

2 0 2 3 ANNUAL RESULTS

Corporate Presentation

March 2024





Financial Highlights



Financial Highlights



Robust revenue and profit growth and solid financial position amid complex and volatile market environment

- Solid increase in core revenue and profit amid challenging market environment
- Leading market position in tissue and sanitary napkin products
- Continuous improvement in key working capital ratios
- Solid cash position and cash inflow from operations
- Continuous improvement in gearing ratio
- Fixed dividend payment to shareholders



	2023	2022
Net cash (RMB billion)	5.4	4.5
Net cash inflow from operations (RMB billion)	3.9	3.8
Gearing Ratio (%)	69.8	87.2

Working Ratios	2022	2023
AR (days)	48	42
Finished goods (days)	43	42



Total dividend per share



Priorities and Opportunities



Near Term

Sanitary Napkins:

Further solidate leading position by expanding its contribution and market share of upgrade and premium products

Tissue Paper:

Profitable growth driven by product upgrade and premiumization, and stable pricing strategy, market share gain

Disposable Diapers:

Revenue growth with brand enhancement and premiumization



Mid Term

 Implementation of Core Strategies and product premiumisation

> Focus on three core businesses, brand leadership and long-termism Enhance product mix and accelerate product premiumization

• Organisational Optimization Improve infrastructure and supply chain efficiency

Capacity Expansion

Strengthen market position with new production capacity and technological upgrades

Channels

Expansion in sales networks in the Mainland China market by omnichannel strategy





ESG

Responsible Governance
 Establish systematic
 governance over risk and
 compliance, business ethic

Green Operation

Reduce our environmental and carbon footprint in our own operations and value chain with regards to emissions, wastes, energy, water and natural resources

Empowering People Create an equal, inclusive, safe and harmonious workplace that facilitates the development of our employees while contribute to the social welfare

Financial Highlights



	2023	2022	Change
(RMB '000)	For the	year ended 31 Dece	ember
Revenue	23,767,936	22,615,878	5 .1%
*Revenue of core business segments (tissue, sanitary napkins and disposable diapers)	21,180,681	19,606,418	
Gross profit	8,010,688	7,689,499	4.2%
Operating Profit	3,977,931	2,869,154	0 38.6%
Profit attributable to shareholders	2,800,533	1,925,249	45.5 %
Earnings per share (RMB) – Basic – Diluted	2.415 2.415	1.657 1.657	 45.8% 45.8%
Dividend per share (RMB) – Interim – Final	0.7 0.7	0.7 0.7	Unchanged Unchanged

Revenue Analysis





By Business Segment	2023	2022	Cha	ange
(RMB '000)		For the year ended 31 December		
Tissue paper	13,748,172	12,248,011		12.2%
Sanitary napkins (incl. pantiliners)	6,178,438	6,156,060	0	0.4%
Disposable diapers	1,254,070	1,202,347	0	4.3%
Others	2,587,256	3,009,460	Ø	14.0%

Gross Profit Margin Overview



By Business Segment	2023	2022	2023 2H	2023 1H
(%)	For the year	ended 31 December		
Tissue paper	21.7%	20.7%	26.1%	17.7%
Sanitary napkins (incl. pantiliners)	63.8%	66.8%	66.0%	61.8%
Disposable diapers	38.1%	36.9%	40.0%	36.0%
Others	23.4%	19.7%	21.7%	25.4%
Overall	33.7%	34.0%	36.5%	31.0%

Major factors affecting overall gross profit margin

Margin remained stable in 2023 due to:

- Wood pulp price increased by more than 20.0% in 1H2023 compared to 1H2022.
- Increase in promotion expenses



- Decline in the price of wood pulp by more than 20.0% in 2H2023 compared to 1H2023.
- Increase in premium & upgraded product mix with high GP margin

Major Expenses



Selling & distribution costs and administrative expenses

- Selling & distribution costs and administrative expenses accounted for approx. 21.3% of total revenue (2022: 21.6%)
- Major expenses are as follows:

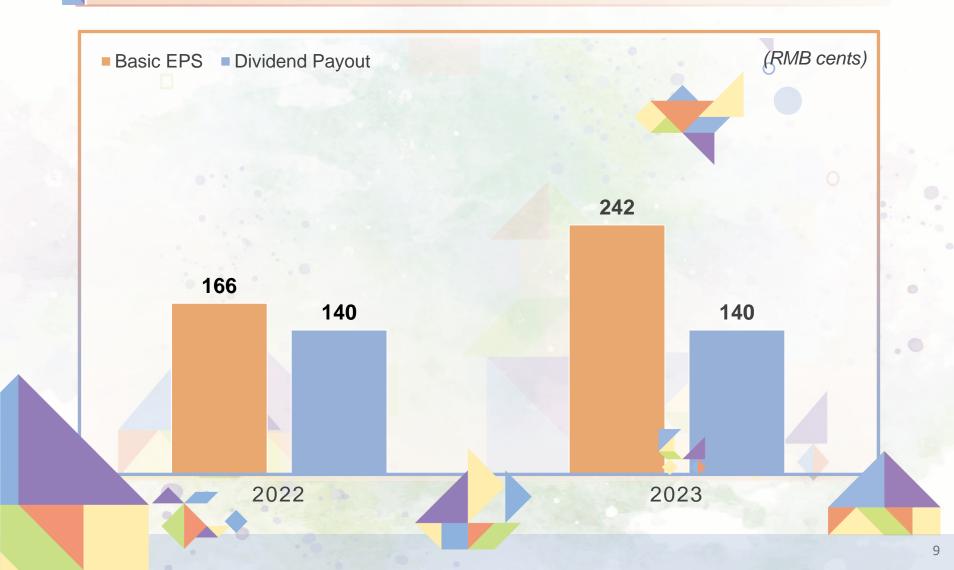
By Business Segment	2023	2022
(As % of revenue)		For the year ended 31 December
Marketing & advertising expenses	4.6%	4.7%
Staff costs (excluding labour costs)	4.2%	4.3%
Transportation expenses	4.9%	4.7%
Research & development	1.4%	1.6%

Basic EPS and DPS



Stable dividend payment to Shareholders:

2023 dividend per share of RMB1.4 per share (2022: RMB 1.4 per share)



Key Financial Indicators



2023	2022
31 December 2023	31 December 2022
19,628,406	21,563,284
14,237,625	17,029,952
1.4 times	1.4 times
69.8%	87.20%
(26.4%)	(23.2%)
42 days	43 days
42 days	48 days
66 days	67 days
	31 December 2023 19,628,406 14,237,625 1.4 times 69.8% (26.4%) 42 days 42 days



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Interest income: around RMB 969.0 mn (2022: RMB 867.5 mn)

- Partly included in other gains: about RMB696.5 mn (2022: RMB537.4 mn) interest income on bank deposits >3 months (short-term investments)
- Partly included in finance income: about RMB 272.5 mn (2022: RMB330.1 mn)

(Interest expense:)

 About RMB650.1 mn (2022: RMB465.4 mn)

Net Interest Income:

 Around RMB 318.9 mn (2022: RMB402.1 mn)





Included in other gains: a substantial narrowing of loss of about RMB 184.3 mn (2022: loss of RMB912.9 mn)

Mainly due to:

significant decline in Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company, which mainly caused the recognition of operating exchange loss last year

Included in finance costs: a gain of about RMB0.9 mn (2022: gain of RMB115.8 mn)



Government grants:

 About RMB549.6 mn (2022: RMB546.2 mn), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

 22.1% (2022: 31.2%), decrease mainly due to the decrease in exchange loss (which is non-deductible for tax purpose) during the year

Capex incurred:

 Around RMB1,843.9mn (2022: RMB1,327.2mn), mainly incurred for the new production plants and lines



Business Review

Q:MO 淳氧弱酸

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Q:MO 淳氣弱酸

Sanitary Napkins



- China has the world's largest feminine care products market, but the market competition is very fierce.
- Many domestic and foreign brands adopted aggressive sales strategies to tap into the mid-to-high-end market and young consumers.



- In 2023, despite fierce market competition and aggressive pricing and promotional strategies of other brands, sales of the Group's sanitary napkin business still recorded an increase of approx. 0.4% to approx. RMB6,178mn (2022: RMB6,156mn)
- The Group's sanitary napkin brand, "七度空间" continued to launch upgrade and premium products. The sales of "Pants-style" series increased over 73.4% y-o-y during the year. The newly launched "Heavenly Mountain Cotton Series" (天山絨棉系列), which uses rare and pure long staple cotton from snowy mountains, aim to meet the demand of today's customers for high-quality products, and their sales are expected to gradually increase.
- The Group adheres to a stable pricing strategy and prudent allocation of promotional expenses. Benefiting from brand premiumisation and the steady increase in the proportion of upgraded products, as well as the decline in the price of petrochemical raw materials in 2H2023, the GP margin of the sanitary napkin business stood at approx. 66.0% in 2H2023, representing an improvement from 61.8% in 1H2023, while the overall GP margin in 2023 was approx. 63.8% (2022: 66.8%). Driven by product upgrades and premiumisation, the GP margin is expected to continue to improve in 2024.
- The Group believes that the upgraded products of the 七度空間 series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group expand its market share and increase the revenue contribution of premium products. Driven by the increasing proportion of upgrade and premium products and the continuous growth of traditional sales channels, it is expected that the Group's sanitary napkin business in 2024 will maintain steady growth in its revenue, thereby promoting the Group's long-term development and consolidating its leading position.

Tissue Paper



Market overview

- The national economy and consumer market gradually recovered, but the external environment was still full of challenges.
- The Group focused on improving profitability and responded to the cutthroat price competition with stable prices and an omni-channel sales strategy, driving the continuous double-digit growth of tissue paper sales.



- The Group gained more market share by virtue of its strong capital and nationwide sales network. Backed by a strong brand and a diversified product portfolio, the Group adhered to a stable pricing strategy and effectively controlled sales promotions. In 2023, the revenue of the Group's tissue paper business surged approx. 12.2% to approx. RMB13.7bn (2022: RMB12.2bn), outperforming the industry's average growth rate and maintaining a leading market share. The Group will continue to upgrade its products and increase the penetration rate of premium products. It is expected that the revenue of the Group's tissue paper business will maintain rapid growth in 2024.
- In 1Q2023, the Group was still affected by the elevated price of wood pulp. However, in 2Q2023, the price of wood pulp started to come down. After the Group consumed its high-cost wood pulp inventory, the positive impact of the decline in the cost of wood pulp was reflected in the results of 2H2023. Although the Group had higher promotional expenses in 2H2023, it benefited from product upgrades and the increased proportion of high-margin products. The GP margin for 2H2023 improved significantly from 17.7% in 1H2023 to 26.1% (2H2022: 18.5%), while the GP margin for 2023 increased to approx. 21.7%, (2022: 20.7%). The Group expects that the GP margin of the tissue paper business will continue to improve in 2024.
- Driven by the improvement of national health awareness and the growing demand for consumption upgrades, the Group's upgraded and premium tissue paper products achieved outstanding sales. Among them, the sales of the "Cloudy Soft Skin" series recorded sales of >RMB1.30 billion, accounting for approx. 12.0% of the tissue paper sales. The wet wipes business has maintained strong growth in recent years, with sales for the year at approximately RMB931.1mn (2022: RMB842.4mn), recording a growth of nearly 10.5%, accounting for approx. 6.8% of the overall sales of the tissue paper business (2022: 6.9%).
- The Group actively responded to the fragmentation of channels and the efforts and resources invested in strategic deployment in the early years has entered the harvest period. The tissue paper business performed remarkably in e-commerce and new retail channels (including Retail Integrated, community group-buying, etc.), with a sales growth of approx. 26.1%, accounting for nearly 35.3% of the overall sales of tissue paper.

Disposable Diapers



Market overview

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



- In 2023, the proportion of sales of new retail channels and maternity sales channels accounting for approx. 52.8% and 16.6% of sales, respectively. Despite fierce market competition, benefitting from the enhanced brand competitiveness, the sales growth of the Group's premium product "Q MO" and the improvement in sales resulting from the rebranding of the "Anerle" (安儿乐) brand to "Sports-style" (运动型) series effectively offset the decline in sales from traditional channels and mid-to-low-end products. Sales of the flagship premium product "Q MO" maintained good growth. It recorded a year-on-year growth of nearly 21.8%, and its proportion further increased to about 36.4 %.
- On the other hand, benefitting from the growing domestic adult incontinence products market and the continuous increase in the penetration rate of the Group's adult disposable diapers, the Group's adult disposable diaper business recorded a growth of approx. 11.5% during the year, accounting for approx. 25.4% of the overall diaper sales.
- Therefore, the sales of the Group's disposable diaper business increased by approx. 4.3% to approx. RMB1,254mn (2022: RMB1,202mn), accounting for approx. 5.3% (2022: 5.3%) of the Group's overall revenue. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business are expected to maintain sales growth in 2024.
- For GP margin, the price decrease in petrochemical raw materials for disposable diapers in 2H2023 led to a decrease in costs of sales, coupled with the increase in the proportion of sales of the higher-margin "Q MO" products and premium adult disposable diapers helped increase the GP margin to >40.0% in 2H2023, which is a significant improvement from 36.0% in 1H2023. The GP margin of the diaper business in 2023 rose to approx. 38.1% (2022: 36.9%) and is expected to remain stable in 2024.
- The Group will invest more resources in the development of adult care products, so that the "ElderJoy" brand and its products can fully penetrate the domestic market and at the same time expand market share in Southeast Asia.

Other Income and Household Products



Market overview

• The Group has stepped up its efforts to develop the household products business to expand its market coverage.



- Regarding other income and household products, the Group's revenue for 2023 decreased by approx. 14.0% y-o-y to approx. RMB2,587mn (2022: RMB3,009mn). The decline was mainly due to the Group's preference to reserve raw materials for the manufacturing of products and ensure reasonable profits from its raw material trading business. As a result, revenue from raw material trading business dropped significantly by approx. 13.6% to approx. RMB1.4 bn (2022: approx. RMB1.6 bn)
- Revenue from the household products business was approx. RMB249.6mn (2022: RMB326.0 mn), representing a y-o-y decrease of approx. 23.4%, accounting for approx. 1.1% of the Group's revenue, which was mainly due to the decline in the export business of household products.
- In 2023, the Group expanded the product range of its brand, "Hearttex" (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will continue to take advantage of these overseas sales network to bring Hengan's high-quality products to overseas markets.

Other Income – Wang-Zheng





- The Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approx. 6.3% y-o-y to approx. RMB437.7 mn (2022: RMB411.7 mn), accounting for approx. 1.8% of the Group's overall sales (2022: approx. 1.8%).
- Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiberbased products, which include adult and baby disposable diapers, and tissue products, cotton products and processed papers. Its brands include "P Love" disposable adult diapers and "Carina" personal hygiene products.
- In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's tissue and adult disposable diapers products into the Southeast Asian market.
- In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch more good quality products under the Wang-Zheng brand and further increase its market share in Malaysia and Southeast Asia.



E-commerce and New Retail Channel Strategies



Market overview

- Online shopping market is expanding, the national online retail sales of physical goods reached RMB13.0 tn in 2023, representing an increase of 8.4%, of which the online retail sales of daily necessities increased by 7.1%.
- The Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities.



- During the year, the Group carried out higher quality product promotions for various brands in new channels, and its stable pricing strategy received positive responses from the market, thus further enhancing the Group's brand awareness and market share in online and other new retail channels.
- In 2023, the Group's e-commerce and new retail channels (including Retail Integrated and New Channel) maintained a robust development momentum and sales for the year soared over 17.7% to approx. RMB7.16 bn (2022: RMB6.1 bn), bringing the proportion of e-commerce sales up to approx. 30.1% (2022: 26.9%) of the Group's overall sales. During the year, new retail channels contributed approx. 35.3%, 26.5% and 52.8% of contribution to the sales of tissue paper business, sanitary napkin business, and disposable diaper business respectively. It is expected that the proportion of sales in new retail channels will be further increased in the future.
- In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin) and improve data analysis capabilities for end customers.
- To cater for the new consumer trends, the Group interacted with consumers through livestream sales and other community activities, and strengthen the connection with young consumers. The Group will continue to increase its market share in e-commerce and new retail channels to inject strong impetus for rapid growth in the future.

Environmental Social & Governance



Green and Low Carbon System	2023	2022
Proportion of production companies with ISO 14001 certification	100%	100%
Percentage of paper production companies with FSC/CoC certification	100%	100%
Health & Safety	2023	2022
Proportion of production companies with ISO 45001 certification	100%	100%
Number and rate of work-related fatalities	0	0
Occupational disease cases	0	0
Employee Development	2023	2022
Total number of full-time employees	23,000+	23,000+
Percentage of female employees	56%	58%
Percentage of employees joining the labour union	100%	100%
Number of management positions promoted	173	78
Total number of training hours	240,000+	260,000+



By the end of 2023, Hengan had implemented distributed photovoltaic power generation projects with the total capacity of 21MW.

Hengan donated 1.2 million sanitary pads and 210,000 diapers, in the earthquake affected areas in Gansu Province.





In the "Asian Corporate Governance" magazine's "Asian Excellence Enterprise Awards," Hengan has been awarded multiple honors for two consecutive years.

ESG rating and awards



ESG rating	2023	2022
MSCI ESG Rating	BBB	BB
S&P Global CSA Rating	47	46
FTSE ESG Rating	3.8	2.6
Hang Seng Sustainability Rating	A-	A-

Hengan was awarded the "Standard Chartered Corporate Achievement Awards 2023" Sustainable Corporate (Environmental) – Leadership Award.

Hengan's inclusion in the **FTSE4Good Index**.



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Global and rated as the "Industry Mover".

Hengan was selected in the first-ever **Sustainability** Yearbook 2023 (China Edition) released by S&P

> Hengan was honoured with **"2022 Forbes China Top 50 Sustainable Development Industrial Enterprises**"





Outlook

Market Outlook









plant in Xiaogan, Hunan has gradually commenced operation Leverage its leading research and development and production capabilities and excellent brand image, coupled with its extensive nationwide distribution and diversified product portfolio, still demonstrate strong resilience in a challenging operating environment, successfully seize the opportunity of industry consolidation, and further expanded market share.

With normal supply from wood pulp mills and stable logistics, the price of wood pulp is expected to remain stable at a level lower than the average costs in last year (2023), which will be beneficial to the Group's business operations in 2024.

Further optimise the brand image of its products through strategies such as product premiumisation, new packaging, and precise allocation of marketing resources. The Group will continue to enhance its product mix and accelerate product premiumisation, further develop online and offline sales channels and promote the joint development of multi-channels to expand its customer base.

Continue to optimise the organisational structure, strengthen the construction of young professional team, improve team efficiency, and allocate resources to improve infrastructure and enhance supply chain efficiency through the IBM Blockchain Platform (IBP) cloudification of the SAP system, and strive to improve the quality of the system, so as to effectively monitor operational data and improve operational visibility to formulate appropriate business strategies.

Actively implement the 3 core strategies, including "focus on main businesses", "brand leadership" and "long-termism", so as to lay a solid foundation for the sustainable development; focus on the development of the 3 core businesses, actively develop higher quality new products and expand into new markets, accelerate penetration into rural and other markets in the mainland China. Actively promote ESG development. The Group strives to become a "global top-tier supplier of daily products".

The Group plans to carry out production capacity expansion and technological upgrades in the future, including the establishment of a new upgraded sanitary napkin, disposable diapers, wet wipes plant in Neikeng, Fujian, and the expansion of tissue paper production capacity in Xiaogan, Hunan, and Yunfu, Guangdong. It is expected that the new production capacity will be put into operation successively in 2024.





Strong revenue growth momentum and continuously improved its current ratio, working capital ratios amid market competition

YOY change Image Image	
SG&A expenses (RMB '000) (4,832,922) (4,526,290) (4,888,813) (5,068,887) (1,920,055) (2,141,354) (2,56) % of core revenue 26.2% 26.3% 24.9% 23.9% 23.0% 22.3% 23.0% Working capital ratios – Account receivables 55 56 48 42 59 51	,054,710
(RMB '000) (4,832,922) (4,826,290) (4,888,813) (5,068,887) (1,920,055) (2,141,354) (2,56) % of core revenue 26.2% 26.3% 24.9% 23.9% 23.0% 22.3% 23 Working capital ratios 55 56 48 42 59 51	15%
Working capital ratios 55 56 48 42 59 51	564,705)
- Account receivables 55 56 48 42 59 51	23.2%
- Finished goods (days) 50 50 43 42 50 39	43 33
	1.26 785,657
Net cash generated 5,041,666 4,603,606 3,809,862 3,885,467 2,214,898 2,124,023 1,93	938,954
Gearing ratio (%) 107.3 95.7 87.2 69.8 122.6 116.5 1	119.1

*Net Cash: Total cash and bank balances, long-term bank deposits and restricted bank deposits less bank and other borrowings.



Open Forum

