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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/listcolhklhengan>

“Growing with You for a Better Life”

FINANCIAL SUMMARY
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Unaudited		% of change
	2024	2023	
	RMB'000	RMB'000	
Revenue	11,835,893	12,204,605	(3.0%)
Gross profit margin	33.3%	31.0%	
Operating profit	1,895,891	1,701,681	11.4%
Profit attributable to shareholders	1,408,992	1,225,768	14.9%
Earnings per share			
— Basic	RMB1.234	RMB1.055	
— Diluted	RMB1.234	RMB1.055	
Finished goods turnover (days)	38	33	
Trade and bills receivables turnover (days)	39	43	
Rate of return on equity (annualised)	13.5%	12.2%	

INTERIM FINANCIAL INFORMATION

The Board of Directors of Hengan International Group Company Limited (“Hengan International” or the “Company”) (the “Board”) is pleased to present the unaudited interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2024, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2024, together with the comparative figures and selected explanatory notes (the “Interim Financial Information”). The Interim Financial Information has been reviewed by the Company’s Audit Committee and the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2024

		Unaudited	
		Six months ended 30 June	
		2024	2023
	<i>Note</i>	RMB'000	RMB'000
Revenue	6	11,835,893	12,204,605
Cost of goods sold		<u>(7,899,651)</u>	<u>(8,416,055)</u>
Gross profit		3,936,242	3,788,550
Selling and distribution costs		(1,796,725)	(1,835,053)
Administrative expenses		(675,571)	(729,652)
Net accrual of impairment losses on financial assets	7	(70,663)	(30,535)
Other income and other gains — net		<u>502,608</u>	<u>508,371</u>
Operating profit		<u>1,895,891</u>	<u>1,701,681</u>
Finance income		129,033	157,570
Finance costs		<u>(289,338)</u>	<u>(317,951)</u>
Finance costs — net		<u>(160,305)</u>	<u>(160,381)</u>
Share of net gains of investments accounted for using the equity method	19	<u>261</u>	<u>182</u>
Profit before income tax	7	1,735,847	1,541,482
Income tax expense	8	<u>(332,580)</u>	<u>(314,581)</u>
Profit for the period		<u>1,403,267</u>	<u>1,226,901</u>
Profit attributable to:			
Shareholders of the Company		1,408,992	1,225,768
Non-controlling interests		<u>(5,725)</u>	<u>1,133</u>
		<u>1,403,267</u>	<u>1,226,901</u>
Earnings per share for profit attributable to shareholders of the Company			
— Basic	9	<u>RMB1.234</u>	<u>RMB1.055</u>
— Diluted	9	<u>RMB1.234</u>	<u>RMB1.055</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2024

	Unaudited	
	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Profit for the period	1,403,267	1,226,901
Other comprehensive loss:		
<i>Items that may be reclassified to profit or loss</i>		
— Currency translation differences	(20,090)	(58,921)
<i>Items that will not be subsequently reclassified to profit or loss</i>		
— Currency translation differences	<u>38,536</u>	<u>134,491</u>
Total comprehensive income for the period	<u>1,421,713</u>	<u>1,302,471</u>
Attributable to:		
Shareholders of the Company	1,430,532	1,303,565
Non-controlling interests	<u>(8,819)</u>	<u>(1,094)</u>
Total comprehensive income for the period	<u>1,421,713</u>	<u>1,302,471</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2024

		Unaudited 30 June 2024 <i>RMB'000</i>	Audited 31 December 2023 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	8,282,602	7,255,824
Construction-in-progress	<i>11</i>	981,121	1,710,626
Right-of-use assets	<i>12</i>	1,161,908	1,190,224
Investment properties	<i>11</i>	181,948	163,360
Intangible assets	<i>11</i>	626,847	640,498
Prepayments for non-current assets		252,292	239,560
Deferred income tax assets		498,757	498,460
Investments accounted for using the equity method	<i>19</i>	34,515	56,854
Financial assets at fair value through profit or loss		171,040	212,370
Long-term bank time deposits	<i>14</i>	5,051,445	1,438,163
		<u>17,242,475</u>	<u>13,405,939</u>
Current assets			
Inventories		4,092,917	4,352,041
Trade and bills receivables	<i>13</i>	2,578,926	2,553,357
Other receivables, prepayments and deposits		1,483,280	1,703,406
Current income tax recoverable		6,368	10,915
Derivative financial instruments		2,126	–
Restricted bank deposits	<i>14</i>	300	300
Cash and bank balances	<i>14</i>	21,023,706	18,189,943
		<u>29,187,623</u>	<u>26,809,962</u>
Total assets		<u>46,430,098</u>	<u>40,215,901</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2024

		Unaudited 30 June 2024 <i>RMB'000</i>	Audited 31 December 2023 <i>RMB'000</i>
	<i>Note</i>		
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	17	123,345	123,345
Other reserves		2,885,252	2,880,980
Retained earnings		<u>17,839,658</u>	<u>17,391,515</u>
		20,848,255	20,395,840
Non-controlling interests		<u>220,515</u>	<u>234,011</u>
Total equity		<u>21,068,770</u>	<u>20,629,851</u>
LIABILITIES			
Non-current liabilities			
Borrowings	16	2,412,117	330,430
Lease liabilities	12	11,412	12,948
Deferred income tax liabilities		<u>173,435</u>	<u>182,386</u>
		2,596,964	525,764
Current liabilities			
Trade and bills payables	15	2,358,554	2,750,069
Other payables and accrued charges	15	1,916,184	1,630,085
Contract liabilities		66,167	540,276
Current income tax liabilities		152,671	199,438
Borrowings	16	18,258,004	13,907,195
Derivative financial instruments		–	15,548
Lease liabilities	12	<u>12,784</u>	<u>17,675</u>
		22,764,364	19,060,286
Total liabilities		<u>25,361,328</u>	<u>19,586,050</u>
Total equity and liabilities		<u>46,430,098</u>	<u>40,215,901</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2024

	Unaudited					
	Attributable to the Company's shareholders				Non- controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2024	123,345	2,880,980	17,391,515	20,395,840	234,011	20,629,851
Profit for the period	–	–	1,408,992	1,408,992	(5,725)	1,403,267
Currency translation differences	–	21,540	–	21,540	(3,094)	18,446
Total comprehensive income	–	21,540	1,408,992	1,430,532	(8,819)	1,421,713
Transactions with owners						
2023 final dividends paid (<i>Note 10(b)</i>)	–	–	(797,245)	(797,245)	(2,055)	(799,300)
Change in ownership interests in subsidiaries without change of control	–	–	2,911	2,911	(4,011)	(1,100)
Employee share option schemes:						
— value of employee services	–	11,694	–	11,694	–	11,694
Employee share award schemes:						
— shares withheld for share award schemes	–	(194,886)	–	(194,886)	–	(194,886)
— share award schemes of a subsidiary	–	(591)	–	(591)	1,389	798
Total of transactions with owners	–	(183,783)	(794,334)	(978,117)	(4,677)	(982,794)
Appropriation to statutory reserves	–	166,515	(166,515)	–	–	–
Balance at 30 June 2024	<u>123,345</u>	<u>2,885,252</u>	<u>17,839,658</u>	<u>20,848,255</u>	<u>220,515</u>	<u>21,068,770</u>
Balance at 1 January 2023	123,345	3,143,018	16,257,244	19,523,607	252,130	19,775,737
Profit for the period	–	–	1,225,768	1,225,768	1,133	1,226,901
Currency translation differences	–	77,797	–	77,797	(2,227)	75,570
Total comprehensive income	–	77,797	1,225,768	1,303,565	(1,094)	1,302,471
Transactions with owners						
2022 final dividends paid (<i>Note 10(b)</i>)	–	–	(813,485)	(813,485)	(6,692)	(820,177)
Employee share option schemes:						
— value of employee services	–	22,006	–	22,006	–	22,006
Total of transactions with owners	–	22,006	(813,485)	(791,479)	(6,692)	(798,171)
Appropriation to statutory reserves	–	39,292	(39,292)	–	–	–
Balance at 30 June 2023	<u>123,345</u>	<u>3,282,113</u>	<u>16,630,235</u>	<u>20,035,693</u>	<u>244,344</u>	<u>20,280,037</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2024

	Unaudited	
	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities		
— Cash generated from operations	1,942,392	2,298,556
— Income tax paid	(384,044)	(359,602)
Net cash generated from operating activities	1,558,348	1,938,954
Cash flows from investing activities		
— Purchase of property, plant and equipment, construction-in-progress and other non-current assets	(815,100)	(739,005)
— Purchase of land use rights	—	(2,530)
— Refund of deposits for purchase of land use rights	79,690	—
— Proceeds on disposal of property, plant and equipment and right-of-use assets	3,008	23,692
— Decrease in long-term and short-term bank time deposits	4,776,793	4,308,935
— Increase in long-term and short-term bank time deposits	(11,065,394)	(6,686,293)
— Payments for acquisition of investments in a joint venture	(3,000)	(3,000)
— Proceeds on disposal of derivative financial instruments	90,230	61,702
— Proceeds on disposal of investments accounted for using the equity method	38,364	—
— Interest received	374,956	327,267
Net cash used in investing activities	(6,520,453)	(2,709,232)
Cash flows from financing activities		
— Proceeds from borrowings (<i>Note 16</i>)	19,487,199	13,535,887
— Repayment of borrowings (<i>Note 16</i>)	(13,085,006)	(6,953,953)
— Decrease in restricted bank deposits	—	2
— Interest paid	(265,816)	(320,037)
— Dividends paid (<i>Note 10(b)</i>)	(797,245)	(813,485)
— Dividends paid to non-controlling interests	(7,506)	(7,850)
— Lease payments	(10,587)	(10,808)
— Cash inflow arising from liquidation of a subsidiary, net of cash disposed	—	1,564
— Payments for share award schemes	(205,460)	—
— Transactions with non-controlling interests	(1,100)	—
Net cash generated from financing activities	5,114,479	5,431,320
Increase in cash and cash equivalents	152,374	4,661,042
Cash and cash equivalents at 1 January	8,021,756	6,088,603
Effect of foreign exchange rate changes	6,070	43,967
Ending cash and cash equivalents at 30 June	8,180,200	10,793,612

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2024

1. GENERAL INFORMATION

Hengan International Group Company Limited (the “Company” or “恒安國際”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing, distribution and sale of personal hygiene products in the People’s Republic of China (the “PRC”) and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, British West Indies, Cayman Islands.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since December 1998.

This interim condensed consolidated financial information is presented in Renminbi (“RMB”), unless otherwise stated.

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 19th August 2024.

This interim condensed consolidated financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2024 has been prepared in accordance with HKAS 34, *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the notes of the type normally included in the annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this interim condensed consolidated financial information are consistent with those of the annual consolidated financial statements for the year ended 31 December 2023 and corresponding interim financial period, except for the adoption of new and amended standards set out as below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3. ACCOUNTING POLICIES (CONTINUED)

(a) 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 interim results and financial position.

		Effective for annual periods beginning on or after
	Standards and amendments	
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier finance arrangements	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

3. ACCOUNTING POLICIES (CONTINUED)

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2025 and have not been early adopted by the Group.

Standards and amendments		Effective for annual periods beginning on or after
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 18 (Amendments)	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19 (Amendments)	Subsidiaries without Public Accountability: Disclosures	1 January 2027
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

4. ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2023, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2023.

There have been no changes in the risk management policies since last year end.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.2 Liquidity risk

Compared to the last year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 3 years <i>RMB'000</i>	Between 3 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 June 2024 (Unaudited)					
Borrowings	18,258,004	2,263,232	117,735	31,150	20,670,121
Interest payables of borrowings	261,098	47,692	97	5	308,892
Lease Liabilities	13,552	8,129	2,940	775	25,396
Trade, bills and other payables	4,056,348	–	–	–	4,056,348
Total	<u>22,589,002</u>	<u>2,319,053</u>	<u>120,772</u>	<u>31,930</u>	<u>25,060,757</u>
At 31 December 2023 (Audited)					
Borrowings	13,907,195	16,127	283,053	31,250	14,237,625
Interest payables of borrowings	190,011	4,691	2,249	12	196,963
Net settled derivative financial instruments	15,548	–	–	–	15,548
Lease Liabilities	18,604	9,776	2,681	913	31,974
Trade, bills and other payables	4,127,631	–	–	–	4,127,631
Total	<u>18,258,989</u>	<u>30,594</u>	<u>287,983</u>	<u>32,175</u>	<u>18,609,741</u>

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

The following table presents the Group's financial instruments that are measured at fair value at 30 June.

Recurring fair value measurements At 30 June 2024 (Unaudited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss ("FVPL")	–	–	171,040	171,040
Derivative financial instruments	–	2,126	–	2,126
	<u>–</u>	<u>2,126</u>	<u>171,040</u>	<u>173,166</u>
Recurring fair value measurements At 31 December 2023 (Audited)				
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss ("FVPL")	–	–	212,370	212,370
	<u>–</u>	<u>–</u>	<u>212,370</u>	<u>212,370</u>
Financial liabilities				
Derivative financial instruments	–	(15,548)	–	(15,548)
	<u>–</u>	<u>(15,548)</u>	<u>–</u>	<u>(15,548)</u>

During the six months ended 30 June 2024, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no significant changes in the reclassification of financial assets or liabilities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. The Group did not have such instrument as at 30 June 2024.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group's derivative financial instruments above are level 2 instruments and their fair value is determined with reference to quotations provided by various banks.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group's unlisted preference shares are level 3 instruments and their fair value is determined with inputs for the asset or liability that are not based on observable market data.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

(i) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the six months ended 30 June 2024:

	Unlisted preference shares RMB'000
Closing balance as at 31 December 2023	212,370
Changes in fair value recognised in profit or loss	(42,596)
Currency translation differences	1,266
	<hr/>
Closing balance as at 30 June 2024	171,040
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(ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for unlisted preference shares:

Description	Fair value at		Un-observable inputs	Inputs	Relationship of unobservable inputs to fair values
	30 Jun 2024 RMB'000	31 Dec 2023 RMB'000			
Unlisted preference shares	171,040	212,370	Risk-free rate	4.64%	The higher the risk-free rate, the higher the fair value
			Volatility	59.00%	The higher the expected volatility, the lower the fair value

(iii) Valuation processes

The finance department of the Group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting periods.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet date:

- Trade and bills receivables
- Other receivables
- Long-term bank time deposits
- Restricted bank deposits
- Cash and bank balances
- Trade and bills payables
- Other payables
- Lease liabilities
- Borrowings

6. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of segment profit/(loss) without allocation of other income and other gains — net, finance income/(costs) and income tax expense which is consistent with that in the annual consolidated financial statements.

The Group's operations are mainly organised under the segments of manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated statement of profit or loss.

Most of the Group's companies are domiciled in PRC. The revenue from external customers in PRC accounted for more than 90% of the Group's total revenue.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with those of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Addition to non-current assets comprise addition to property, plant and equipment, construction-in-progress, right-of-use assets and intangible assets.

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets and derivative financial instruments. Unallocated liabilities comprise corporate liabilities and derivative financial instruments.

6. SEGMENT INFORMATION (CONTINUED)

The segment information for the six months ended 30 June 2024 is as follows:

	Unaudited				Group RMB'000
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	
Segment revenue	3,219,560	738,087	7,208,784	1,557,795	12,724,226
Inter-segment sales	(72,614)	(26,463)	(258,206)	(531,050)	(888,333)
Revenue of the Group	3,146,946	711,624	6,950,578	1,026,745	11,835,893
Segment profit	1,157,207	165,432	29,773	57,385	1,409,797
Unallocated costs					(16,514)
Other income and other gains — net					502,608
Operating profit					1,895,891
Finance income					129,033
Finance costs					(289,338)
Share of net gains of investments accounted for using the equity method					261
Profit before income tax					1,735,847
Income tax expense					(332,580)
Profit for the period					1,403,267
Non-controlling interests					5,725
Profit attributable to shareholders of the Company					1,408,992
Addition to non-current assets	125,437	191,532	411,875	45,579	774,423
Depreciation of property, plant and equipment and investment properties	75,626	25,790	304,812	32,766	438,994
Depreciation of right-of-use assets	5,809	2,605	12,758	5,511	26,683
Amortisation charge	12,167	—	3	3,325	15,495
As at 30 June 2024 (Unaudited)					
Segment assets	3,856,517	1,231,901	12,647,548	1,731,412	19,467,378
Deferred income tax assets					498,757
Current income tax recoverable					6,368
Investments accounted for using the equity method					34,515
FVPL					171,040
Long-term time deposits					5,051,445
Cash and bank balances					21,023,706
Unallocated assets					176,889
Total assets					46,430,098
Segment liabilities	778,816	277,019	2,534,453	693,534	4,283,822
Deferred income tax liabilities					173,435
Current income tax liabilities					152,671
Borrowings					20,670,121
Unallocated liabilities					81,279
Total liabilities					25,361,328

6. SEGMENT INFORMATION (CONTINUED)

The segment information for the six months ended 30 June 2023 is as follows:

	Unaudited				Group RMB'000
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	
Segment revenue	3,273,936	703,770	7,322,807	1,555,689	12,856,202
Inter-segment sales	(54,641)	(38,466)	(152,697)	(405,793)	(651,597)
Revenue of the Group	<u>3,219,295</u>	<u>665,304</u>	<u>7,170,110</u>	<u>1,149,896</u>	<u>12,204,605</u>
Segment profit	<u>1,149,778</u>	<u>30,152</u>	<u>5,180</u>	<u>40,350</u>	<u>1,225,460</u>
Unallocated costs					(32,150)
Other income and other gains — net					<u>508,371</u>
Operating profit					1,701,681
Finance income					157,570
Finance costs					(317,951)
Share of net gains of investments accounted for using the equity method					<u>182</u>
Profit before income tax					1,541,482
Income tax expense					<u>(314,581)</u>
Profit for the period					1,226,901
Non-controlling interests					<u>(1,133)</u>
Profit attributable to shareholders of the Company					<u><u>1,225,768</u></u>
Addition to non-current assets	182,305	20,539	697,463	89,041	989,348
Depreciation of property, plant and equipment and investment properties	75,623	23,494	270,456	30,279	399,852
Depreciation of right-of-use assets	6,209	2,614	12,826	4,705	26,354
Amortisation charge	<u>11,109</u>	<u>2</u>	<u>23</u>	<u>3,326</u>	<u>14,460</u>
As at 30 June 2023 (Unaudited)					
Segment assets	<u>3,959,603</u>	<u>1,044,753</u>	<u>11,881,088</u>	<u>1,831,147</u>	<u>18,716,591</u>
Deferred income tax assets					556,185
Current income tax recoverable					13,251
Investments accounted for using the equity method					43,937
FVPL					242,448
Long-term time deposits					1,895,639
Cash and bank balances					26,749,710
Unallocated assets					<u>179,251</u>
Total assets					<u><u>48,397,012</u></u>
Segment liabilities	<u>678,847</u>	<u>249,598</u>	<u>2,516,626</u>	<u>358,303</u>	<u>3,803,374</u>
Deferred income tax liabilities					187,641
Current income tax liabilities					180,522
Borrowings					23,859,992
Unallocated liabilities					<u>85,446</u>
Total liabilities					<u><u>28,116,975</u></u>

7. PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Crediting		
Income from long-term and short-term bank time deposits	321,761	377,644
Government grant income	143,743	200,440
Interests income from cash and cash equivalents	129,033	109,557
Net gains on derivative financial instruments	107,940	92,142
Gains on disposal of investments accounted for using the equity method	13,283	6,623
Reversal of provision of inventories write-down	6,273	10,484
Exchange gains from financing activities — net	—	48,013
Fair value gains on FVPL	—	21,591
Charging		
Employee benefit expense, including Directors' emoluments	1,194,091	1,121,322
Depreciation of property, plant and equipment (<i>Note 11</i>)	434,883	396,769
Interest expenses on borrowings and bank charges after deducting interest expenses of RMB4,284,000 (2023: RMB6,965,000) capitalised in construction-in-progress	266,470	317,222
Net impairment losses on trade and bills receivables and other receivables	70,663	30,535
Miscellaneous taxes and levies	49,859	44,427
Exchange losses from operating activities — net	35,894	182,426
Fair value losses on FVPL	42,596	—
Depreciation of right-of-use assets (<i>Note 12</i>)	26,683	26,354
Exchange losses from financing activities — net	22,245	—
Amortisation of intangible assets (<i>Note 11</i>)	15,495	14,460
Losses on disposal of property, plant and equipment and right-of-use assets	12,827	12,654
Depreciation of investment properties (<i>Note 11</i>)	4,111	3,083
	4,111	3,083

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Current tax on profits for the period	305,198	300,477
Withholding income tax on profits of the current period	36,626	31,977
Deferred income tax on other timing differences, net	<u>(9,244)</u>	<u>(17,873)</u>
Income tax expense	<u><u>332,580</u></u>	<u><u>314,581</u></u>

Taxation on Mainland China income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in Mainland China in which the Group operates. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25% (2023: 25%).

Hong Kong and overseas profits tax has been provided at the rate of taxation prevailing in which the Group operates respectively on the estimated assessable profits for the period.

Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the subsidiaries of the Group.

The profits of subsidiaries in Mainland China 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 of approximately RMB36,626,000 (2023: RMB31,977,000) for the six months ended 30 June 2024 have been provided for in this regard based on the expected dividends to be distributed from the Group's subsidiaries in Mainland China in the foreseeable future.

9. EARNINGS PER SHARE

(a) Basic

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

	Unaudited	
	Six months ended 30 June	
	2024	2023
Profit attributable to shareholders of the Company (RMB'000)	<u>1,408,992</u>	<u>1,225,768</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,142,201</u>	<u>1,162,121</u>
Basic earnings per share (RMB)	<u><u>1.234</u></u>	<u><u>1.055</u></u>

9. EARNINGS PER SHARE (CONTINUED)

(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. Share options is the only category of dilutive potential ordinary shares of the Company.

The diluted earnings per share is the same as basic earnings per share for the six months ended 30 June 2024 as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

10. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Interim, proposed/paid, RMB0.7 (2023: RMB0.70) per share (Note (a))	<u>813,485</u>	<u>813,485</u>

Notes:

- (a) An interim dividend of RMB0.70 (equivalent to Hong Kong dollars (“HK\$”) 0.763742) (2023: An interim dividend of RMB0.70 (equivalent to Hong Kong dollars (“HK\$”) 0.762187)) per share was proposed by the Board of Directors on 19 August 2024. This interim dividend, amounting to RMB813,485,000 calculated based on 1,162,120,917 (including shares withheld for share award schemes 23,200,000) issued shares as at 19 August 2024, has not been recognised as a liability in this interim condensed consolidated financial information.

Dividends payable to shareholders will be paid in HK\$. The exchange rate adopted by the Company for its dividend 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 exchange rate of HK\$ to RMB on 16 August 2024 is 0.91654.

- (b) A final dividend of RMB813,485,000, equivalent to HK\$896,679,000 (2022: RMB813,485,000, equivalent to HK\$927,355,000) related to the period up to 31 December 2023 was paid in May 2024. The final dividend include RMB16,240,000 equivalent to HK\$17,901,000 which is the dividend of shares withheld for share award schemes.

11. CAPITAL EXPENDITURE — NET BOOK VALUE

	Unaudited			
	Property, plant and equipment <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
At 1 January 2024	7,255,824	1,710,626	163,360	640,498
Additions	136,450	632,431	–	1,844
Transfer from construction-in-progress	1,362,737	(1,362,737)	–	–
Transfer to investment properties	(21,784)	–	21,784	–
Transfer from right-of-use assets	–	–	1,115	–
Disposals	(16,010)	–	–	–
Depreciation/amortisation	(434,883)	–	(4,111)	(15,495)
Currency translation differences	268	801	(200)	–
At 30 June 2024	8,282,602	981,121	181,948	626,847
At 1 January 2023	7,099,255	969,210	166,696	656,976
Additions	135,013	825,868	–	12,904
Transfer from construction-in-progress	310,783	(310,783)	–	–
Transfer to investment properties	(1,252)	–	1,252	–
Transfer from right-of-use assets	–	–	1,354	–
Disposals	(25,895)	–	–	–
Depreciation/amortisation	(396,769)	–	(3,083)	(14,460)
Currency translation differences	995	5,949	(164)	–
At 30 June 2023	7,122,130	1,490,244	166,055	655,420

The Group's investment properties are stated at historical cost at the end of each reporting period.

12. LEASES

(a) Amounts recognised in the consolidated balance sheet

	Unaudited As at 30 June 2024 RMB'000	Audited As at 31 December 2023 RMB'000
Right-of-use assets		
— Land use rights	1,138,307	1,160,393
— Buildings	<u>23,601</u>	<u>29,831</u>
Total	<u>1,161,908</u>	<u>1,190,224</u>
Lease liabilities		
— Current	(12,784)	(17,675)
— Non-current	<u>(11,412)</u>	<u>(12,948)</u>
Total	<u>(24,196)</u>	<u>(30,623)</u>

Expenses have been charged to the interim condensed consolidated statement of profit or loss.

(b) Amounts recognised in the consolidated statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Unaudited Six months ended 30 June 2024 RMB'000	2023 RMB'000
Depreciation of right-of-use assets (Note 7)		
— Land use rights	16,739	16,116
— Buildings	<u>9,944</u>	<u>10,238</u>
	<u>26,683</u>	<u>26,354</u>
Interest expense	<u>623</u>	<u>729</u>
Short-term and low-value lease expenses	<u>23,151</u>	<u>27,373</u>

The total cash payment for leases during the period was RMB33,738,000 (2023:RMB38,181,000), excluding the cash payment for land-use rights.

13. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Trade receivables	2,767,458	2,711,595
Bills receivables	<u>19,786</u>	<u>7,403</u>
	<u>2,787,244</u>	<u>2,718,998</u>
Less: provision for impairment	<u>(208,318)</u>	<u>(165,641)</u>
Trade and bills receivables, net	<u><u>2,578,926</u></u>	<u><u>2,553,357</u></u>

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. The ageing analysis of trade and bills receivables based on invoice date is as follows:

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Within 30 days	1,129,810	937,106
31 to 180 days	1,363,045	1,517,859
181 to 365 days	88,063	88,922
Over 365 days	<u>206,326</u>	<u>175,111</u>
	<u><u>2,787,244</u></u>	<u><u>2,718,998</u></u>

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. 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.

14. LONG-TERM BANK TIME DEPOSITS, RESTRICTED BANK DEPOSITS AND CASH AND BANK BALANCES

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Long-term bank time deposits	<u>5,051,445</u>	<u>1,438,163</u>
Restricted bank deposits	<u>300</u>	<u>300</u>
Cash and bank balances		
— Bank time deposits	12,843,506	10,168,187
— Cash and cash equivalents	<u>8,180,200</u>	<u>8,021,756</u>
	<u>21,023,706</u>	<u>18,189,943</u>
Total	<u><u>26,075,451</u></u>	<u><u>19,628,406</u></u>

The cash and cash equivalents represented cash deposits held at call with banks and in hand and other short-term highly liquid investments with maturities of three months or less.

15. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Trade payables	2,358,554	2,745,385
Bills payables	<u>—</u>	<u>4,684</u>
	<u>2,358,554</u>	<u>2,750,069</u>
Other payables and accrued charges		
— Accrued expenses and other payables	1,379,391	1,088,740
— Payables for purchase of property, plant and equipment	318,403	278,248
— Employee benefit payable	179,476	220,981
— Other taxes payables	38,914	31,542
— Payables for share award scheme	<u>—</u>	<u>10,574</u>
	<u>1,916,184</u>	<u>1,630,085</u>
Total	<u><u>4,274,738</u></u>	<u><u>4,380,154</u></u>

15. TRADE, BILLS AND OTHER PAYABLES AND ACCURED CHARGES (CONTINUED)

The aging analysis of trade and bills payables based on invoice date is as follows:

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Within 30 days	1,278,410	1,686,381
31 to 180 days	1,068,787	1,051,641
181 to 365 days	6,565	7,775
Over 365 days	4,792	4,272
	<u>2,358,554</u>	<u>2,750,069</u>

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

16. BORROWINGS

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Non-current		
Long-term bank loans — unsecured	2,412,117	330,250
Long-term bank loans — secured (b)	—	180
	<u>2,412,117</u>	<u>330,430</u>
Current		
Short-term bank loans — unsecured	12,998,118	10,621,301
Super short-term commercial papers (a)	5,000,000	—
Current portion of long-term bank loans — unsecured	4,183	2,862,500
Trust receipt bank loans	254,485	421,293
Current portion of long-term bank loans — secured (b)	1,218	2,101
	<u>18,258,004</u>	<u>13,907,195</u>
Total	<u>20,670,121</u>	<u>14,237,625</u>

As at 30 June 2024, the effective interest rate of the Group's bank loans and other borrowings was approximately 2.87% (31 December 2023: 2.83%) per annum.

16. BORROWINGS (CONTINUED)

(a) Super short-term commercial papers

As at 30 June 2024, the Company had the following super short-term commercial papers:

	Interest rate	Expiration term	Mature date	Amount <i>RMB'000</i>
24恒安國際SCP001	2.10%	180 days	2024-09-04	2,500,000
24恒安國際SCP002	2.10%	182 days	2024-09-11	2,500,000

(b) Long-term bank loans — secured

As at 30 June 2024, bank borrowings of RMB1,218,000 (31 December 2023: RMB2,281,000) were pledged by the property, plant and equipment (carrying amount of RMB7,744,000 (31 December 2023: RMB8,424,000)) and cost of RMB12,627,000 (31 December 2023: RMB12,895,000) of a subsidiary.

Movements in borrowings are analysed as follows:

	Unaudited <i>RMB'000</i>
At 1 January 2024	14,237,625
New borrowings	19,487,199
Repayments of borrowings	(13,085,006)
Currency translation differences	30,303
At 30 June 2024	<u>20,670,121</u>
At 1 January 2023	17,029,952
New borrowings	13,535,887
Repayments of borrowings	(6,953,953)
Currency translation differences	248,106
At 30 June 2023	<u>23,859,992</u>

17. SHARE CAPITAL

Ordinary shares, issued and fully paid

	<i>Number of shares</i>	<i>RMB'000</i>
At 1 January 2024 and 30 June 2024 (unaudited)	<u>1,162,120,917</u>	<u>123,345</u>
At 1 January 2023 and 30 June 2023 (unaudited)	<u>1,162,120,917</u>	<u>123,345</u>

18. SHARE-BASED COMPENSATION

The Company adopted share option schemes on 17 May 2021 (“2021 Scheme”) and 26 May 2011 (“2011 Scheme”). Pursuant to the scheme, share options had been granted to the Directors and selected employees. The options granted will be forfeited if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2024		2023	
	Average exercise price in HK\$ per share	Options (thousands)	Average exercise price in HK\$ per share	Options (thousands)
At 1 January	45.34	51,606	45.34	51,606
Lapsed or forfeited	<u>41.46</u>	<u>(18,748)</u>	—	—
At 30 June (unaudited)	<u>47.56</u>	<u>32,858</u>	<u>45.34</u>	<u>51,606</u>

- (i) The Board of Directors announced that on 18 January 2022 (“date of grant”), 44,747,000 share options to subscribe for a total of 44,747,000 ordinary shares of HK\$0.10 each in the share capital of the Company were granted to certain directors and employees of the Group, under the share option scheme adopted by the Company on 17 May 2021. The validity period of the share options shall be from the date of grant to 17 January 2026 and the share options shall lapse at the expiry of the validity period. The share options granted shall be exercisable during the following periods: (a) up to 30% of the share options shall be exercisable from 18 January 2023 to 17 January 2024, (b) additional 30% of the share options shall be exercisable from 18 January 2024 to 17 January 2025, (c) the remaining 40% of the share options shall be exercisable from 18 January 2025 to 17 January 2026.

18. SHARE-BASED COMPENSATION (CONTINUED)

- (ii) The Board of Directors announced that on 21 December 2022 (“date of grant”), 1,526,000 share options to subscribe for a total of 1,526,000 ordinary shares of HK\$0.10 each in the share capital of the Company were granted to certain employees of the Group, under the share option scheme adopted by the Company on 17 May 2021. The validity period of the share options shall be from the date of grant to 21 December 2026 and the share options shall lapse at the expiry of the validity period. The share options granted shall be exercisable during the following periods: (a) up to 30% of the share options shall be exercisable from 21 December 2023 to 20 December 2024, (b) additional 30% of the share options shall be exercisable from 21 December 2024 to 20 December 2025, (c) the remaining 40% of the share options shall be exercisable from 21 December 2025 to 20 December 2026.

Out of the 32,858,000 outstanding options (31 December 2023: 51,606,000), 16,983,000 options (31 December 2023: Nil) were exercisable as at 30 June 2024.

Based on fair value of the underlying ordinary shares, the Group uses binomial model to determine the fair value of the share options as of the grant date. Key assumptions are set as below:

	Key assumptions	
	Options granted on 18 January 2022	Options granted on 21 December 2022
Fair value at grant date	HK\$2.63-HK\$3.84	HK\$4.01-HK\$4.97
Share price at grant date	HK\$38.65	HK\$40.30
Exercise price	HK\$41.48	HK\$40.30
Risk free interest rate	0.68%–1.22%	3.51%–4.05%
Dividend yield	4.88%	5.83%
Expected volatility (<i>Note</i>)	24%–25%	23%–25%
Expected life (in years)	2–4	2–4

Note: The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average weekly trading price volatility of the shares of the Company.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

	Exercise price in HK\$ per share option	Options (thousands)	
		30 June 2024	31 December 2023
Expiry date — 17 January 2024	41.48	–	13,424
Expiry date — 20 December 2024	40.30	341	458
Expiry date — 17 January 2025	41.48	11,309	13,424
Expiry date — 5 October 2025	79.20	5,333	5,333
Expiry date — 20 December 2025	40.30	341	458
Expiry date — 17 January 2026	41.48	15,078	17,899
Expiry date — 20 December 2026	40.30	456	610
		32,858	51,606

18. SHARE-BASED COMPENSATION (CONTINUED)

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the six month ended 30 June 2024 amounted to RMB11,694,000 (2023: RMB22,006,000), and the remaining unamortised fair value of approximately RMB11,201,000 (2023: RMB47,178,000) will be charged to the consolidated income statement in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2021 Scheme are 71,480,742, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the 2021 Scheme.

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Investments in associates(a)	16,012	41,352
Joint ventures (b)	18,503	15,502
Total	34,515	56,854

(a) Investments in associates

	<i>RMB'000</i>
At 1 January 2024	41,352
Disposal	(25,081)
Share of net gains	260
Currency translation differences	(519)
At 30 June 2024 (unaudited)	16,012
At 1 January 2023	43,576
Disposal	(4,377)
Share of net gains	181
Currency translation differences	1,556
At 30 June 2023 (unaudited)	40,936

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Joint ventures

	<i>RMB'000</i>
At 1 January 2024	15,502
Addition	3,000
Share of net gains	1
	<hr/>
At 30 June 2024 (unaudited)	18,503
	<hr/> <hr/>
At 1 January 2023	–
Addition	3,000
Share of net gains	1
	<hr/>
At 30 June 2023 (unaudited)	3,001
	<hr/> <hr/>

The particulars of the associates and joint ventures of the Group as at 30 June 2024, all of which equity method is used to account for, are set out as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Particulars of issued share capital	Principal activities
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB29,411,800	Research and development of personal hygiene materials
Karrion Development Limited	Hong Kong, PRC	50.00%	HK\$1,000,000	Development, distribution, wholesaling and retailing of medical, healthcare and hygiene products
Xiamen Anjian Real Estate Operation Co., Ltd.*	Xiamen, PRC	50.00%	RMB37,000,000	Real estate development and operation.

* *For identification purpose only*

20. CAPITAL COMMITMENTS

	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 <i>RMB'000</i>
Contracted but not provided for in respect of:		
Machinery and equipment	553,298	539,801
Leasehold land and buildings	597,671	729,342
	<hr/>	<hr/>
Total	1,150,969	1,269,143
	<hr/> <hr/>	<hr/> <hr/>

21. CONTINGENT LIABILITIES

At 30 June 2024, the Group had no material contingent liabilities (31 December 2023: Nil).

22. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

- (a) During the period, the Group had no significant related party transactions;
- (b) For the six months ended 30 June 2024, the key management compensation amounted to approximately RMB13,951,000 (2023: RMB27,003,000).

23. SUBSEQUENT EVENT

Details of the interim dividend proposed are given in Note 10.

BUSINESS REVIEW

In the first half of 2024, with China's orderly implementation and consolidation of its macroeconomic policies, the national economy was generally stable with steady growth. In the first half of 2024, China's gross domestic product ("GDP") grew 5% year-on-year. Consumer demand steadily recovered, with total retail sales of consumer goods increasing by 3.7% year-on-year, of which total retail sales of daily necessities increased by 2.3%. However, the escalating geopolitical tensions, persistently high interest rates and the rise of trade protectionism brought challenges to global economic development. Leveraging its comprehensive competitive advantages and effective profit-focused sales strategy, Hengan continued to expand its market share and further consolidated its strong business resilience.

During the period, the domestic personal care consumer market experienced fierce competition. Both domestic and foreign brands adopted aggressive price reduction and promotion measures in an effort to capture various domestic consumer groups and channels, leading to a significant negative growth in market sales. However, Hengan tapped into the increasing demand for high-quality personal care products and the consumption potential released by the fragmentation of consumption channels. Through effective price stabilisation strategies and product line upgrades and premiumisation, Hengan greatly expanded into e-commerce platforms and new retail channels, and also promoted sales and created new growth points in traditional channels. The effectiveness of the development of the Group's omni-channel continued to improve. Benefitting from the omni-channel strategy, continuous enhancement of the brand image and diversified product portfolio, although the total sales of the Group's three core business segments (tissue paper, sanitary napkins and disposable diapers) recorded a year-on-year decline of approximately 2.2%, they still performed significantly better than the market-wide decline. Meanwhile, the Group's market share maintained a leading position in the industry. As of 30 June 2024, the Group's revenue decreased by 3.0% to approximately RMB11,835,893,000 (2023 first half: RMB12,204,605,000) as compared to the same period last year. The Group's revenue in the second half of 2024 is expected to improve as compared to the first half of 2024.

In the first half of 2024, the Group continued to step up its efforts in developing its e-commerce business and new retail market. In addition to promoting brands on traditional large-scale e-commerce platforms, it also strengthened penetration into other emerging e-commerce channels (such as Douyin (“抖音”)). During the period, the proportion of the Group’s e-commerce and new retail sales (including Retail Integrated (“零售通”) and New Channel (“新通路”)) further increased to approximately 32.0% (2023 first half: 29.0%), growing about 6.5% year-on-year. In addition, the Group effectively boosted sales and created new growth points in traditional channels during the period, maintaining stable development. Meanwhile, the Group was also committed to developing premium products and optimising its product mix, actively enhancing its brand image to cater to domestic consumers’ pursuit of high-quality and diversified products. The premium tissue paper series “Fluffy Cube” (絨立方) which adopts the Through Air Drying (TAD) technology for the first time in China and Asia, the premium disposable diapers series “Q • MO”, and the sanitary napkins series “Sweet Dream Pants” (萌睡褲) and “Heavenly Mountain Cotton” (天山絨棉) continued to be well-received by consumers and maintained a strong sales momentum during the period. The sales of various key upgraded and premium products also achieved a year-on-year growth of more than 10.0% and continued to increase its proportion over the sales.

During the period under review, in the face of fierce market competition, Hengan actively responded to the market changes, adhered to stable pricing, and focused on enhancing profitability, effectively further expanding its market share and consolidating its leading position in the market. Benefitting from the significant drop in raw material prices since the second half of 2023, the Group saw continued year-over-year decline in costs during the period. Additionally, the Group’s upgraded and premium product series recorded growth, leading to a marked improvement in the gross profit of the three core business segments during the period. In the first half of 2024, the Group’s overall gross profit increased sharply by approximately 3.9% to approximately RMB3,936,242,000 (2023 first half: RMB3,788,550,000). The gross profit margin increased to about 33.3% (2023 first half: 31.0%) It is expected that in the second half of 2024, the Group will prudently allocate promotional resources and premium high margin products are expected to sustain significant growth, so as to offset the impact on gross margin from the rise in wood pulp prices.

During the period, the Group’s operating profit increased significantly by approximately 11.4% to approximately RMB1,895,891,000 (2023 first half: RMB1,701,681,000). Profit attributable to shareholders of the Company was approximately RMB1,408,992,000 (2023 first half: RMB1,225,768,000), representing a year-on-year increase of approximately 15.0%, which was mainly due to the improvement in the Group’s gross profit across the three core business segments, resulting from the decline in raw material costs during the period and product upgrades, as well as a decrease in foreign exchange loss. Basic earnings per share was approximately RMB1.234 (2023 first half: RMB1.055).

The Board of Directors declared an interim dividend of RMB0.70 per share (2023 first half: RMB0.70 per share) or RMB813,485,000 (2023 first half: RMB813,485,000) for the six month ended 30 June 2024, maintaining a stable dividend amount.

Sanitary Napkin

China has the world's largest feminine care products market. With the growing awareness of feminine care and increasing spending power in China, female consumers are paying increasing attention to product quality, material safety and added value of products, driving consumption upgrade and continuous expansion of the feminine care products market. However, the market competition is very fierce, many domestic and foreign brands adopted aggressive sales strategies to tap into the mid-to-high-end market and young consumers. Hengan has full confidence in its product quality and longstanding reputation among customers and adheres to a rational and stable pricing strategy. In order to enhance the brand image and consolidate its leading position in the mid-to-high-end market and traditional sales channels, Hengan continued to promote product upgrades and premiumisation to meet consumers' demand for high-quality feminine care products, so as to maintain its leadership in the fierce market competition. The Groups' upgraded sanitary napkin products, such as the "Sweet Dream Pants" series and the premium "Heavenly Mountain Cotton" series launched in the second half of 2023, were favoured by consumers due to their excellent quality and brand image.

The continuous rapid increase in the penetration of new consumption patterns has exacerbated the fragmentation of channels. E-commerce platforms and other emerging retail channels (including community group-buying) are thriving. The Group actively seized the opportunities of emerging consumption trends, vigorously expanded emerging sales channels, and consolidated its leading edge in traditional channels, which effectively boosted sales of sanitary napkins and maintained a leading market share. However, during the period, the competition in the domestic sanitary napkin market became increasingly fierce, both domestic and foreign brands adopted aggressive price reduction and promotion strategies to expand their market share, which inevitably led to a double-digit year-on-year increase in the Group's the promotional expenses. In the first half of 2024, the revenue of the Group's sanitary napkin business decreased by approximately 2.2% to approximately RMB3,146,946,000 (2023 first half: RMB3,219,295,000), accounting for approximately 26.6% (2023 first half: 26.4%) of the Group's overall revenue, outperforming the negative sales growth in the sanitary napkin industry. Driven by the increasing sales proportion of upgraded and premium products and the continuous growth in traditional sales channels, it is expected that the revenue of the Group's sanitary napkin business in the second half of 2024 will improve as compared to the first half of 2024.

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 stable price of petrochemical raw materials, the main raw material for sanitary napkins in the period, the gross profit margin of the sanitary napkin business improved to approximately 62.7% year-on-year in the first half of 2024 (2023 first half: 61.8%). While seizing the opportunities in the domestic market, and driven by product upgrades and premiumisation, the Group expects the gross profit margin to continue to improve in the second half of 2024.

The Group's sanitary napkin brand 七度空間 continues to launch upgraded and premium products and strives to enhance its brand image. In recent years, the Group launched upgraded products such as “Ultra-thin” (特薄), “Extra-long — Night Use” (加長夜用) and “Pants-style” (褲型) series, which received an overwhelming response from the market. The “Heavenly Mountain Cotton” series that the Group recently promoted, uses rare and pure long staple cotton from snowy mountains to meet the demand of today's customers for high-quality products. Although the series was only launched in the second half of last year, its sales already reached RMB230 million during the period, and are expected to gradually increase. The Group signed Zhao Jinmai, a female artist with a bright and positive image, as the brand ambassador of 七度空間, injecting youthful vitality into the brand. With the theme of “Freedom Without Limits”, the Group launched a variety of promotional activities, such as brand ambassador live streaming, meetings and limited-edition gift sets, based on the preferences of young female customers and white-collar women to further enhance the brand image and attract young and white-collar customers.

In addition, the “Pants-style” series still has great growth potential with sales reaching RMB290 million during the period, a year-on-year increase of approximately 22.0%. The Group will continue to vigorously promote the “Pants-style” series of products to consumers and launch an upgraded version of “Sweet Dream Pants” and “Sweet Day Pants” (萌動褲) to attract more consumers and further increase market penetration. The Group believes that the upgraded products of the 七度空間 series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group expand its market share and increase the revenue contribution of premium products. Moreover, the Group's sanitary napkin brand “Anerle” (安爾樂) launched instant-absorbing liquid sanitary napkins during the period. This product utilises patented core and 3D liquid compartment technology, allowing for quick absorption and leakage prevention. It has been popular among domestic consumers and is expected to bring a new wave of hot sales in 2024. Meanwhile, the Group will continue to increase the sales proportion of new retail channels, strive to develop higher quality products, adhere to a stable pricing strategy, and maintain stable growth in traditional channels, thereby promoting the Group's long-term development and consolidating its leading position. The Group will also continue to develop and launch other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, and seize domestic market opportunities brought about by the increasing demand for personal care products.

Tissue Paper

In the first half of 2024, the national economy and consumer market continued to recover, but domestic demand had not been fully released. Domestic tissue paper brands adopted aggressive price adjustment and promotion campaigns to expand their coverage in the domestic market. Therefore, the industry recorded an overall significant decline during the period. However, the Group focused on improving profitability and responded to the cutthroat price competition with stable prices and an omni-channel sales strategy, continuously driving 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. During the period under review, although domestic demand for tissue paper sustained growth, the revenue of the Group's tissue paper business decreased by approximately 3.1% to approximately RMB6,950,578,000 (2023 first half: RMB7,170,110,000) due to increased promotional expenses and a high sales base in the same period last year. Still, the Group's tissue paper sales outperformed the industry average and maintained a leading market share. The sales of the tissue paper business accounted for approximately 58.7% of the Group's overall revenue (2023 first half: 58.7%). 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 in the second half of 2024 will improve as compared to the first half.

In the first half of 2024, benefitting from the decline in wood pulp costs and the increase in sales proportion of premium products such as wet wipes, the gross profit margin of tissue paper products for the first half of 2024 increased to approximately 19.6% (2023 first half: 17.7%). Looking ahead to the second half, the Group will reduce promotional expenses and continue to increase the sales proportion of premium products to help offset the impact of the rebound in the price of wood pulp in the second half of 2024. The Group expects that the gross profit margin of the tissue paper business will remain stable in the second half of 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. In March, the Group's brand "Hearttex" (心相印) joined hands with the industry to release the "100% Virgin Wood Pulp" logo, aiming to establish quality standards for tissue paper and drive the quality upgrade of the household paper industry. At the same time, the Group introduced the "Fluffy Cube" series of tissue paper products (including facial tissue and kitchen roll). "Fluffy Cube" is a new tissue paper series of the Group, produced by the first TAD tissue machine in China. It is also the first tissue paper series in China to adopt the TAD technology. TAD is an internationally recognized high-quality household paper production technology, with its fluffiness and water absorption capacity being twice and 12 times that of ordinary products, respectively, providing a disruptive upgrade in comfort and practicality. The "Fluffy Cube" series facial tissue is soft and gentle on the skin, while the kitchen roll can absorb oil and trap water effectively, which are popular among consumers, driving the sales growth of the "Fluffy Cube" series.

In terms of wet wipes business, with the rise in health awareness among domestic consumers and their pursuit of quality life, convenient and hygienic wet wipes have become a daily necessity for the public. Consumer demand and penetration rate of domestic wet wipe products have increased continuously, driving the rapid development of the wet wipes market. Leveraging its excellent exceptional product quality and thoughtful packaging design, the Group's wet wipes business maintained strong growth momentum. By launching a diversified wet wipes product portfolio, the Group accelerated penetration into toilet wet wipes, cooling towels, baby wipes, adult wipes, and household cleaning wipes and other market segments, meeting various preferences and demands of consumers, and establishing itself as a market leader. Moreover, the gross profit margin of wet wipes is the highest among tissue paper products, with distinguished profitability. During the period, the gross profit margin of wet wipes was 52.2%. The Group's Hearttex wet wipes are made of high-quality spunlace nonwoven fabric with moisturizing liquid, soft to touch yet strong, and are renowned as the "No. 1 brand in the domestic wet wipes industry". With the Group's continuous deep cultivation of the wet wipes market, its wet wipes business recorded double-digit explosive growth during the period, with sales reaching approximately RMB591,953,000 (2023 first half: RMB491,497,000), representing an increase of 20.4% and accounting for approximately 8.5% of the overall sales of the tissue paper business (2023 first half: 6.9%). As consumers' health awareness continues to enhance, the wet wipes business is expected to maintain significant growth. The Group will continue to seize the opportunities brought by the strong growth momentum of the wet wipes market, expand its market share in the domestic wet wipes market and consolidate its market leadership.

In addition, the Group is also committed to enhancing the brand image of “Hearttex” and demonstrating its care for society. During the period, the Group launched the “Rosy Life” (玫瑰人生) co-branded facial tissue of “Hearttex” and Majid. Majid is a former senior Arabic teacher who tramped the streets of Syria due to the unfortunate of war and illness. He could only stay afloat by selling tissue paper. “Hearttex” sent roses and handwritten letters to Majid and his wife to express the brand’s respect. “Hearttex” also added an illustration of Majid and the quote, “We must live life to the fullest” on the tissue packaging. In addition, the Group invited Majid to participate in a live broadcast, which won high praise from all walks of life. “Hearttex” leveraged its brand influence to raise social awareness of Majid and other socially vulnerable and displaced individuals, thoroughly implementing the brand slogan of “Love in Hearttex” and deepening the warm and caring brand image of “Hearttex”.

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 approximately 6.0%, accounting for nearly 36.4% of the overall sales of tissue paper. In the future, the Group will continue its endeavours in expanding different sales channels, striving for the largest market share.

With the continuous enhancement of living standards and the increasing demand for premium hygiene products, the overall tissue paper market is full of opportunities. In the face of fierce market competition, the Group will develop more high-quality products to meet the diverse needs of customers, improve the cost-effectiveness of tissue paper production, and increase the production capacity of each production base, to fully grasp the business opportunities in the domestic tissue paper market and maintain its leading position in the tissue paper market. During the period, the Group’s annual production capacity increased to approximately 1,630,000 tonnes. The first phase of Xiaogan, Hubei project and part of the Guangdong Yunfu phase I projects have been put into production during the period. It is expected that in the second half of 2024 to early 2025, production capacity of the remaining part of the Guangdong Yunfu phase I will be gradually completed in increasing capacity to respond to market conditions and meet the demand for sales growth.

Disposable Diapers

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. Although the birth rate growth in recent years has slowed down compared with previous years, recognition of domestic baby diaper brands rose among domestic consumers. Therefore, there is huge potential for growth in China’s disposable diaper market.

The Group continues to develop high-quality baby and adult care products to meet customers' growing demand for product quality. During the period, sales of the flagship premium product "Q • MO" maintained good growth, with sales reaching RMB320 million, a year-on-year growth of approximately 34.0%, and its proportion further increased to about 45.0%. In the first half of 2024, the Group strived to strengthen the development of new retail channels and maternity sales channels, with new retail channels and maternity sales channels accounting for approximately 53.5% and 20.0% of sales, respectively. Despite fierce market competition, bolstered by enhanced brand competitiveness, the continuous sales growth of the Group's premium product "Q • MO" and the improvement in sales resulting from the successful rebranding of the "Anerle" (安兒樂) brand to "Sports-style" (運動型) series effectively offset the decline in sales from traditional channels and mid-to-low-end products. On the other hand, benefitting from the growing domestic adult incontinence products market and the continuous increase in the penetration rate of the Group's adult disposable diapers, the sales of the Group's adult disposable diaper business remained stable during the period, accounting for approximately 22.5% of the overall diaper sales. As a result, the sales of the Group's disposable diaper business increased by approximately 7.0% to approximately RMB711,624,000 (2023 first half: RMB665,304,000), accounting for approximately 6.0% (2023 first half: 5.5%) of the Group's overall revenue. The Group believes that the adult disposable diaper market has considerable development potential. With the continuous increase in the proportion of premium baby and adult diaper products, the sales of the Group's disposable diaper business are expected to maintain growth in the second half of 2024. In terms of gross profit margin, the stable price of petrochemical raw materials for disposable diapers during the period, coupled with the increase in the proportion of sales of the higher-margin premium "Q • MO" products led to a substantial increase in the gross profit margin of the diaper business to approximately 45.3% in the first half of 2024 (2023 first half: 36.0%). The Group expects the gross profit margin of the diaper business to further improve in the second half of 2024.

During the period, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding the baby diaper business, the Group continued to rebrand the "Anerle" brand in recent years, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today's consumers, effectively driving an increase in sales. On the other hand, "Q • MO" magic breathing diapers, which have 3.6 times more vents than traditional diapers, are very popular in the market. The Group will continue to optimise diaper products to seize domestic growth opportunities and gain a larger market share. With the dual-brand strategy, the Group expects the sales of the baby diaper business will maintain a steady growth in the second half of 2024.

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

Other Income and Household Products

Regarding other income and household products, the Group's revenue for the period, which mainly includes revenues from raw material trading business, household products business, and Wang-Zheng Group in Malaysia, decreased by approximately 10.7% year-on-year to approximately RMB1,026,745,000 (2023 first half: RMB1,149,896,000). 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 approximately 15.4% to approximately RMB490 million (2023 first half: RMB580 million).

During the period, revenue from the household products business was approximately RMB116,244,000 (2023 first half: RMB126,284,000), representing a year-on-year decrease of approximately 8.0%, accounting for approximately 1.0% of the Group's revenue, which was mainly due to the decline in the export business of household products.

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

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 37 countries and regions, with 54 direct partnerships with major clients or distributors. In the first half of 2024, turnover of overseas channel (including Wang-Zheng Group business) for the period was approximately 833,479,000 (2023 first half: RMB916,810,000), accounting for approximately 7.0% of the Group's overall sales (2023 first half: 7.5%).

During the period, the Group's Wang-Zheng Group business in Malaysia saw a steady development and its turnover amounted to approximately RMB214,540,000 (2023 first half: RMB220,359,000) accounting for approximately 1.8% of the Group's overall sales (2023 first half: 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, and tissue products, cotton products and processed papers. Its brands include "P Love" adult disposable diapers and "Carina" personal hygiene products. The Group 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

New consumption patterns and new forms of business that integrate online and offline channels are developing at an accelerated pace, and the online shopping market is expanding, thereby continuously unleashing consumption potential. According to statistics, the national online retail sales of physical goods reached RMB6.0 trillion in the first half of 2024, representing an increase of 8.8%, of which the online retail sales of daily necessities increased by 7.8%. In order to meet the ever-upgrading needs of consumers, the Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities. During the period, the Group carried out higher quality 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 the first half of 2024, the Group's e-commerce and new retail channels (including Retail Integrated and New Channel) maintained a robust development momentum with outstanding performance during the "618 Shopping Festival" and outperforming the industry. The sales for the period increased by approximately 6.5% to more than RMB3.76 billion (2023 first half: RMB3.50 billion), bringing the proportion of e-commerce sales up to approximately 31.8% (2023 first half: 29.0%) of the Group's overall sales. During the period, new retail channels contributed approximately 36.4%, 25.6% and 53.5% 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 to strengthen the connection with young consumers. The Group also appointed Xiao Zhan, a popular artist, as the global brand ambassador of “Hearttex” to further enhance the brand influence. 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.

Selling and Administrative Expenses

As the Group moderately increased its online marketing investment in the first half of 2024 to capture market opportunities and promote the Group’s key selling products, the Group’s selling and administrative expenses for the period amounted to approximately RMB2,472,296,000, representing a slight year-on-year decrease of approximately 3.6%. The proportion of the Group’s selling and administrative expenses to the total revenue for the period slightly decreased to approximately 20.9% (2023 first half: 21.0%). The Group believes that the total revenue will continue to improve in the second half of year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve.

Foreign Currency Risks

Most of the Group’s income is denominated in Renminbi. During the period, the exchange rate of Renminbi against the U.S. dollar and the H.K. dollar remained relatively stable. The Group recorded an operating exchange loss of approximately RMB35,894,000, representing a decrease of approximately 80.3% (2023 first half: RMB182,426,000).

As at 30 June 2024, apart from certain foreign currency 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 30 June 2024, the Group’s cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB26,075,451,000 (31 December 2023: RMB19,628,406,000); and bank borrowings and other borrowings amounted to approximately RMB20,670,121,000 (31 December 2023: RMB14,237,625,000).

In December 2022, the Group successfully registered super short-term commercial papers in an aggregate amount of not more than RMB5.0 billion. In March 2024, the Group issued two batches of super short-term commercial papers in an aggregate amount of RMB5.0 billion with a coupon rate of 2.1% per annum and tenors ranging from 180 days to 182 days. The proceeds from the issuance of the two batches of super short-term commercial papers are intended to be used to supplement the working capital of the Group and its subsidiaries and to repay their debts.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.05% to 5.39% (2023 first half: from 1.4% to 6.5%)

As at 30 June 2024, 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) was approximately 99.1% (31 December 2023: 69.8%), primarily due to the Group's utilization of low-cost funding for the Company's operations. 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 approximately negative 25.9% (31 December 2023: negative 26.4%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio and maintaining a solid net cash position to ensure a sound financial position.

During the period, the Group's capital expenditure was approximately RMB774,423,000 (2023 first half: RMB989,348,000), primarily allocated to increase the production capacity of various manufacturing facilities. As at 30 June 2024, the Group had no material contingent liabilities.

Human Resources and Management

During the period, the Group actively improved the efficiency of human resources, raised the salaries of employees to the industry level, and implemented a more scientific and reasonable "target remuneration" system by linking the salary system with the staff duties and responsibilities and task goals, thus stimulating the staff enthusiasm for work, and improving work efficiency. As at 30 June 2024, the Group employed approximately 24,000 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.

Latest Awards

In the first half of 2024, awards and honours won by the Group were as follows:

Awards/Honours	Organisation
Quanzhou Charity Enterprise	Quanzhou Municipal People's Government
Key Industry Energy Efficiency "Leading" Enterprise — Hengan (China) Paper Co., Ltd.	General Office of the Ministry of Industry and Information Technology, National Development and Reform Commission, and State Administration for Market Regulation
Ranked 89th on the 2024 Top 100 Annual Brand List — Hearttex	Sina Finance, China Brand Innovation Lab, and Mido
China's Baby Diaper Industry, China's Feminine Hygiene Products Industry, China's Adult Incontinence Products Industry, Top 10 Enterprises in China's Wipes Industry 2023	China Technical Association of Paper Industry
Top 10 Technological Innovation Enterprises in China's Tissue Paper Industry 2023	China Technical Association of Paper Industry
2024 China Hygiene Products Industry Ingenuity Product — Anerle (安爾樂), Anerle (安兒樂) and ElderJoy (安而康)	China Technical Association of Paper Industry
Deputy Director Unit	Hygiene Products Committee of China Technical Association of Paper Industry
Top 10 Preferred Brands and Fastest Growing Brands in 2023 by Chinese Consumers — Hearttex	Kantar Worldpanel
All-Asia Executive Team 2024: Most Honoured Company and Best ESG	Institutional Investor

Corporate Social Responsibility

With the aim of sustainable development, Hengan made unremitting efforts for continuous improvement in the five key areas of innovative research and development, philanthropy, low-carbon and environmental protection, talent development, health and safety, and facilitates the harmonious coexistence of the environment, society, and the economy in order to move towards the goal of “gain RMB100 billion within 100 years”.

With the concerted efforts of all stakeholders, Hengan has continuously strengthened the transparency of ESG information disclosure and improved the ESG ratings. Among them, the MSCI ESG rating went up to BBB and the FTSE Russell ESG rating score has been upgraded for two consecutive years, which enabled Hengan’s inclusion in the FTSE4Good Index. Also, the Group has been successfully selected into “*the Sustainability Yearbook (China Edition)*” released by S&P Global for two consecutive years in 2023 and 2024.

Innovative Research and Development

Adhering to the “consumer-oriented” market principle, the Group is committed to its corporate vision of “to become global top-tier supplier of daily products through ongoing innovations and provision of premium products and services”. The Group is deeply engaged in the frontline of innovative research and development, and is constantly exploring new technologies and products to drive growth through innovation to provide the public with more high-quality and reliable personal and household hygiene products.

In response to the market trend of green consumption, the Group integrates ecological and environmental friendliness into its design philosophy, leveraging its innovation capabilities to explore the use of green raw materials. We established a biodegradation evaluation system to accelerate the assessment of the biodegradability of new materials and planned the sustainable development platform for plastics with the principles of reduction, reuse, recycling, degradation and functionality, developing biodegradable plastics to enhance the health and environmental attributes of products and reduce the impact on the environment.

In addition to green considerations, we have continued to improve product quality control, investing heavily in the upgrading of quality monitoring equipment to enhance the efficiency and accuracy of identifying quality issues. To provide consumers with a more comfortable and caring product, we have added customer experience simulation to the scope of consideration, to continuously iterate the production quality indicators. In addition, we pay attention to regulations and standards related to chemical management on an ongoing basis and phase out and update chemicals to ensure product safety and consumer responsibility.

In the first half of 2024, Hengan released the first domestic TAD product, Hearttex Velvet Cube Tissue, which is subversive in comfort and practicality. Moreover, as a top brand in the household paper industry, Hearttex launched the initiative of “100% virgin wood pulp as the quality certification logo of household paper” and promulgated the 100% virgin wood pulp logo, aiming to standardize the identification criteria for the best household tissues and promote the upgrade of the quality of the household paper industry.

Philanthropy

As a socially responsible enterprise, Hengan has always adhered to the mission of “Growing with you for a better life” and has actively participated in charitable activities. Concerned about the education of girls in remote mountainous areas, caring for autistic children, and calling for attention to the elderly, as a leading enterprise of domestic household living products, Hengan is committed to caring for families and different groups in the society, and carries out the social responsibility to the end with original intention.

In January 2024, in the activity of caring for female soldiers stationed at the western border of the motherland, Hengan specially prepared 2,000 boxes of sanitary packages, so as to express the respect and honor to the Mulan who guards the motherland border with loyalty, struggle and dedication. In April, the Group donated RMB20 million through the Quanzhou Charity Federation Autism Care Fund to convey love and warmth to autistic people and families in need. In May, Hengan donated 1,630 gift packages to the nurses of the First Affiliated Hospital of Xiamen University together with Xiamen Renshan Medical Aid and Medical Career Development Foundation, as a token of the high regards and best wishes.

In the first half of 2024, Hengan was honored as the “2023 Weibo Model Charity Partner”. At the Quanzhou Charity Conference, Hui Lin Chit’s family was honored as “Quanzhou Charity Family”, and Hengan was honored as “Quanzhou Charity Enterprise”. Mr. Sze Man Bok, Chairman of the Group, and Mr. Hung Ching Shan, former Executive Director of the Group, were honored as “Quanzhou Charity Ambassadors”.

Low-Carbon and Environmental Protection

The Group incorporates the concept of green and sustainable development into its operation, actively engaging in green, low-carbon planning and construction, developing more comprehensive climate change management strategies, actively focusing on climate change risks and responses, and optimizing energy conservation, emission reduction, and biodiversity conservation measures, contributing to the realization of dual-carbon goal and green transformation.

Hengan commits to continuously advancing responsible pulp procurement and working together with suppliers to promote the sustainable development of the pulp supply chain, launching “*the Zero Deforestation Commitment*” to protect the forest resources essential for human survival. 100% of pulp suppliers holding Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) system certificates with six of Hengan’s paper companies achieved FSC-CoC certification.

Hengan has continuously introduced advanced technological equipment and integrated the concept of sustainability into the entire life cycle of our products, promoting the digital management of logistics system, manufacturing, packaging, etc., increasing the use of new energy vehicles, exploring the optimization and upgrading of packaging materials to reduce plastics usage, implementing of energy-saving projects such as the motor replacement, laying out distributed photovoltaic power generation projects, building energy management centers, implementing water conservation measures, and applying advanced production process control technology etc., steadfastly following the path of high-quality development with ecological priority, green, and low-carbon orientation.

During the reporting period, Hengan (China) Paper Co., Ltd. became the only enterprise in the household paper and tissue paper industry to be selected as one of the enterprises on the 2023 “*List of Energy Efficiency Leaders in Key Industries*”, which demonstrated that Hengan was highly recognized for the efforts and achievements on energy efficiency management and sustainable development.

Talent Development

The Group regards its employees as the most invaluable asset, launching the “*Living Wage Commitment*”, providing them with a comprehensive and reasonable compensation and benefits system and earnestly safeguarding their legal rights and interests. Hengan actively implements the principle of equal employment opportunities, establishing a “*Human Rights Policy*” and an “*Anti-Discrimination and Anti-Harassment Policy*”, to cultivate a diverse, equitable, and inclusive workplace environment. It adopts a zero-tolerance policy towards any form of discrimination against employees based on race, religious beliefs, gender, age, sexual orientation, disability, nationality, or other such grounds.

The Group formulated the “Overall Framework of the Talent Training System” to provide employees with comprehensive skills and quality training at different levels and stages. Also, the Group continuously improves the dual-channel career development and supporting mechanisms for management and technical directions, and screens outstanding employees to enter the promotion pipeline, fostering mutual growth between employees and the corporation. Meanwhile, the Group focuses on cultivating internal trainers to build an inward talents training base. In the first half of 2024, the Group provided employees with diversified training programs to help employees improve their professionalism, break through the existing cognition and thinking, and adapt to the ever-changing market environment.

As of 30 June 2024, Hengan had approximately a total of 24,000 full-time employees, of which 55.13% were female employees, the total number of training hours exceeded 202,300 hours, the number of management positions promoted was 101, and the percentage of employees joining the labour union was 100%.

Health and Safety

Hengan regards safety as the eternal theme, formulates comprehensive safety management principles and objectives, implements sound management and established control procedures, implements the responsibility of production safety and continuously improves safety management capabilities and performance. The Group established the ISO 45001 Occupational Health and Safety Management System and passed the certification. It set up a Safety Management Committee as a comprehensive safety management leadership and decision-making body, and built a safety management process for the entire life cycle and comprehensive safety risks emergency measures to create a safe and healthy working environment. Hengan has steadily implemented the comprehensive safety management strategy and successfully entered the phase II of the comprehensive safety management, striving to become a benchmark enterprise in safety management in the industry.

In the first half of 2024, Hengan launched the five-phase comprehensive safety program and set up the Three-zero Program goal of “zero hidden danger, zero violation and zero accident”. During the reporting period, Hengan held the “2024 Production Safety Month Launch Meeting” and planned a series of activities around the theme of “Everyone Stresses Safety, Everyone Masters Emergency Response-Open up the life channel” to comprehensively popularising safety knowledge and strengthening the awareness of safety prevention.

While the Group is committed to maintaining the occupational health and safety of its employees, we also care about the mental health of employees. We carry out various cultural activities to enrich the leisure time of employees, regularly visits and provides support and assistance to the families of employees in difficulty and employees with disabilities, thus improving employees’ sense of happiness.

Outlook

Looking ahead to the second half of 2024, the geopolitical tensions and ongoing trade frictions, coupled with the persistently high interest rate environment, are expected to continue weighing on investment and consumer confidence. Faced with the complicated external environment, China’s economy will further consolidate its recovery and upward trajectory. It is expected that the government will continue to actively implement macro-control policies, increase efforts to boost domestic consumption demand and promote high-quality economic development. As necessities, household products will continue to benefit from the trend of consumption upgrading. The Group will continue to pay close attention to the domestic and international political and economic developments, as well as changes in market trends, respond flexibly and make prudent decisions.

With pulp suppliers raising prices, wood pulp prices are expected to rebound in the second half of 2024. The Group will reduce expenses, continue to increase the proportion of premium products, and improve sales performance to offset the impact of rising wood pulp prices on the gross profit margin, striving to maintain a stable gross profit margin. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other materials.

Despite the intensified competition in the domestic daily necessities market, with the continuous improvement of national environmental standard and the promotion of the carbon peak and carbon neutrality goals, it is anticipated that price promotion strategies in the industry will slow down. The Group will adhere to its core strategy of “stable pricing”, maintain a sound level of liquidity and capture the opportunities of industry consolidation. Hengan, leveraging its leading research and development and production capabilities and excellent brand image, coupled with its extensive nationwide distribution and diversified product portfolio, still demonstrated strong resilience in a challenging operating environment, successfully seized the opportunity of industry consolidation, and further expanded market share.

As a leader in the industry, Hengan centres around long-term development to formulate business strategies and allocate resources. The Group will actively implement the three core strategies, including “focus on main businesses”, “brand leadership” and “long-termism”, so as to lay a solid foundation for the sustainable development of the Group. The Group will focus on the development of the three core businesses of tissue paper, sanitary napkin and disposable diapers, actively develop higher quality new products and expand into new markets, accelerate omni-channel penetration into rural markets and online and offline markets in mainland China, and seize the huge development opportunities in the domestic daily necessities market.

In the future, the Group will further optimise the brand image of its products through strategies such as product premiumisation, new packaging, and precise allocation of marketing resources. Additionally, the marketing department will comprehensively enhance the brand image to encourage consumers to purchase Hengan products. The Group will continue to enhance its product mix and accelerate product premiumisation, such as the hot-selling series “Q • MO”, “Cloudy Soft Skin”, “Heavenly Mountain Cotton” and “Fluffy Cube”, so as to improve the Group’s profitability, further develop online and offline sales channels and promote the joint development of multi-channels to expand its customer base.

The Group will also continue to optimise the organisational structure, strengthen the development of young professional team, improve team efficiency, and allocate resources to technological applications in order to improve infrastructure and enhance supply chain efficiency. These efforts include enhancing supply chain management efficiency through the IBM Blockchain Platform (IBP) and the cloudification of the SAP system, which aim to improve the quality of the system, enable effective monitoring of operational data and improve operational visibility to facilitate the formulation of appropriate business strategies.

In order to continue to consolidate the Group's market leadership in tissue paper and hygiene products and meet domestic consumers' demand for high-quality products, the Group plans to carry out production capacity expansion and technological upgrades in the future, including the establishment of a new upgraded hygiene products and raw materials in Neikeng, Fujian, and the expansion of tissue paper production capacity in Yunfu, Guangdong. It is expected that the new production capacity will be put into operation successively in the second half of 2024 and 2025.

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

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of RMB0.70 per share (2023: RMB0.70 per share) for the six months ended 30 June 2024 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 13 September 2024. Dividend warrants will be despatched to shareholders on or about 10 October 2024.

Dividends payable to shareholders will be paid in Hong Kong dollars ("HK\$"). The exchange rate adopted by the Company for its dividend payable is the middle exchange rate of HK\$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration.

The Register of Members of the Company will be closed from 11 September 2024 to 13 September 2024 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on 10 September 2024.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2024.

AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises four independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2024.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2024, the Company has adopted the Model Code as set out in Appendix C3 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2024, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules of the Stock Exchange during the period, except that Ms. Wong Ying Kay Ada, independent non-executive directors of the Company, was unable to attend the annual general meeting of the Company held on 17 May 2024 due to other engagements at that time.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hengan.com), and the Interim Report will be published on the respective websites of the Stock Exchange and the Company, and will be despatched to the Shareholders who have already provided instructions indicating their preference to receive hard copies in due course.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board
Hengan International Group Company Limited
Sze Man Bok
Chairman

Hong Kong, 19 August 2024

As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hui Ching Lau, Mr. Xu Da Zuo, Mr. Sze Wong Kim, Mr. Hui Ching Chi, Mr. Li Wai Leung and Mr. Xu Wenmo as executive directors, and Mr. Theil Paul Marin, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching, Mark and Mr. Chen Chuang as independent non-executive directors.