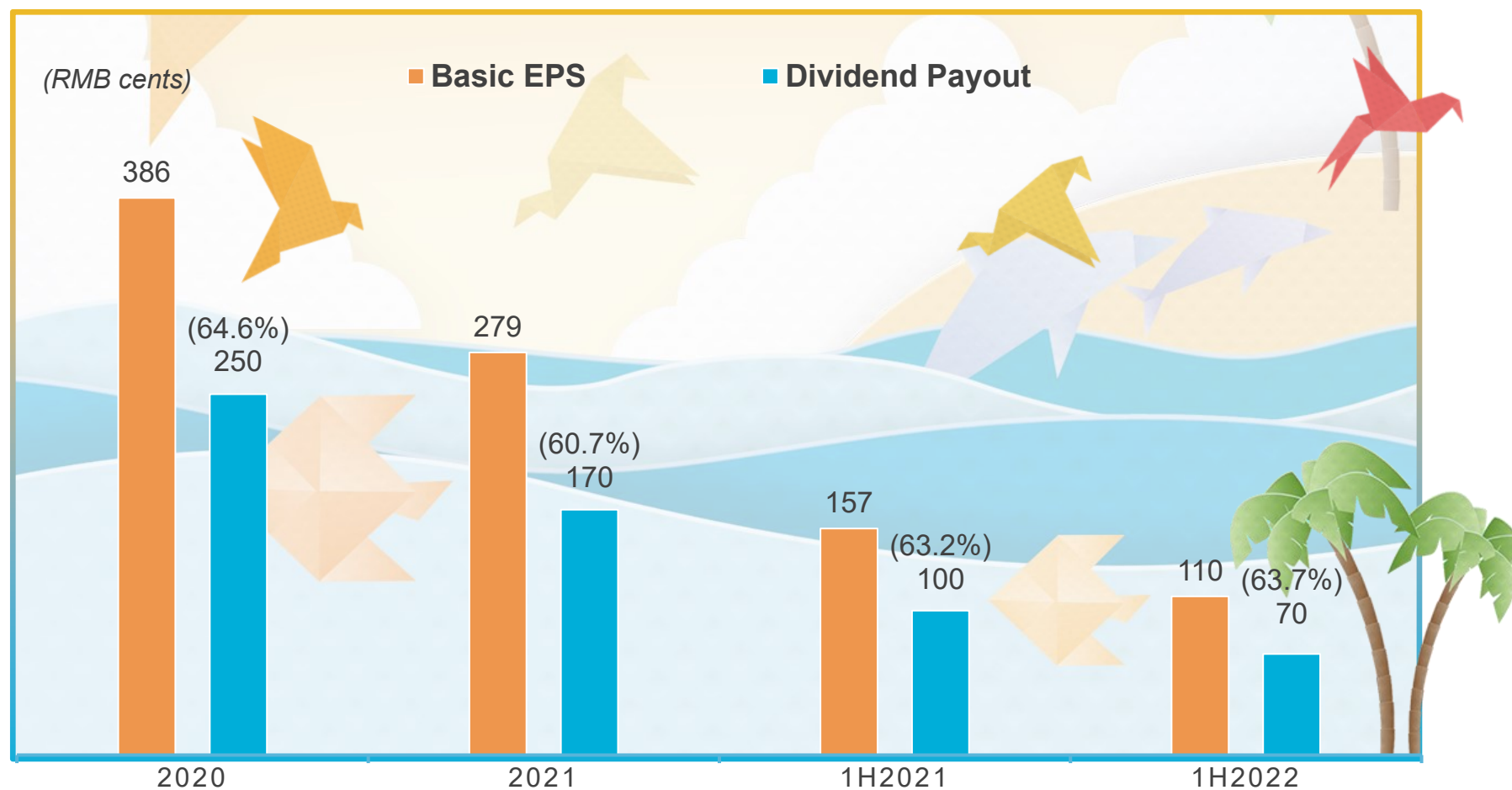
<b>Bv Business Segment</b>	<b>2022</b>	<b>2021</b>
<i>(As % of revenue)</i>	<i>For the six months ended 30 June</i>	
<b>Marketing &amp; advertising expenses</b>	<b>2.6%</b>	2.5%
<b>Staff costs</b> (excluding labour costs)	<b>4.3%</b>	4.3%
<b>Transportation and loading expenses</b>	<b>4.6%</b>	3.9%
<b>Research and development</b>	<b>1.3%</b>	1.4%

# Basic EPS and DPS



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1H2022 Dividend payout ratio: 63.7% (1H2021: 63.2%)



# Key Financial Indicators



<i>By Business Segment</i>	2022	2021
	30 June 2022	31 December 2021
Cash on hand (RMB '000)	27,693,330	22,282,950
Short-term commercial papers (RMB '000)	4,500,000	-
Bank borrowings and other borrowings (RMB '000)	18,385,013	18,227,095
Current ratio	1.3 times	1.2 times
Gross gearing ratio	116.50%	95.70%
Net gearing ratio (net cash)	-24.50%	-21.30%
Finished goods turnover	39 days	50 days
Accounts receivable turnover	51 days	56 days
Accounts payable turnover	57 days	67 days

# Other Financial Information

## Interest income: around RMB432.2 mn (1H2021: RMB474.8 mn)

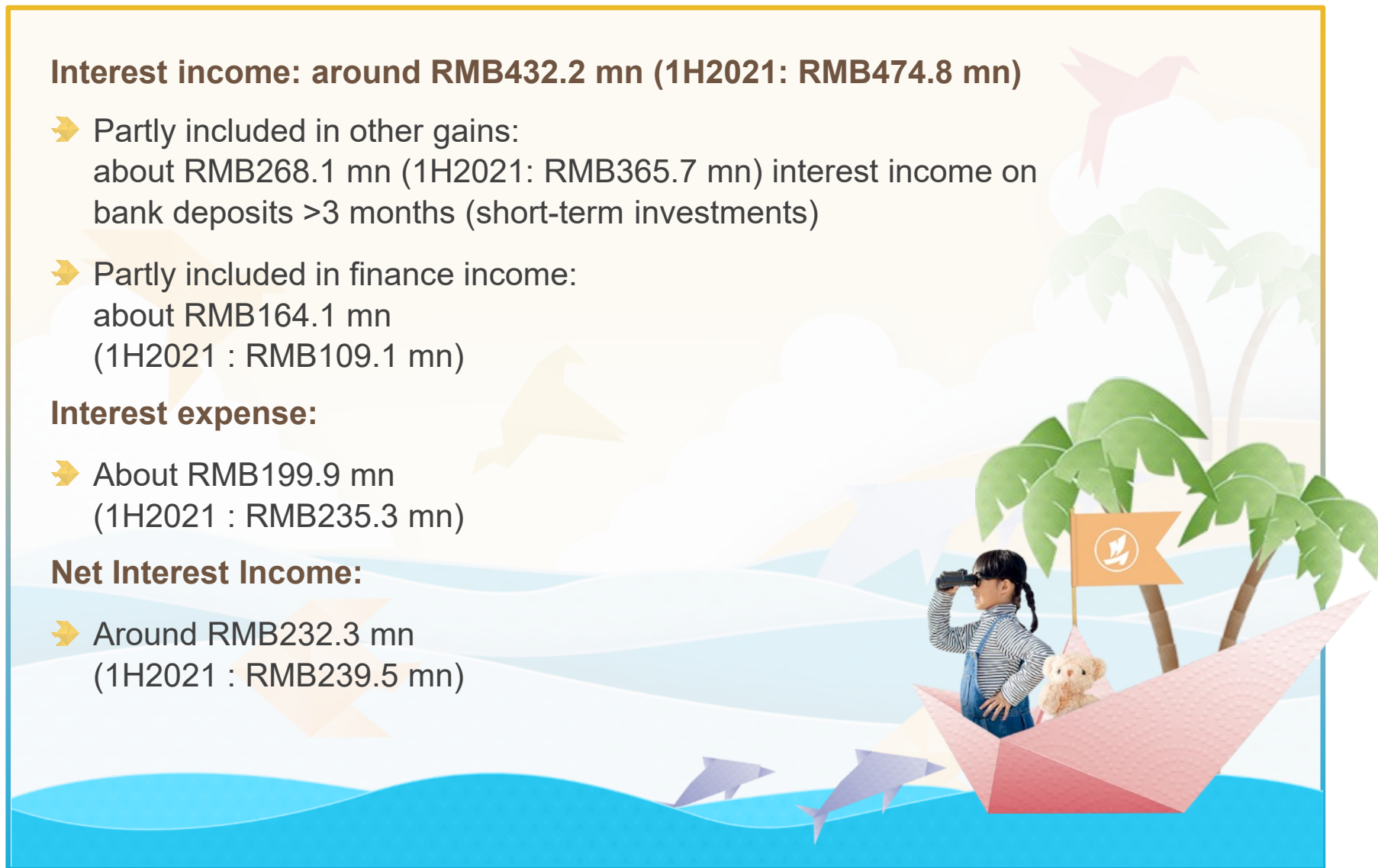
- Partly included in other gains:  
about RMB268.1 mn (1H2021: RMB365.7 mn) interest income on bank deposits >3 months (short-term investments)
- Partly included in finance income:  
about RMB164.1 mn  
(1H2021 : RMB109.1 mn)

## Interest expense:

- About RMB199.9 mn  
(1H2021 : RMB235.3 mn)

## Net Interest Income:

- Around RMB232.3 mn  
(1H2021 : RMB239.5 mn)



# Other Financial Information (Cont'd)



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***Exchange loss due to the significant depreciation of RMB against US\$ and HK\$: around RMB412.1 mn (1H2021: gain of HK\$12.6 mn)***

Included in other gains: loss of about RMB367.8 mn  
(1H2021: gain of RMB14.2 mn)

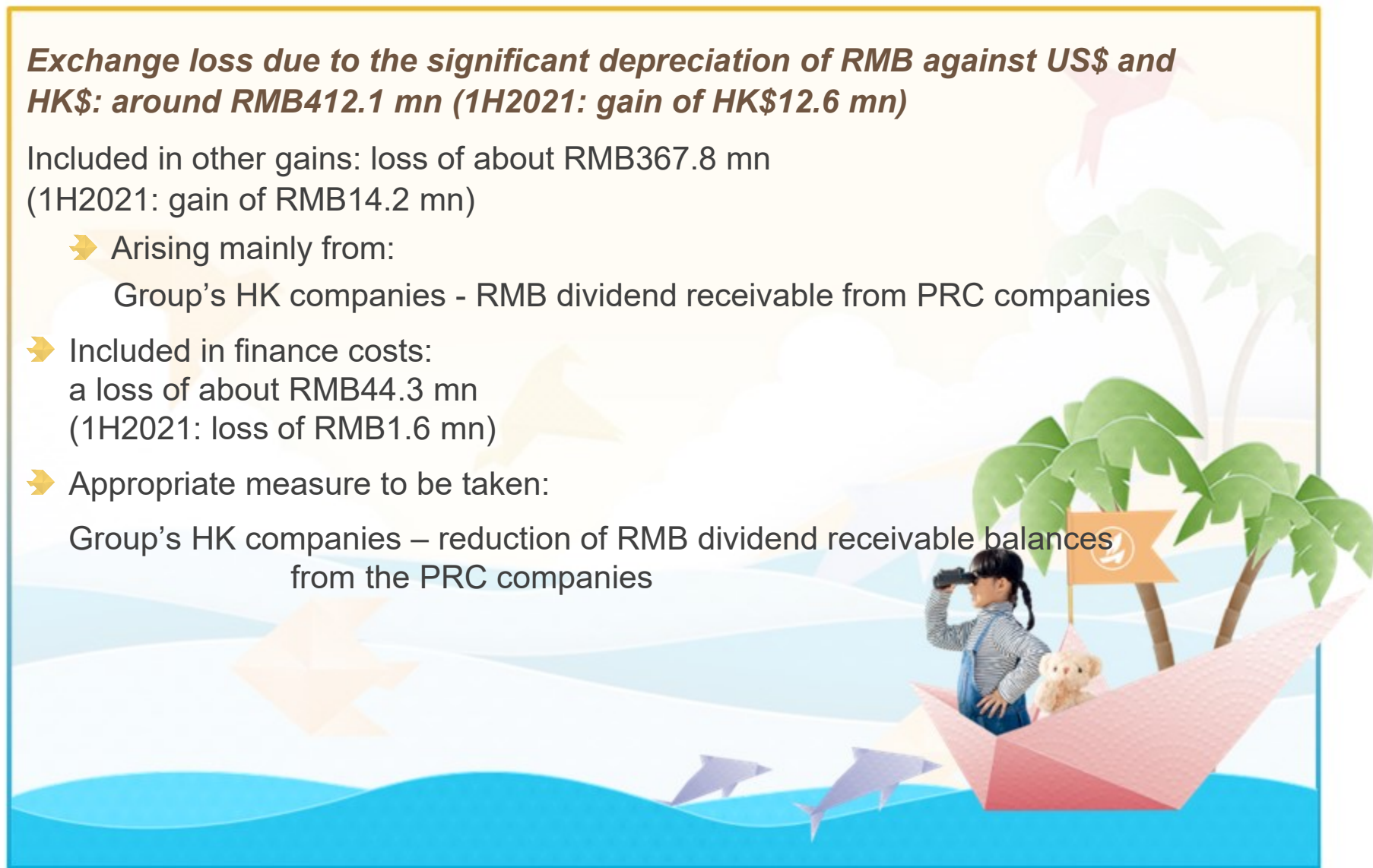
➤ Arising mainly from:

Group's HK companies - RMB dividend receivable from PRC companies

➤ Included in finance costs:  
a loss of about RMB44.3 mn  
(1H2021: loss of RMB1.6 mn)

➤ Appropriate measure to be taken:

Group's HK companies – reduction of RMB dividend receivable balances  
from the PRC companies



# Other Financial Information (Cont'd)



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## Government grants:

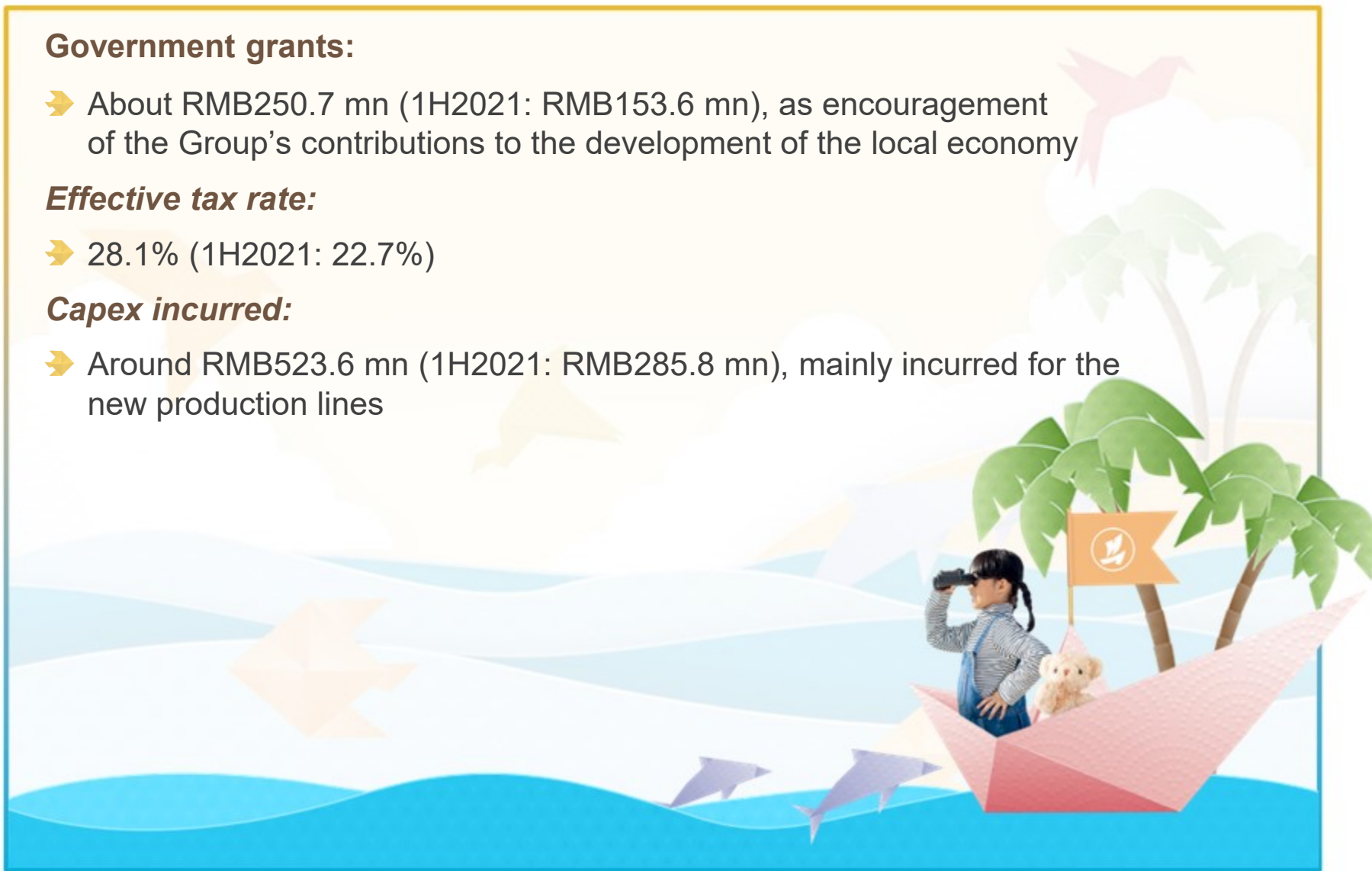
- About RMB250.7 mn (1H2021: RMB153.6 mn), as encouragement of the Group's contributions to the development of the local economy

## Effective tax rate:

- 28.1% (1H2021: 22.7%)

## Capex incurred:

- Around RMB523.6 mn (1H2021: RMB285.8 mn), mainly incurred for the new production lines



# Business Review



# Sanitary Napkins



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- China's feminine care products market is immense, but the market is highly saturated.
- Many domestic and foreign brands have actively promoted their products to lower tier cities to seize the market share of the mid-to-high-end market and younger generation.



## Business performance in 1H2022 and 2H2022 outlook

- In 1H2022, facing unfavorable business environment of severe epidemic and market saturation, sales of the Group's sanitary napkin business still recorded an increase of approx. 3.3% to approx. RMB3,129 mn (1H2021: RMB3,030 mn) thanks to the strong sales performance of upgraded products and expansion in new retail channels.
- Notwithstanding the market competition pressure, the Group stayed committed to a rational and stable pricing strategy, but the surge in petroleum and commodity prices has led to a significant price hike in petrochemical raw materials used in sanitary napkins, resulting in a y-o-y decrease of 4.7% pts in the GP margin of the sanitary napkin business to approx. 65.3% (1H2021: 70.0%).
- The Group's sanitary napkin brand, “七度空间”, has always been a market leader in mainland China. The Group's upgraded products such as the “Ultra-thin” (特薄), “Extra-long - Night Use” (加長夜用), and “Pants-style”(褲型) series, were well-received by the market with enthusiastic sales response and increasing market share. The Group believes the upgraded series of “七度空间” will continue to instill strong growth momentum into the sanitary napkin business in the future, helping the Group to expand its share in the sanitary napkin market and gradually increase the proportion of the upgrade products.
- The Group will continue to actively expand new retail channels and increase the sales proportion of new retail channels; also develop exclusive products for new retail channels and adhere a stable pricing strategy, supporting the Group's long-term development and consolidate its leading market position.

# Tissue Paper



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- While re-emergence of the epidemic hampered the overall retail market, the national health awareness has further improved, and the demand for tissue paper continued to be strong.
- The tissue paper market is highly competitive but small and medium-sized tissue paper companies cannot withstand the soaring costs amid the tight supply of wood pulp and logistical disruption.



## Business performance in 1H2022 and 2H2022 outlook

- Hengan leveraged its strong capital strength, nationwide sales network, strong brand and diversified product portfolio to capture development opportunities and successfully gained more market share in 1H2022. Thanks to its stable pricing strategy and effective managed sales promotions, the revenue of the Group's tissue paper business increased substantially by close to 25.0% to approx. RMB5,843 mn (1H2021: RMB4,697 mn).
- High wood pulp prices exerted enormous pressure on the Group's tissue paper business GP in 1H2022, and the GP margin dropped to approx. 23.1% (1H2021: 29.2%).
- Demand for tissue paper products remained at a high level amid the epidemic. The Group's premium tissue paper products garnered very encouraging sales results. The sales of the "Cloudy Soft Skin 云感柔肤" series recorded a growth of >80% and accounted for >10.0% of the overall tissue paper sales. Wet wipes business has maintained a good growth momentum. The sales of the Group's wet wipes business grew nearly 20.0% to approx. RMB413 mn (1H2021: RMB346 mn), accounting for approx. 7.1% of the sales of the tissue paper business (1H2021: 7.4%).
- The Group actively responded to the fragmentation of sales channels, and the efforts and resources invested in the early years gradually paid off. The tissue paper sales in e-commerce channel increased by >30.0%, accounting for >21.0% of the sales of tissue paper, whereas tissue paper sales in emerging channels such as online-to-offline (O2O) platform and community group-buying recorded an encouraging growth of >30.0%.
- In view of the improving living standards of people and the continued high level of health awareness, there is great development potential in the overall tissue paper market.

# Disposable Diapers



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- With the improvement of people's living standards and the intensified ageing population, there is considerable growth potential in the domestic adult disposable diaper market.
- The national change of parenting concept and the pursuit of quality life have also injected growth momentum into the baby disposable diaper market.



## Business performance in 1H2022 and 2H2022 outlook

- During the period, the sales of the flagship premium product “Q•MO” continued to perform well, with a y-o-y growth of approx. 18.0%, and its proportion further increased to >30.0%. Benefitting from the growing market size of the domestic adult incontinence products market and the increasing penetration rate of the Group's adult disposable diapers, the sales of the Group's adult disposable diaper business also achieved a growth of approx. 8.3% during the period, accounting for approx. 21.2% of the overall sales of the disposable diaper business.
- In 1H2022, the Group strived to strengthen the development of e-commerce and maternity sales channels. The proportion of sales of disposable diapers through e-commerce and maternity channels increased to >approx. 50.0% and >approx. 20.0%, respectively, offsetting the significant drop in the sales of mid-to-low-end products and products in traditional channel. During the period, the sales of the Group's disposable diaper business rebounded, and the revenue increased by 2.2% to approx. RMB634 mn (1H2021: RMB620 mn), accounting for approx. 5.7% of the Group's overall revenue (1H2021: 6.2%).
- GP margin of the Group's disposable diapers business saw a slight decline to about 35.3%(1H2021: 36.2%) in the light of the significant rise in the cost of sales caused by the price increase in petrochemical raw materials which was offset by the increase in the proportion of sales of higher-margin “Q•MO”.
- The Group will step up its efforts to invest more resources in the development of adult care products, thereby increasing the domestic market penetration rate of products of the “ElderJoy” (安而康) and “Banitore” (便利妥) brands and expanding its market share in Southeast Asia at the same time.
- In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternity stores, nursing homes and hospitals.

# Other Income and Household Products



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- The Group has stepped up its efforts to develop the household products business to expand its market coverage.
- The Group believes that the growth potential in the business of household products is immense.



## Business performance in 1H2022 and 2H2022 outlook

- Regarding other income and household products, the Group's revenue for 1H2022 decreased by approx. 2.0% y-o-y to approx. RMB1,595 mn (1H2021: RMB1,628 mn), which was mainly attributed to the tight supply of raw materials during the period and the Group's preference to keep raw materials in reserve. As a result, revenue from raw material trading business decreased by approx. RMB240.0 mn or approx. 21.5%.
- Revenue from the Group's household products segment was approx. RMB171 mn (1H2021: RMB153 mn), representing a y-o-y increase of approx. 12.1%, accounting for 1.5% of the Group's revenue (1H2021: 1.5%), which was mainly because the exports of household products started to pick up as the epidemic began to improve in other regions.
- In 1H2022, the Group greatly expanded the product range of its brand, "Hearttex" (心相印) with the successful launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will continue to take advantage of these overseas sales network to bring Hengan's products to overseas market.
- The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness.

# Other Income – Wang-Zheng



- With the easing of the epidemic and the reopening of the region, the Group's Wang-Zhang Group business in Malaysia saw a steady recovery and its turnover increased by approx. 18.0% y-o-y to approx. RMB203,628,000 (1H2021: RMB172,582,000), accounting for approx. 1.8% of the Group's overall sales (1H2021: approx. 1.7%).
- Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include “Dry Pro” disposable diapers and “Carina” personal hygiene products.
- In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand “Hearttex” wet wipes and “Banitore” adult disposable diapers into the Southeast Asian market.
- In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch more high-end products under the Hengan brand and further increase its market share in Malaysia and Southeast Asia.



# E-commerce and New Retail Channel Strategies

## Market overview

- Driven by the coronavirus pandemic, domestic online shopping has skyrocketed, with sales reaching RMB5,449.3 bn in 1H2022, an increase of approx. 5.6%, of which online sales of consumer goods increased by approx. 5.1%.
- The Group has seized the business opportunities arising from the evolving consumption patterns and is committed to expanding e-commerce and other new retail channels.

### Tiktok Brand List

NO.1

Hearttex

Tissue Products

NO.1

七度空間

Sanitary Napkins Products



Hengan ranked no.1s in several ecommerce platforms' lists, in terms of sales and market share

## Business performance in 1H2022 and 2H2022 outlook

- During the period, the Group's e-commerce channels (including the Retail Integrated and New Channel) soared over 30.0% to approximately RMB 2.7 billion; accounting for approximately 24.2% of the Group's overall sales. Although the Group prudently controlled promotional expenses in 1H2022 in view of the epidemic, the Group's sales during the 18 June (618) shopping festival increased by about 30% y-o-y, which was better than expected.
- The Group also explored other emerging e-commerce channels (such as Douyin (“抖音”)) to seize business opportunities and increase market share and made good progress in the development of other new sales channels (including online-to-offline (O2O) platform, community group-buying, etc), with sales accounting for >10.0% of the overall sales.
- In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin), actively optimize the data analysis of end customers, precisely allocate expenses and formulate related sales strategies, allowing the Group to make great strides towards its strategic goal of becoming a global top-tier supplier of daily products. In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide consumers with different customized products on each channel, and comprehensively improve the online and offline consumption experience so as to achieve optimal efficiency.
- By leveraging on the shopping festivals launched on the online platforms, the Group would attract the consumers with the new consumption models such as limited-edition merchandise, community group-buying, and livestream sales, thus increasing the Group's market share in the e-commerce and new retail channels in the future.

# Environmental Social & Governance



## Green and Low Carbon System

	1H2022	2021
Proportion of production companies with ISO 14001 certification	100%	100%
Percentage of paper production companies with FSC/CoC certification	100%	100%

Designated Product Certificate, from China Pollution Prevention Exhibition 2021



Chinese Enterprises Practicing Carbon Neutral Social Responsibility Initiative – Vice-Chairman Unit, from Carbon Neutrality Committee of China Energy Conservation Association



### In the first half of 2022, Hengan continued to:

- apply various energy-saving technologies and equipment to improve energy efficiency; built reclaimed water reuse system and final-stage effluent treatment system to reduce water consumption;
- implemented fully-covered solar roof in plants across the country; aimed to reduce, reuse, and recycle materials
- planned to establish a sustainable development platform for plastics, to study the 3R's and degradability (1D) of plastics so as to promote green and low-carbon development.



## Employment Management

	1H2022	2021
Total workforce	About 23,000	About 23,000
Total training hours	>140,000 hours	>230,000 hours

# Environmental Social & Governance



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## Health & Safety

Proportion of production companies with ISO 45001 certification

1H2022

100%

2021

100%

Lost hours due to work injury per person

0.46

2.31

Number and rate of work-related fatalities

0

0

We honored units that had outstanding performances in comprehensive safety management



We held the "Safe Production Month" event in June 2022



The Group has improved the safety management organisation mechanism, safety system and element standards, and enhanced work safety performance.

## Community Investment

Donations (RMB) including cash and in-kind donation for fighting COVID-19 and philanthropy

1H2022

36 mn

2021

23 mn

Volunteer hours

859

1,196

We donated RMB1,730,000 in kind to Guang 'an Women's Federation in January 2022



We donated materials valued RMB 600,000 to support Shanghai pandemic prevention and control





Outlook

# Market Outlook



Despite China's economy shows steady recovery, many uncertain factors such as the continued evolving condition of the epidemic situation and the macro environment still bring variables to China's economic growth.

High wood pulp prices will continue to exert pressure on the profitability of the Group in 2H2022. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials and other raw materials. Hengan is more resilient thanks to its solid strength and advantages in obtaining raw materials, extensive nationwide distribution and diversified product portfolio.



Always attach great importance to its brand image, and the upgrade of the overall brand image has been completed. Besides, set up a marketing department to carry out live streaming promotion and brand enhancement. In the future, the Group will continue to develop premium products, and allocate more resources to fully optimise the brand image.

As the e-commerce platform becomes an important sales channel, Hengan strives to expand the coverage of new sales channels and increase the proportion of e-commerce and new retail sales to meet the evolving consumption patterns. Hengan will allocate resources to improve the infrastructure and the efficiency of the supply chain to enhance the brand, such as cloudification of SAP system, striving to improve the quality of the system, business analysis and operational strategies. The group plans to carry out production capacity expansion and technological updates in the future, including upgrading consolidated plants in Fujian, new/enhanced tissue paper production capacity in Xiaogan, Hunan, Guangdong.



In order to continue to consolidate the Group's market leadership in tissue paper and hygiene products and meet domestic consumers' demand for high quality products, the Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), enhance its brand image, seize the opportunities in the "new retail" era, take long-termism as the general direction for future development to further scale its business, striving to becoming a "global top-tier supplier of daily products".



Business Review for the first half of 2022 and plans for the second half year



Hengan SAP Upgrade Projects Launching Conference



The Group participated in Wuhan consumer product expo

# Open Forum

