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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1044)

Websites: <http://www.hengan.com>

<http://www.irasia.com/listcolhkl/hengan>

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

“Growing with You for a Better Life”

2021 ANNUAL RESULTS FINANCIAL SUMMARY

	2021	2020	Change
	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	20,790,144	22,374,001	(7.1%)
Operating Profit	4,543,591	6,392,388	(28.9%)
Profit attributable to shareholders	3,273,601	4,594,815	(28.8%)
Gross Profit margin (%)	37.4%	42.3%	
Earnings per share			
– Basic	RMB2.786	RMB3.864	(27.9%)
– Diluted	RMB2.786	RMB3.864	(27.9%)
Dividends			
– Interim (paid)	RMB1.00	RMB1.20	
– Final (proposed/paid)	RMB0.70	RMB1.30	
Accounts receivable turnover (days)	56	57	
Finished goods turnover (days)	50	49	
Current ratio (times)	1.2	1.4	
Rate of return (%)	17.2%	23.7%	

* For identification purposes only

RESULTS

The Board of Directors of Hengan International Group Company Limited (the “Company” or “Hengan International” or “恒安國際”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021, together with the comparative figures for the previous year, as follows:

Consolidated statement of profit or loss

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	2	20,790,144	22,374,001
Cost of goods sold		<u>(13,017,826)</u>	<u>(12,918,146)</u>
Gross profit		7,772,318	9,455,855
Selling and distribution costs		(3,153,718)	(3,468,931)
Administrative expenses		(1,372,575)	(1,363,991)
Net impairment losses on financial assets		(9,425)	(4,163)
Other income and other gains – net		<u>1,306,991</u>	<u>1,773,618</u>
Operating profit		<u>4,543,591</u>	<u>6,392,388</u>
Finance income		294,662	291,811
Finance costs		<u>(465,565)</u>	<u>(718,295)</u>
Finance costs – net		<u>(170,903)</u>	<u>(426,484)</u>
Share of net losses of associates		<u>(43,122)</u>	<u>(4,482)</u>
Profit before income tax	3	4,329,566	5,961,422
Income tax expense	4	<u>(1,039,362)</u>	<u>(1,352,980)</u>
Profit for the year		<u><u>3,290,204</u></u>	<u><u>4,608,442</u></u>
Profit attributable to:			
Shareholders of the Company		3,273,601	4,594,815
Non-controlling interests		<u>16,603</u>	<u>13,627</u>
		<u><u>3,290,204</u></u>	<u><u>4,608,442</u></u>
Earnings per share for profit attributable to shareholders of the Company			
– Basic	5	<u><u>RMB2.786</u></u>	<u><u>RMB3.864</u></u>
– Diluted	5	<u><u>RMB2.786</u></u>	<u><u>RMB3.864</u></u>

Consolidated statement of comprehensive income

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit for the year	3,290,204	4,608,442
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
– Currency translation differences	<u>(14,428)</u>	<u>(19,460)</u>
Total comprehensive income for the year	<u>3,275,776</u>	<u>4,588,982</u>
Attributable to:		
Shareholders of the Company	3,268,302	4,592,157
Non-controlling interests	<u>7,474</u>	<u>(3,175)</u>
Total comprehensive income for the year	<u>3,275,776</u>	<u>4,588,982</u>

Consolidated balance sheet

		As at 31 December	
		2021	2020
	Note	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		7,296,727	7,571,430
Right-of-use assets		979,055	970,171
Construction-in-progress		509,647	489,052
Investment properties		216,293	213,609
Intangible assets		724,778	755,444
Prepayments for non-current assets		468,652	327,989
Deferred income tax assets		544,762	435,853
Investments in associates		53,330	97,188
Financial assets at fair value through profit or loss		194,342	156,593
Long-term bank time deposits		4,035,960	3,482,147
		<u>15,023,546</u>	<u>14,499,476</u>
Current assets			
Inventories		4,162,477	4,310,918
Trade and bills receivables	7	2,970,182	3,375,149
Other receivables, prepayments and deposits		1,881,213	1,616,952
Current income tax recoverable		7,427	48,995
Derivative financial instruments		913	–
Restricted bank deposits		303	4,812
Financial assets at fair value through profit or loss		–	100,884
Cash and bank balances		18,246,687	20,483,739
		<u>27,269,202</u>	<u>29,941,449</u>
Total assets		<u><u>42,292,748</u></u>	<u><u>44,440,925</u></u>
Equity			
Equity attributable to shareholders of the Company			
Share capital		123,345	125,366
Other reserves		2,862,648	3,133,402
Retained earnings		16,051,047	16,152,622
		<u>19,037,040</u>	<u>19,411,390</u>
Non-controlling interests		<u>243,410</u>	<u>250,084</u>
Total equity		<u><u>19,280,450</u></u>	<u><u>19,661,474</u></u>

		As at 31 December	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	9	739,342	2,492,618
Lease liabilities		10,843	8,665
Deferred income tax liabilities		224,633	216,222
		<u>974,818</u>	<u>2,717,505</u>
Current liabilities			
Trade and bills payables	8	2,565,486	2,244,205
Other payables and accrued charges		1,455,267	1,310,282
Contract liabilities		225,627	134,847
Derivative financial instruments		5,028	15,643
Lease liabilities		17,607	11,110
Current income tax liabilities		280,712	2,177
Borrowings	9	17,487,753	18,343,682
		<u>22,037,480</u>	<u>22,061,946</u>
Total liabilities		<u>23,012,298</u>	<u>24,779,451</u>
Total equity and liabilities		<u>42,292,748</u>	<u>44,440,925</u>

1. Basis of preparation and principal accounting policies

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

(i) *New and amended standards adopted by the Group*

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

Standards and amendments	Effective for annual periods beginning on or after	
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 April 2021

(ii) *New and amended standards not yet adopted*

Certain new and amended standards and interpretations are effective for annual periods beginning after 1 January 2021 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Effective for annual periods beginning on or after	
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023

Standards and amendments	Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKFRS Practice Statement 2 Hong Kong Interpretation 5 (2020)	Disclosure of accounting policies 1 January 2023
	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause 1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture To be determined
Annual Improvements to HKFRS Standards 2018–2020	1 January 2022

2. Revenue and segment information

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

	2021				Group RMB'000
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	
Segment revenue	6,167,719	1,293,759	10,713,445	4,468,751	22,643,674
Inter-segment sales	(51,189)	(74,314)	(871,016)	(857,011)	(1,853,530)
Revenue of the Group	<u>6,116,530</u>	<u>1,219,445</u>	<u>9,842,429</u>	<u>3,611,740</u>	<u>20,790,144</u>
Segment profit	<u>2,712,686</u>	<u>77,951</u>	<u>422,558</u>	<u>43,245</u>	3,256,440
Unallocated costs					(19,840)
Other income and other gains – net					<u>1,306,991</u>
Operating profit					4,543,591
Finance income					294,662
Finance costs					(465,565)
Share of net losses of associates					<u>(43,122)</u>
Profit before income tax					4,329,566
Income tax expense					<u>(1,039,362)</u>
Profit for the year					3,290,204
Non-controlling interests					<u>(16,603)</u>
Profit attributable to shareholders of the Company					<u><u>3,273,601</u></u>

	2021				
	Sanitary napkins products <i>RMB'000</i>	Disposable diapers products <i>RMB'000</i>	Tissue paper products <i>RMB'000</i>	Others <i>RMB'000</i>	Group <i>RMB'000</i>
Other items for the year ended					
31 December 2021					
Additions to non-current assets	157,674	43,390	373,306	66,026	640,396
Depreciation of property, plant and equipment and investment properties	172,309	38,910	528,608	50,453	790,280
Depreciation of right-of-use assets	12,107	3,444	23,401	7,551	46,503
Amortisation charge	19,769	–	324	14,025	34,118
	<u>4,190,495</u>	<u>1,279,550</u>	<u>11,414,922</u>	<u>2,163,264</u>	19,048,231
As at 31 December 2021					
Segment assets	<u>4,190,495</u>	<u>1,279,550</u>	<u>11,414,922</u>	<u>2,163,264</u>	19,048,231
Deferred income tax assets					544,762
Current income tax recoverable					7,427
Investments in associates					53,330
Financial assets at fair value through profit and loss					194,342
Long-term time deposits					4,035,960
Cash and bank balances					18,246,687
Unallocated assets					<u>162,009</u>
Total assets					<u>42,292,748</u>
Segment liabilities	<u>1,027,890</u>	<u>272,345</u>	<u>2,434,935</u>	<u>453,465</u>	4,188,635
Deferred income tax liabilities					224,633
Current income tax liabilities					280,712
Borrowings					18,227,095
Unallocated liabilities					<u>91,223</u>
Total liabilities					<u>23,012,298</u>

	2020				
	Sanitary napkins products <i>RMB'000</i>	Disposable diapers products <i>RMB'000</i>	Tissue paper products <i>RMB'000</i>	Others <i>RMB'000</i>	Group <i>RMB'000</i>
Segment revenue	6,804,704	1,526,780	11,097,505	4,836,954	24,265,943
Inter-segment sales	(149,993)	(101,213)	(714,747)	(925,989)	(1,891,942)
Revenue of the Group	<u>6,654,711</u>	<u>1,425,567</u>	<u>10,382,758</u>	<u>3,910,965</u>	<u>22,374,001</u>
Segment profit	<u>3,215,281</u>	<u>119,363</u>	<u>1,040,685</u>	<u>266,831</u>	4,642,160
Unallocated costs					(23,390)
Other income and other gains – net					<u>1,773,618</u>
Operating profit					6,392,388
Finance income					291,811
Finance costs					(718,295)
Share of net losses of associates					<u>(4,482)</u>
Profit before income tax					5,961,422
Income tax expense					<u>(1,352,980)</u>
Profit for the year					4,608,442
Non-controlling interests					<u>(13,627)</u>
Profit attributable to shareholders of the Company					<u>4,594,815</u>
Other items for the year ended 31 December 2020					
Additions to non-current assets	132,102	74,070	294,611	85,868	586,651
Depreciation of property, plant and equipment and investment properties	167,642	37,590	505,606	54,100	764,938
Depreciation of right-of-use assets	10,667	3,162	18,568	8,014	40,411
Amortisation charge	<u>16,020</u>	<u>–</u>	<u>382</u>	<u>15,551</u>	<u>31,953</u>
As at 31 December 2020 (restated)					
Segment assets	<u>4,056,919</u>	<u>1,407,668</u>	<u>11,822,993</u>	<u>2,104,362</u>	19,391,942
Deferred income tax assets					435,821
Current income tax recoverable					48,995
Investments in associates					97,188
Financial assets at fair value through profit and loss					257,477
Long-term time deposits					3,482,147
Cash and bank balances					20,483,739
Unallocated assets					<u>243,616</u>
Total assets					<u>44,440,925</u>
Segment liabilities	<u>792,958</u>	<u>248,384</u>	<u>2,246,925</u>	<u>310,718</u>	3,598,985
Deferred income tax liabilities					216,222
Current income tax liabilities					2,177
Borrowings					20,836,300
Unallocated liabilities					<u>125,767</u>
Total liabilities					<u>24,779,451</u>

3. Profit before income tax

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Crediting		
Government grants income (<i>Note</i>)	477,502	605,056
Interest income from cash and cash equivalents	282,629	219,243
Income from long-term and short-term bank time deposits	679,024	917,090
Exchange gains from operating activities – net	109,152	249,214
Fair value gains on financial assets at fair value through profit and loss	41,908	–
Exchange gains from financing activities – net	12,033	72,568
Realised fair value gains on derivative financial instruments	15,449	6,891
Charging		
Depreciation of property, plant and equipment	783,973	758,897
Depreciation of right-of-use assets	46,503	40,411
Amortisation of intangible assets	34,118	31,953
Impairment charge on property, plant and equipment	–	18,675
Impairment charge on investment properties	–	6,568
Employee benefit expense, including Directors' emoluments	1,946,671	1,879,932
Marketing and advertising expenses	957,548	1,316,330
Repairs and maintenance expenses	151,343	155,979
Losses on disposal of property, plant and equipment	31,339	14,615
Utilities and various office expenses	731,600	773,016
Transportation and loading expenses	891,176	917,246
Short-term and low-value lease expenses	86,684	93,426
Net impairment losses on financial assets	9,425	4,163
Provision for inventories write-down	6,594	9,651
Share of net losses of associate	43,122	4,482
Unrealised fair value losses on derivative financial instruments	4,174	16,519
Interest expenses on borrowing after deducting interest expenses of RMB5,978,000 (2020: RMB10,092,000) capitalised in construction-in-progress	464,225	717,389

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

4. Income tax expense

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax		
– Current tax on profits for the year	931,197	1,350,340
– PRC withholding income tax	208,848	182,067
Deferred income tax, net	<u>(100,683)</u>	<u>(179,427)</u>
Income tax expense	<u><u>1,039,362</u></u>	<u><u>1,352,980</u></u>

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

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

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

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

5. Earnings per share

(a) Basic

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

	2021	2020
Profit attributable to shareholders of the Company (RMB'000)	<u>3,273,601</u>	<u>4,594,815</u>
Weighted average number of shares outstanding (thousands)	<u>1,174,893</u>	<u>1,189,149</u>
Basic earnings per share (RMB)	<u><u>2.786</u></u>	<u><u>3.864</u></u>

(b) Diluted

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

For the year ended 31 December 2021 and 2020, share options is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

6. Dividends

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interim, paid, RMB1.00 (2020: RMB1.20) per ordinary share (<i>Note</i>)	1,175,121	1,427,625
Final, proposed/paid, RMB0.70 (2020: RMB1.30) per ordinary share (<i>Note</i>)	<u>813,485</u>	<u>1,530,799</u>
	<u><u>1,988,606</u></u>	<u><u>2,958,424</u></u>

Note:

The dividends paid in 2021 amounted to RMB2,705,920,000 (2021 interim: RMB1.00 per share, 2020 final: RMB1.30 per share). The dividends paid in 2020 amounted to RMB2,914,734,000 (2020 interim: RMB1.20 per share, 2019 final: RMB1.25 per share).

A final dividend in respect of the year ended 31 December 2021 of RMB0.70 per share, amounting to a total dividend of RMB813,485,000, was proposed by the Board of Directors at a meeting held on 22 March 2022, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 20 May 2022. These financial statements do not reflect this dividend payable.

Dividends payable to shareholders will be paid in HK\$. The exchange rate adopted by the Company for its payable is the middle rate of HK\$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK\$0.860152 per share using the exchange rate of HK\$ to RMB on 21 March 2022, which is 0.81381.

7. Trade and bills receivables

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2021 and 2020, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 30 days	1,178,212	1,557,041
31–180 days	1,615,586	1,687,797
181–365 days	137,069	106,096
Over 365 days	<u>97,335</u>	<u>91,379</u>
	3,028,202	3,442,313
Less: provision for impairment	<u>(58,020)</u>	<u>(67,164)</u>
Trade and bills receivables – net	<u><u>2,970,182</u></u>	<u><u>3,375,149</u></u>

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

8. Trade and bills payables

At 31 December 2021 and 2020, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 30 days	1,638,196	1,209,694
31–180 days	912,070	975,847
181–365 days	3,550	22,623
Over 365 days	<u>11,670</u>	<u>36,041</u>
	2,565,486	2,244,205
	<u><u>2,565,486</u></u>	<u><u>2,244,205</u></u>

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

9. Borrowings

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current		
Long-term bank loans – unsecured	650,305	2,384,705
Long-term bank loans – secured	4,237	6,473
Other borrowings – unsecured	84,800	101,440
	<u>739,342</u>	<u>2,492,618</u>
Current		
Short-term bank loans – unsecured	15,206,140	17,031,684
Current portion of long-term bank loans – unsecured	1,991,500	3,000
Corporate bonds (a)	–	998,938
Current portion of other borrowings – unsecured	8,320	190,000
Trust receipt bank loans	279,919	118,185
Current portion of long-term bank loans – secured	1,874	1,875
	<u>17,487,753</u>	<u>18,343,682</u>
Total borrowings	<u>18,227,095</u>	<u>20,836,300</u>

(a) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd (“Hengan China Investment”), a wholly-owned subsidiary of the Group issued a corporate bonds at a par value of RMB1,000,000,000, which was denominated in RMB with a fixed interest of 3.30% per annum. The bond matured on September 2021.

(b) Super short-term commercial papers and short-term commercial paper

During 2021, following super short-term commercial papers and short-term commercial paper were issued and matured:

	Interest rate	Expiration term	Mature date	Amount <i>RMB'000</i>
21恒安國際SCP001	3.08%	181 days	2021-09-23	1,000,000
21恒安國際SCP002	3.00%	180 days	2021-10-12	1,000,000
21恒安國際SCP003	2.90%	180 days	2021-10-23	1,000,000
21恒安國際CP001	2.90%	182 days	2021-11-23	1,000,000

BUSINESS REVIEW

In 2021, the global volatile coronavirus pandemic situation, coupled with supply chain bottlenecks, brought continuous challenges to the global economic recovery. Last year, China's economy continued to recover steadily. China's gross domestic product ("GDP") grew by 8.1% year-on-year, which exceeded the 6% target set by the government and reached RMB114.4 trillion. Moreover, the total retail sales from the daily necessities category increased by 14.4% year-on-year. However, the growth of domestic per capita income was higher than that of per capita consumption during the year, reflecting consumers' cautious sentiment, they were particularly sensitive to the price of daily necessities. As a result of that, domestic and foreign companies were under pressure to step up promotional pricing efforts during the year. In addition, the protracted pandemic continued to affect global supply chains and trade, slowing domestic and global economic recovery and leading to a challenging operating environment for tissue paper and hygiene products companies.

The pandemic has accelerated the development of new consumption patterns, market penetration of domestic e-commerce and new retail channels has continued to increase. However, the fragmentation of sales channels has dealt a huge blow to sales through traditional channels. Coupled with the intensified competition in the industry during the year, different brands and new retail channels operators in the industry actively seized market share through sales promotion. Therefore, for the year ended 31 December 2021, the Group's revenue fell 7.1% to approximately RMB20,790,144,000 (2020: RMB22,374,001,000) as compared to last year.

The Group actively seized development opportunities arising from the new consumption patterns, vigorously developed its e-commerce business and expanded into the new retail markets. During the year, the Group further increased its proportion in e-commerce sales (including Retail Integrated ("零售通") and New Channel ("新通路")) to approximately 23.1% (2020: 19.1%), and made good progress in the development of new retail sales channels (including online-to-offline (O2O) platform, community group-buying etc.) with sales accounted for more than 10% of the overall sales. In addition, the Group grasped the domestic consumer demand for consumption upgrade, and continued to develop premium products and optimize product mix. Among them, the premium sanitary napkin series "Space 7" was well-received by the market, and the premium tissue paper series "Cloudy Soft Skin" (雲感柔膚) achieved strong sales momentum during the year, resulting in a significant increase in its sales contribution, and the sales of premium disposable diapers "Q • MO" also achieved robust growth.

During the year under review, tissue paper companies increased promotional efforts, which further intensified industry competition. Despite the negative impact of the wood pulp price surge was evident in the second half of the year, in order to stay competitive in the market, the Group has not passed on the cost pressure to consumers, which hampered the profit of the Group's tissue paper business. In 2021, the Group's overall gross profit fell about 17.8% to approximately RMB7,772,318,000 (2020: RMB9,455,855,000), while the overall gross profit margin dropped to 37.4% (2020: 42.3%). Given that the price of wood pulp is still at a high level, together with the Group's relatively low cost of wood pulp in the first half of 2021, it is expected that the gross profit margin will remain under pressure in 2022.

During the year, operating profit fell 28.9% to RMB4,543,591,000 (2020: RMB6,392,388,000) as the high cost of wood pulp weighed on the profitability of tissue paper business. In addition, the pressure on the Group's profits led to a reduction in the Group's government grants calculated by tax paid (nearly RMB128 million) during the year, coupled with the relatively stable exchange rate of Renminbi against the US dollar during the year resulted in a significant decrease in foreign exchange gains compared to last year. Profit attributable to shareholders of the Company was approximately RMB3,273,601,000 (2020: RMB4,594,815,000), representing a year-on-year decrease of approximately 28.8%. Basic earnings per share was approximately RMB2.786 (2020: RMB3.864).

The Board of Directors declared a final dividend of RMB0.70 per share for the year ended 31 December 2021 (2020: RMB1.30), together with the interim dividend of RMB1.00 per share (2020 first half: RMB1.20) already paid, total dividend for the year amounted to RMB1.70 per share (2020: RMB2.50 per share), amounted to RMB1,988,606,000 (2020: RMB2,958,424,000). Together with the Group's repurchase of a total of 24.22 million shares (2020: 3.4 million shares) at a total consideration of approximately RMB937.0 million (2020: RMB154.0 million) during the year, the Group returned a total of approximately RMB2.93 billion to shareholders during the year, accounting for the Company's profit attributable to shareholders of approximately 89.4% (2020: 67.7%), which was calculated on the basis of the total amounts of proposed dividends and repurchase of shares as a percentage of profit attributable to shareholders of the Company.

Sanitary Napkin

China's feminine care products market is immense, ranking the first in the world. However, the market is highly saturated, and competition is fierce. During the year, many domestic and foreign brands adopted very aggressive promotion strategies in an attempt to seize the market share of mid-to-high-end cities and the youth consumption. In response to the intensifying competition, Hengan adhered to a rational stable pricing strategy to maintain its brand image and developed its sanitary napkin business with product upgrades and premium products to consolidate its market leadership in the mid to high end segment. Leveraged on the high-quality and vibrant image of the Group's premium product "Space 7", it has been well-received by consumers, thereby driving the sales of the overall sanitary napkin business.

The pandemic has spawned new consumption patterns and accelerated the fragmentation of sales channels. E-commerce platforms and other emerging retail channels (including O2O platform and community group-buying) are burgeoning. To align with new consumption trends, the Group actively expanded emerging channels to increase the sales and market share of the sanitary napkin business. While developing new retail channels during the year, the Group inevitably adopted concessionary measures, which exerted pressure on the sales of sanitary napkins in traditional channels in the short term. However, the Group believes that the overall revenue of the sanitary napkin business will be significantly improved in the long run due to the successful reform of sales channels, and the market share will be further increased.

During the year, as sales channels became more fragmented and competitors adopted aggressive pricing strategies to seize market share, sales of the Group's sanitary napkin business recorded a decline of approximately 8.1% to approximately RMB6,116,530,000 (2020: RMB6,654,711,000) in 2021, accounting for nearly 29.4% (2020: 29.7%).

Notwithstanding the market competition pressure, the Group stayed committed to a rational and stable pricing strategy, and the gross profit margin of the sanitary napkin business remained generally stable at approximately 70.5%.

The Group's sanitary napkin brand, 七度空間 has always been a hot-selling product in Mainland China and has long been a market leader by means of sales volume and market share in the domestic market. Launched in 2020, the premium product "Space 7" which aimed at the mature white-collar market continued to achieve positive sales development during the year. The well-loved "Space 7" continued to help the Group to steadily develop the premium market and gradually increase the proportion of the premium products. The Group's "Space 7" has signed young female artists with positive image as brand ambassadors, thereby injecting girlishness and vitality into the brand. With the brand new theme of "seven degrees of great power captured in a pure girlish heart" (大國七度，存淨少女心), brand ambassador including actress Liu Haocun further rejuvenated the brand and attracted young consumers. The Group believes that the sales of "Space 7" will continue to grow steadily in the future and become a major business growth point, helping the Group expand its share in the sanitary napkin market and gradually increase the proportion of the premium products. In addition, the Group will continue to actively expand new retail channels and increase the sales proportion of new retail channels; the Group will also develop exclusive products for new retail channels and adopt a stable pricing strategy, so as to support the Group's long-term development and consolidate the Group's leading position in the market.

Regarding other feminine care products, the Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, capture growth opportunities brought by consumption upgrade and actively explore opportunities to introduce the Group's sanitary napkin products to overseas markets.

Tissue Paper

The pandemic situation was volatile and national health awareness remained at a high level. However, as consumers were no longer worried about the shortage of tissue paper, consumer sentiment turned more cautious and consumers were more sensitive to prices. During the year, despite the increase in the cost of wood pulp, many tissue paper companies increased promotional efforts and even reduced prices in order to seize market share, resulting in more intense price competition during the peak season in the fourth quarter. Nonetheless, the tissue paper industry is undergoing a consolidation phase in which the weak will be eliminated and the strong will remain. Since small and medium-sized tissue companies are not be able to pass on the rising costs to consumers, it will be very difficult to maintain long-term price reductions and promotions under the pressure of high costs. In this challenging market environment, Hengan leveraged its scale advantage, strong brand competitiveness and diversified product portfolio to capture development opportunities and successfully seized market share in the second half of the year. Underpinned by the robust sales of the premium “Cloudy Soft Skin” series and wet wipes tissue products, the Group’s overall tissue paper sales achieved a contrarian growth in the second half of the year, effectively narrowing the decline in the sales of the tissue paper business for the full year. In 2021, the revenue of the Group’s tissue paper business decreased by approximately 5.2% to RMB9,842,429,000 (2020: RMB10,382,758,000), accounting for approximately 47.3% (2020: 46.4%) of the Group’s overall revenue.

In the first half of the year, the price hike in wood pulp did not have a significant impact on the Group as the Group still held low-cost wood pulp inventory for most of the time. However, as the Group’s low-cost wood pulp inventory was exhausted, the cost pressure of soaring wood pulp prices was fully reflected in the cost of sales in the second half of the year, coupled with the Group’s promotional expenses during the year to maintain market competitiveness, the gross profit margin in 2021 dropped to 26.4% (2020: 33.5%).

If excluding the factor relating to the significant decline in the sales of the jumbo roll (raw paper) business during the year, the sales of the Group’s core tissue brand “Hearttex” in 2021 was recorded at a similar level as compared to 2020 and its sales volume increased by close to the mid-single digit year-on-year.

Against the backdrop of the pandemic, the demand for tissue paper products continued to be strong, and the Group's premium tissue paper products were well-received by consumers. Among them, the sales of the "Cloudy Soft Skin" series performed well. It is made with the Group's original cloud-like three-dimensional embossing technology to form air cushions, providing enjoyable user experience to its customers with cotton soft skin-like tissue paper. The Group has also obtained a national design patent on its unique embossing technology. The product is safe and does not contain any chemical adhesives. It was selected as the recommended tissue product at the World Environmental Conference. In terms of wet wipes business, although it recorded a revenue decline in the first half of the year due to a high comparison base, thanks to the popular upgraded wet wipes, the Group continued to expand its market share in domestic wet wipes market and returned to double-digit growth in the second half of the year, maintaining its leading position in the wet wipes market. As a result, the sales of wet wipes business for the full year was approximately RMB735,612,000 (2020: RMB733,192,000), accounting for approximately 7.5% of the sales in the tissue paper business (2020: 7.1%).

As the living standards of people continues to improve and health awareness remains at a high level, the penetration rate of tissue paper in Mainland China is still far lower than that of other developed countries, there is still great potential for growth in the overall tissue paper market. In the face of the increasingly fierce market competition, the Group will continue to develop more high-quality products in accordance with market demand, seize the business opportunities of domestic tissue paper market, strive to expand its market share and strengthen the Group's leading position in the tissue paper market. The Group maintained its production capacity at approximately 1.42 million tons during the year. The Group will increase capital expenditure to purchase new production lines and improve production efficiency in the coming year to actively respond to the future market growth potential and the market demand for high-quality products.

Disposable Diapers

Against the background of consumption upgrading and ageing population, there is still some room for growth in the domestic disposable diaper market. With the rising national purchasing power and the change of parenting concept, the baby disposable diaper market has sustained a growth momentum in recent years. It is predicted that the market size of the domestic baby disposable diaper will grow to about RMB63 billion in 2023, an increase of 13.10% over 2022. Underpinned by the domestic ageing population and the improvement of citizens' living standards, the Group believes that there are ample opportunities in the overall diaper market.

In an effort to meet consumers' growing demand for product quality and safety, the Group actively developed and upgraded a series of quality baby and adult care products. During the year, the Group's upgraded premium "Q • MO" baby disposable diapers performed remarkably, with sales jumped approximately 18.6% year-on-year, and its proportion further increased to about 26.2%. In addition, the Group effectively seized the growth opportunities of the adult incontinence products market in China. Benefiting from the increase in the penetration rate of domestic adult disposable diapers and the satisfactory export sales of the products, the market penetration rate of "ElderJoy" (安而康) continued to increase, and the sales of the Group's adult disposable diapers business maintained positive growth during the year, accounting for approximately 20.8% of the overall sales of the disposable diaper business.

In 2021, the Group strengthened the development of e-commerce and maternal sales channels, and achieved satisfactory sales performance. The proportion of sales of disposable diapers through e-commerce and maternal channels increased to approximately 50% and over 14.5%, respectively. However, as the sales channels of the Group's disposable diaper market have become more diverse, the sales in traditional channel have accelerated decline by more than about 20% and offset the sales growth of the Group's disposable diaper premium. On top of that, other brands adopted more aggressive promotion strategies to seize market share, market competition has become more intense, which resulted in a drop in the sales of the Group's disposable diaper business by about 14.5% to approximately RMB1,219,445,000 (2020: RMB1,425,567,000), accounting for approximately 5.9% of the Group's overall revenue (2020: 6.4%).

In terms of gross profit margin, despite the increase in the sales and proportion of premium products, the tight supply of superabsorbent polymer, a raw material used in the manufacturing of disposable diapers during the year has led to cost escalation and the additional promotional cost incurred relating to the clearance of the mid-end diaper products, thus, the gross profit margin of the disposable diaper segment dropped to approximately 37.7% (2020: 39.6%).

During the year, the Group continued to seize opportunities brought by consumption upgrade to further develop the premium product market and improve product quality. The "Q • MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very well-loved by the market. The Group will continue to optimise "Q • MO" products to instil growth momentum into the Group's future development. In addition, as the nation puts more emphasis on the development of the elderly care industry, there will be ample room for development in the field of domestic adult care. The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the "ElderJoy" and "Banitore" (便利妥) brands and increasing its market share in Southeast Asia at the same time.

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

Other Income and Household Products

Regarding other income and household products, it mainly includes revenues from the raw material trading business, household products business, Wang-Zheng Group in Malaysia and medical related products and its revenue decreased by approximately 7.7% year-on-year to approximately RMB3,611,740,000 (2020: RMB3,910,965,000), which was mainly attributed to the decline in demand for surgical masks in view of the stabilisation of the pandemic and the decline in sales of overseas business, including household business and Wang-Zheng Group business, affected by the cities' lockdown due to the pandemic.

During the year, the revenue from the raw material trading business remained stable at approximately RMB2.5 billion, while the sales of surgical masks fell on lower demand amid stabilising pandemic and pharmacare products recorded a revenue contribution of about RMB108,065,000 (2020: RMB326,141,000). Affected by the pandemic leading to cities' lockdown, the revenue from Wang-Zheng Group during the year decreased by approximately 11.8% year-on-year to approximately RMB351,553,000 (2020: RMB398,384,000).

Revenue from the Group's household products segment was approximately RMB314,614,000 (2020: RMB400,232,000), representing a year-on-year decrease of approximately 21.4%, accounting for 1.5% of the Group's revenue (2020: 1.8%), which was mainly attributed to the decline in exports of household products due to the pandemic. Included in the household products revenue, the revenue from Sunway Kordis was approximately RMB205,510,000 (2020: RMB227,265,000).

In 2021, the Group greatly expanded the product range of its brand, "Hearttex" (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will seek to leverage these overseas sales network to bring Hengan's products to overseas market.

Looking ahead, the Group believes that the growth potential in the business of household products is immense. The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness.

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 37 countries and regions, with 60 direct partnerships with major clients or distributors. Turnover of overseas channel (including Wang-Zhang Group business) for the full year was approximately RMB1,709,260,000 (2020: RMB2,166,847,000), accounting for approximately 8.2% of the Group's overall sales (2020: 9.7%).

The Group's Wang-Zhang Group business in Malaysia was affected by the pandemic and recorded a turnover of approximately RMB351,553,000 (2020: RMB398,384,000) for the full year, accounting for approximately 1.7% of the Group's overall sales (2020: 1.8%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include "Dry Pro" disposable diapers and "Carina" personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult disposable diapers into the Southeast Asian market.

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

On the other hand, subsequent to the Supreme Administrative Court's decision to reject the environmental permits for Finnulp in December 2019, the Group has assessed and made a provision for impairment of approximately RMB43.0 million in relation to the investment during the year in view of the uncertainty of the outlook of the investment.

E-commerce and New Retail Channel Strategies

Online shopping has been growing rapidly under the pandemic and has become the key growth driver in the domestic consumption market. In 2021, the online retail sales of physical goods reached RMB10 trillion with an increase of 12.0%, demonstrating a huge potential in the online market. New shopping channels (including O2O platform and community group-buying) and mainstream e-commerce platforms which complement each other are thriving together. Online shopping has become part of the daily life of domestic consumers. The Group seized the business opportunities brought by new trends and strived to expand e-commerce and other new retail channels. Its products have been launched on various e-commerce platforms and new shopping channels. At the same time, it actively integrated online and offline channels to provide consumers with a seamless omni-channel consumer experience.

In 2021, e-commerce development maintained a strong momentum and the sales of the Group's e-commerce channels (including Retail Integrated and New Channel) soared over 10% to approximately RMB4.8 billion (2020: RMB4.3 billion), accounting for about 23.1% of the Group's overall sales (2020: 19.1%).

During the year, the Group stepped up its efforts to develop other new channels (including O2O platforms, community group-buying, etc.) and achieved remarkable results, with sales revenue exceeding RMB2 billion, accounting for approximately 10% of the Group's overall sales. During the year, the Group participated in a number of live streaming sales activities on e-commerce platform, TikTok, which effectively enhanced its brand influence. The Group leveraged live streaming sales to directly interact with consumers to strengthen the emotional connection between the Group's brands and consumers. The Group set up live streaming rooms for its tissue paper brand "Hearttex" and sanitary napkin brand "七度空間" in factories to carry out live streaming, which not only effectively enhanced consumers' confidence in the brand, but also drove sales growth through in-depth expansion of online consumer groups. In addition, the live streaming of "Hearttex" brand ambassador Wang Linkai and TikTok influencer Rainbow Couple (彩虹夫婦) also brought robust sales performance. During the year, the Group's "Hearttex" brand and "七度空間" brand achieved leading market shares in several major new retail channels, including TikTok.

In the future, the Group will actively analyse the data of end customers and use such data to precisely allocate cost in devising relevant sales strategies, so that the Group will achieve its strategic goal of becoming the "International Top Household Daily Necessities Corporation". 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 strive to develop new retail channels and consolidate sales through traditional channels.

The Group launched a differentiated product portfolio based on the consumption characteristics of customers on e-commerce platforms and new retail channels, hoping to bring speciality products and stable pricing into the new retail market so as to minimise impact on sales and profits, and reduce the impact on other channels, while maintaining its competitiveness. In view of catering the new consumer trends, the Group will continue to focus on the needs of consumers. Capitalising on the new technologies and big data, the Group will increase resources in developing e-commerce and new retail channels. 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 sector while grasping the opportunities brought by the digital economy to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize the opportunities arising from the post-epidemic economic recovery, put forward effective sales strategies and conduct end-consumer data analysis, continue precise positioning and optimise the product portfolio to bring satisfactory return for shareholders. Due to the Group's increased investment in brand promotion in the second half of the year, the Group's selling and administrative expenses for the year only slightly decreased by 6.3% year-on-year to approximately RMB4,526,293,000. Since the decline in overall revenue was greater than the decrease in expenses, the proportion of the Group's selling and administrative expenses to total revenue for the year slightly increased to approximately 21.8% (2020: 21.6%). The Group believes that the overall revenue is expected to resume growth in the coming year, together with the effective sales and promotion strategies, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in U.S. dollars. Due to the appreciation of Renminbi in 2020, the Group recorded a huge operating exchange gain. However, the exchange rate of Renminbi against the U.S. dollar recorded only a slight increase in 2021. Therefore, the Group's operating exchange gain fell significantly to approximately RMB109,152,000 (2020: RMB249,214,000).

As at 31 December 2021, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2021, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB22,282,950,000 (31 December 2020: RMB23,970,698,000); domestic corporate bonds amounted to zero (31 December 2020: RMB998,938,000); and bank borrowings and other borrowings amounted to approximately RMB18,227,095,000 (31 December 2020: RMB19,837,362,000).

In December 2019, the Group successfully registered for the proposed issue of RMB3.0 billion super short-term commercial papers. From March to April 2021, the Group issued super short-term commercial papers in three batches of RMB3.0 billion in total, the coupon rates are between 2.90% to 3.08% per annum. The three batches of super short-term commercial papers mature in 180 to 181 days from the respective issue date.

In June 2020, the Group also successfully registered for the proposed issue of short-term commercial papers of RMB3.0 billion. In May 2021, the Group has finished the issue of RMB1.0 billion first-term commercial papers, the coupon rate is 2.90% and the commercial papers will mature in 182 days from the issue date. During the year, the Group has completed the repayment of the above super-short-term and short-term commercial papers with a total value of RMB4.0 billion.

In addition, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion in December 2021.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 3.70% (2020: from 0.54% to 4.30%).

As at 31 December 2021, the Company made appropriate use of internal cash to repay all super short-term and short-term commercial papers, therefore the Group's gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) significantly lowered to approximately 95.7% (31 December 2020: 107.3%), while the net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 21.3% (31 December 2020: negative 16.1%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position.

During the year, the Group's capital expenditure was approximately RMB640,396,000 (2020: RMB586,651,000). As at 31 December 2021, the Group had no material contingent liabilities.

Share Option Scheme

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

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

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

Latest Awards

In 2021, awards and honours won by the Group were as follows:

Awards/Honours	Organisation
National Advanced Individual of Private Economy in the Fight Against COVID19	United Front Work Department, Ministry of Industry and Information, State Administration for Market Regulation, All-China Federation of Industry and Commerce
China Parenting Network – Product Choice of Mothers “Annual Popularity Award of Disposable Diapers” 2020	2020 China Parenting Network
Annual Best Performance Award in Disposable Diaper Category	myguanचा.com

Awards/Honours	Organisation
Outstanding Panda Bonds Issuer Outstanding Anti-Epidemic Financial Institution Outstanding Anti-Epidemic Management Team Outstanding Anti-Epidemic Individual in Financials	Shanghai Clearing House
Annual Meritorious Service Award (Private Enterprise category) 2016–2020	Quanzhou Government Office, Quanzhou People’s Government
Top 500 Chinese Listed Enterprises by Revenue 2020	Eastmoney Research centre
JD 618 Top Ten Emerging Market Brand Award 2021	JD.com
“Highest Ethical Standards and Best Conduct of Business Practices” 5 Star level Safe Enterprise 2020	Jinjiang Leading Group for Safety and Development
Top 10 Brands rated by Chinese Consumers	“Asia Brand Footprint 2021” report by Kantar Consumer Index
Excellent Private Enterprise in Fujian Province	People’s Government of Fujian Province
Best Managed Chinese Companies	Deloitte China
All-Asia Executive Team 2021 rankings: Most Honoured Company: Hengan International, Best IR Programs, Best ESG, Best CEO (Mr. Hui Lin Chit) and Best CFO (Mr. Li Wai Leung) in consumer staples sector	Institutional Investor (Magazine)

Products and Raw Materials Research and Development

Adhering to the “consumer-oriented” market principle, Hengan has stayed committed to its corporate vision of becoming the “International’s Top Household Daily Necessities Corporation” through sustainable innovation and provision of high-quality products and services”. The Group will vigorously upgrade its products portfolio, facilitate the long-term and sustainable business development and provide the public with high-quality personal and household hygiene products.

In response to consumers’ pursuit of products whose manufacturing process and ingredients support environmental protection and sustainable development, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environment-friendly production technologies.

Human Resources and Management

During the year, the Group effectively enhanced the efficiency of human resources. Implemented a more scientific and reasonable ‘target remuneration’ system, link the salary system with the staff job responsibilities and task goals, thus stimulate the staff enthusiasm for work, and improve work efficiency. As at 31 December 2021, the Group employed approximately 23,000 staff members. The Group’s remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group’s financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

Corporate Social Responsibility

Taking environmental and social sustainability as its responsibility, Hengan continues to strengthen corporate ESG management, pays attention to quality innovation, environmental protection, energy conservation and emission reduction, talent training, safety and health, and philanthropy, adheres to sustainable development, thus laying a solid foundation for achieving 100 billion in 100 years.

In order to improve ESG transparency and convey the concept of and practice corporate sustainable development, Hengan actively responded to domestic and foreign ESG ratings, and its rating performance steadily improved year by year. Among them, the Group’s FTSE Russell ESG rating and the S&P Dow Jones Indices ESG rating are both higher than the industry average.

Philanthropy

As a leading brand of household products in China, Hengan continues to promote the high-quality development of corporate social responsibility and public welfare undertakings, and assumes its own responsibility. During the combat against the epidemic in 2021, the Group responded rapidly when the epidemic resurged, and supported the national anti-epidemic work. The Group donated adult disposable diapers, sanitary napkins, protective suits, medical masks, hand sanitisers and other items to front-line medical staff and provided anti-epidemic materials for front-line workers in cities. In response to the heavy rainfall in Henan, the Group donated a total of RMB10 million worth of products including sanitary napkins, tissue paper, wet wipes and disposable diapers to the disaster-stricken areas in Henan. The Group also cares about women's health and education. It donated RMB10 million in cash and materials to the "Spring Blossom Project", and donated hygiene products with a total value of over RMB2 million to approximately 3,000 impoverished women in Jinjiang City, Fujian Province. In 2021, the Group was honoured with the "Responsibility Gold Award 2021" at the Social Responsibility Conference, while Executive Director of the Group, Mr. Hui Ching Lau was honoured with the "Most Influential Individual 2021"; the Group also received the "Philanthropy Promotion Award 2021", etc.

Environmental Protection and Carbon Reduction

Hengan has always been practising the concept of green, low-carbon, and sustainable development, integrating sustainable development into daily operations and production and contributing to the realisation of the "30 • 60" dual carbon goals and the promotion of green and low-carbon circular development. In 2021, Hengan's greenhouse gas (GHG) emission intensity was 0.65tCO₂e/revenue in RMB10,000; the energy consumption per unit product of the papermaking sector of the Group was 0.32tonnes coal, far lower than the advanced value standard of 420kg coal/ton of the Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825–2015); more than 99% of the wastewater from paper production was recycled. The water consumption per unit of the paper making sector of the Group was 5.2tonnes, much 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".

On 8 December 2021, the Group was awarded the industry's first vice-chairman unit of the Carbon Neutrality Committee of China Energy Conservation Association, actively participating in the initiation of Chinese corporate commitment to social responsibility and carbon neutrality with concrete actions.

Hengan promotes value chain management for sustainable development. It continues to promote responsible wood pulp procurement and work hand-in-hand with suppliers to promote the sustainable development of the wood pulp supply chain. In 2021, six paper production companies under Hengan received the Forest Stewardship Council (FSC)/Chain of Custody (CoC) certification.

Talent Development

The Group earnestly protects the rights and interests of employees, provides employees with diversified training programmes, comprehensive remuneration and benefits and promotion systems, achieving a win-win situation between corporate value and personal value. Hengan actively carries out the principle of equal employment and shows no discrimination towards employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc.

The Group established “Hengan Management School” to carry out all-round and staged skills and competence training for employees at all levels; established an internal competition model to open up management promotion channels, and fully implemented the position competition mechanism from entry-level employees to department directors; built the platform-based small sales team operating model – the Amoeba business model, which provided a great opportunity for the Group’s second entrepreneurship and personal development of employees. In 2021, the Group offered diversified training programmes for its employees, such as the EDP growth programme for middle and senior managers in cooperation with Xiamen University, etc., to help employees broaden their horizons, reshape themselves, and keep pace with the times.

As of the end of 2021, Hengan had a total of approximately 23,000 employees, of which 59% were female employees. The total number of training hours exceeded 230,000 hours, the number of management positions promoted was 94, and the percentage of employees joining the labour union was 100%.

Health and Safety

The Group actively implements the main responsibility of the enterprise, implements unified and systematic management of the Group, and improves safety capabilities and performance to achieve high-quality and sustainable development. Hengan established an occupational health and safety management system and passed the certification, established a Safety Management Committee to lead the management of safety affairs, make major safety decisions, built a safety management process framework for the entire life cycle, and carried out safety work in the entire operation process in a standardised and orderly manner. Hengan progressively promotes the development blueprint and strategy of comprehensive safety management, and successfully completed the first phase of tasks in 2021.

Hengan cares about physical and psychological health of employees and organises regularly safety rules training, firefighting training and drills to raise the safety awareness and self-protection capabilities of all employees. In 2021, the Group had no work-related fatalities, incidence of occupational disease was zero, and the number of working days lost due to work injury was 3,033 days.

In 2021, Hengan devoted unrelenting efforts in the prevention and control of the epidemic, and adopted various measures to improve the epidemic prevention and control, standardised and performed proper employee health management, thereby achieving zero infection and 100% vaccination rate among over 20,000 employees.

Outlook

Looking ahead to 2022, the coronavirus pandemic continues to ravage the world, supply chain disruption and rising inflationary pressures will hinder global economic growth. Despite the strong vitality and resilience of China's economy, consumption has become the key growth driver of China's economy, external uncertainties such as the spread of the epidemic still bring variability to China's economic growth. The Group will continue to closely monitor the epidemic situation at home and abroad and changes in market trends in order to respond agilely and take appropriate actions.

Due to the price trend of wood pulp remain uncertain and as the Group had relatively low-cost wood pulp inventory in the first half of 2021, the Group expects that the high cost of wood pulp will continue to exert pressure on the profitability of the Group in most of the time in 2022. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, polymers, and other raw materials.

Against the backdrop of the fierce competition in the tissue paper market, strict energy consumption requirements will accelerate the upgrading of the industry. It is expected that the domestic tissue paper industry will be further consolidated, the weak will be eliminated and the strong will remain. As an industry leader, Hengan, leveraging on its strong research and development capability, production capacity and positive brand image, the Group is expected to fully grasp the growth opportunities arising from the rapid recovery of the market after the industry consolidation, continue to develop healthily and further increase its market share.

Under the new normal, national health awareness remains at a high level, high-quality personal hygiene products have become essential products, and domestic consumption upgrades will continue to promote the refinement and high-quality development of the personal hygiene products market. The Group will continue to focus on the implementation of premium products strategy, strive to increase the proportion of premium products, increase the revenue contribution of premium products to the Group, and promote the continuous improvement of the Group's overall profitability.

Regarding sales channels, the digitalization of the global retail industry has become an irreversible trend. New retail platforms have become an important sales channel. The Group will keep abreast of changes in consumers' consumption patterns and preferences, step up its investment in the new retail markets so as to increase the Group's coverage in new sales channels to reach a broader customer base, thereby increasing the sales proportion of tissue paper, sanitary napkins, and disposable diapers in e-commerce and new retail channels. At the same time, the Group will comprehensively improve online and offline retail to create an omni-channel, enhance brand competitiveness by providing customers with a more convenient and seamless consumption experience, and inject impetus into the long-term development of the Group. Moreover, the Group will fully exploit the digital technology to accurately grasp consumer preferences and market trends so as to put forward effective strategies in product development and manufacturing, market distribution and sales channels.

As a leading enterprise in the personal and household hygiene products industry in China, Hengan will continue to adhere to the mission of "Growing with You for a Better Life", and strive to build a high-quality, reliable and sustainable personal and household hygiene products enterprise. In 2022, the Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), seize the opportunities in the "new retail" era, vigorously expand new sales channels, and enhance the omni-channel sales capabilities of the three main businesses. Furthermore, the Group will continue to enhance its brand, appropriately allocate resources to brand building, consolidate its outstanding brand advantages, and take premium products strategy as its long-term development goal. At the same time, the Group will continue to take business expansion as the long-term development target, actively expand and extend to feminine care, infant and child care, and elderly care business to continue to maintain its overall competitiveness, and promote international development of Hengan's brand, striving to become the "International Top Household Daily Necessities Corporation".

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of RMB0.70 (2020: RMB1.30) per share to shareholders, whose names appear in the register of members of the Company on Thursday, 26 May 2022 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Friday, 20 May 2022 (the "2022 AGM"), the Proposed Final Dividend will be payable on Monday, 6 June 2022.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2022 AGM

The 2022 AGM is scheduled to be held on Friday, 20 May 2022. For determining the entitlement to attend and vote at 2022 AGM, the register of members of the Company will be closed from Tuesday, 17 May 2022 to Friday, 20 May 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at 2022 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 16 May 2022.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2022 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2021, the register of members of the Company will also be closed from Thursday, 26 May 2022 to Friday, 27 May 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 25 May 2022.

REVIEW OF ACCOUNTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising another four independent non-executive directors, has discussed with management and reviewed the consolidated financial statements for the year ended 31 December 2021. The figures contained in the financial statements set out in page 2 to 14 of this announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

During the year ended 31 December 2021, the Company repurchased a total of 24,216,500 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK\$1,121,807,289 (equivalent to RMB936,731,766) (excluding expenses) for enhancing its per share net asset value and earnings. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid HK\$	Lowest price paid HK\$
23 March 2021	600,000	51.55	50.90
24 March 2021	800,000	52.15	51.15
25 March 2021	400,000	52.25	51.20
26 March 2021	700,000	52.65	51.55
29 March 2021	400,000	53.15	52.10
30 March 2021	400,000	53.10	52.05
1 April 2021	400,000	51.05	50.80
7 April 2021	700,000	51.20	50.10
8 April 2021	400,000	51.00	50.25
9 April 2021	400,000	51.15	50.15
12 April 2021	400,000	51.15	50.45
13 April 2021	400,000	51.35	50.45
14 April 2021	400,000	51.55	50.70
15 April 2021	400,000	51.65	51.25
16 April 2021	400,000	51.85	51.35
19 April 2021	400,000	51.80	51.35
20 April 2021	400,000	51.90	51.45
21 April 2021	400,000	51.60	51.25
22 April 2021	400,000	51.65	51.40
15 July 2021	916,500	50.00	48.95
16 July 2021	1,500,000	50.00	48.65
23 August 2021	900,000	42.75	41.35
24 August 2021	500,000	43.20	42.40
25 August 2021	500,000	44.65	43.05
26 August 2021	500,000	43.95	42.60
27 August 2021	500,000	44.00	43.00
30 August 2021	500,000	44.25	43.00
31 August 2021	500,000	45.35	44.00
7 September 2021	400,000	43.60	43.05
8 September 2021	700,000	43.55	42.70

Date of repurchase	Number of shares repurchased	Highest price paid <i>HK\$</i>	Lowest price paid <i>HK\$</i>
9 September 2021	400,000	44.05	42.90
10 September 2021	400,000	42.65	42.05
13 September 2021	400,000	42.00	41.10
14 September 2021	400,000	42.25	41.45
15 September 2021	400,000	42.45	41.35
16 September 2021	400,000	42.20	41.45
17 September 2021	400,000	41.60	40.70
20 September 2021	400,000	41.40	40.15
21 September 2021	400,000	41.25	40.10
23 September 2021	400,000	41.15	40.55
24 September 2021	400,000	41.80	40.85
27 September 2021	400,000	42.15	41.25
28 September 2021	400,000	41.95	41.55
29 September 2021	400,000	42.20	41.10
30 September 2021	400,000	42.00	41.40
4 October 2021	400,000	41.45	40.60
5 October 2021	400,000	41.85	40.90
6 October 2021	400,000	41.75	40.80
7 October 2021	400,000	42.60	42.05
8 October 2021	400,000	43.45	42.60
	<u>24,216,500</u>		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2021.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2021.

ACKNOWLEDGEMENT

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

BOARD OF DIRECTORS

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

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 22 March 2022