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

ANNUAL REPORT 2022

CORPORATE MISSION

"GROWING WITH YOU *FOR* A BETTER LIFE"

has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of" Integrity, Diligence, Innovation and Dedication". Our goal is" to build an effective corporate management and to develop a high quality, ethical and enthusiastic staff team". By building an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market need, Hengan International will become global top-tier supplier of daily products.

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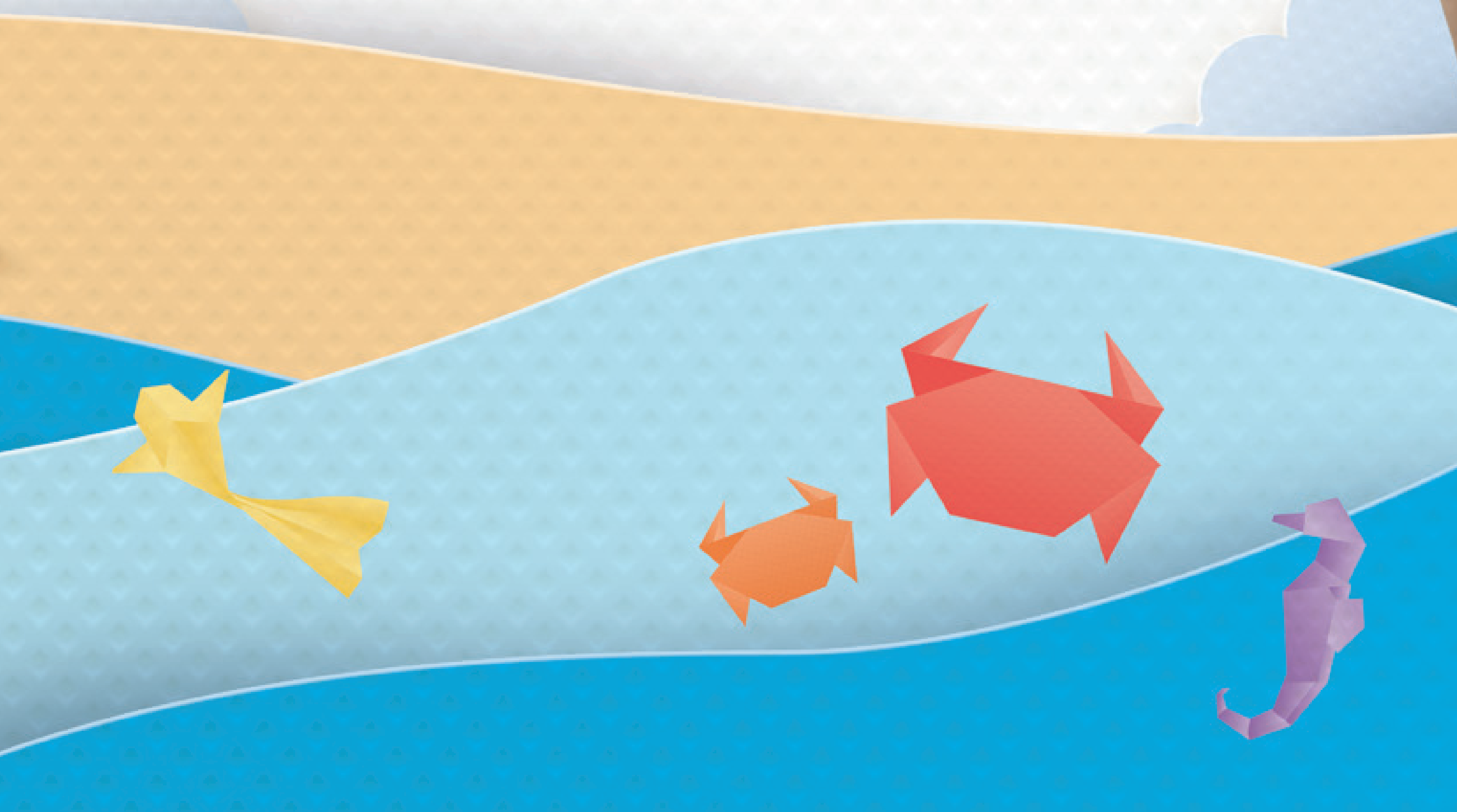


CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Sze Man Bok *(Chairman)*
Hui Lin Chit *(Vice-Chairman)*
Hung Ching Shan
Hui Ching Lau *(Chief Executive Officer)*
Xu Shui Shen
Xu Da Zuo
Xu Chun Man
Sze Wong Kim
Hui Ching Chi
Li Wai Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Ada Ying Kay Wong
Ho Kwai Ching Mark
Theil Paul Marin
Chen Chuang

COMPANY SECRETARY

Li Wai Leung *FCPA, FCPA (Aust.)*

AUTHORISED REPRESENTATIVES

Hui Ching Lau
Li Wai Leung

LEGAL ADVISERS

Hong Kong
ReedSmith Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder (Hong Kong) LLP

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

http://www.hengan.com
http://www.irasia.com/listco/hk/hengan

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

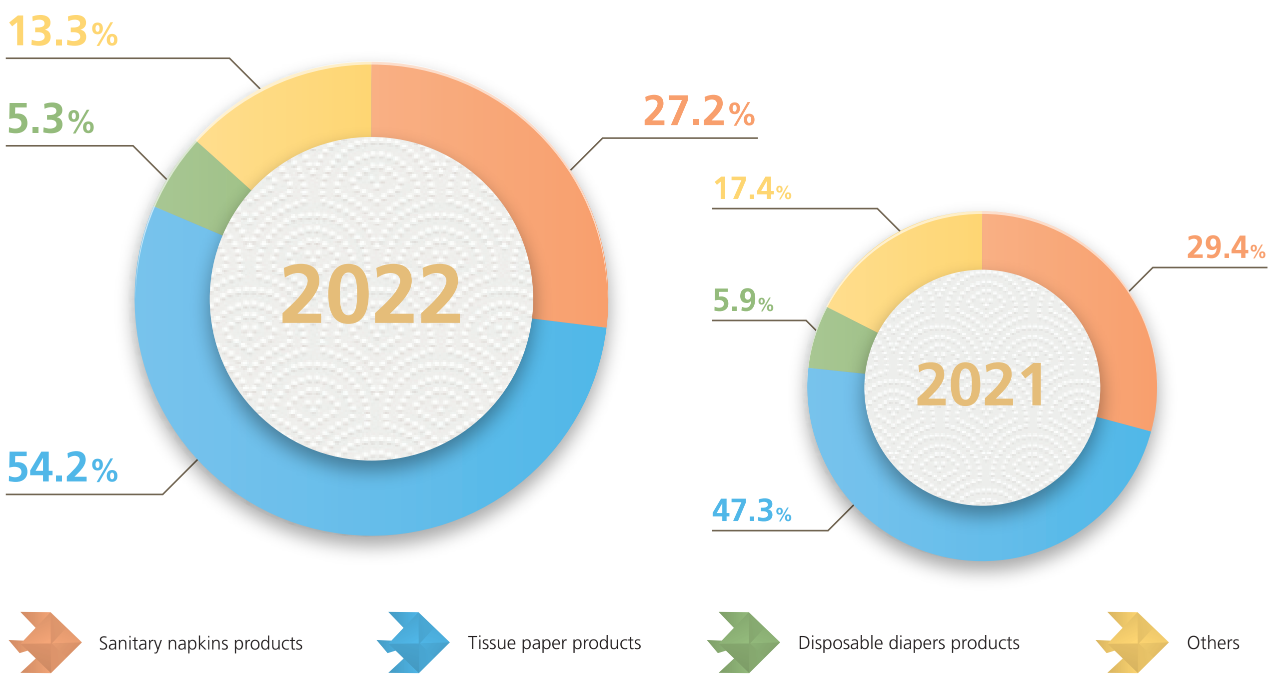
INVESTORS AND MEDIA RELATIONS

iPR Ogilvy Ltd.
40th Floor, China Online Centre
333 Lockhart Road
Wan Chai
Hong Kong

FINANCIAL HIGHLIGHTS

	2022	2021	2020	2019	2018
Net profit margin – based on profit attributable to shareholders of the Company (%)	8.5	15.7	20.5	17.4	18.5
Earnings per share – basic (RMB)	1.657	2.786	3.864	3.285	3.151
Finished goods turnover (days)	43	50	49	43	41
Trade receivables turnover (days)	48	56	57	53	46
Current ratio (times)	1.4	1.2	1.4	1.3	1.3
Gross gearing ratio (%)	87.2	95.7	107.3	120.9	145.1
Net gearing ratio (%)	(23.2)	(21.3)	(16.1)	(7.6)	(9.9)

ANALYSIS OF REVENUE BY PRODUCT

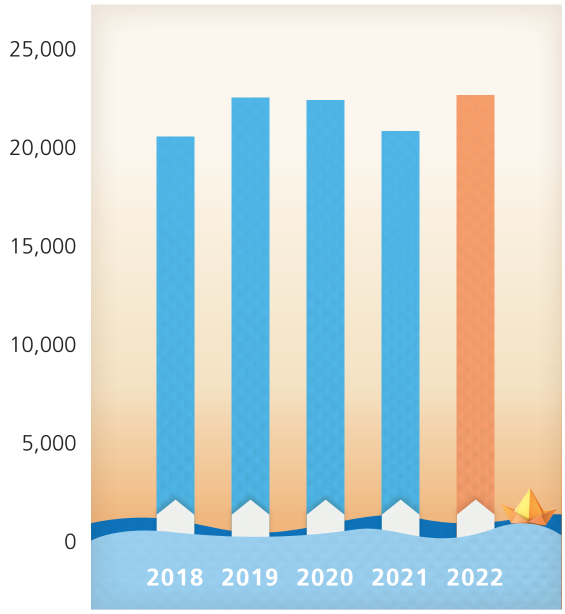


FIVE-YEAR FINANCIAL SUMMARY

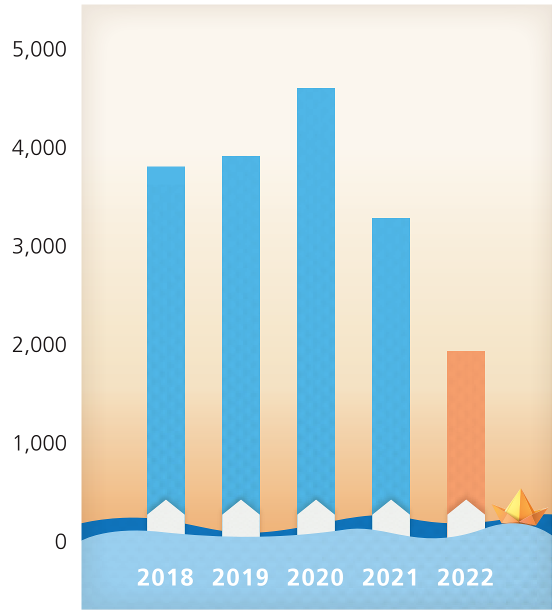
CONSOLIDATED RESULTS – FOR THE YEAR ENDED 31 DECEMBER

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	22,615,878	20,790,144	22,374,001	22,492,845	20,513,881
Profit before income tax	2,833,286	4,329,566	5,961,422	5,046,887	4,904,394
Income tax expense	(883,986)	(1,039,362)	(1,352,980)	(1,129,784)	(1,097,261)
Profit for the year	1,949,300	3,290,204	4,608,442	3,917,103	3,807,133
Non-controlling interests	(24,051)	(16,603)	(13,627)	(9,380)	(7,328)
Profit attributable to shareholders of the Company	1,925,249	3,273,601	4,594,815	3,907,723	3,799,805
Earnings per share – basic (RMB)	1.657	2.786	3.864	3.285	3.151

REVENUE
RMB million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY
RMB million



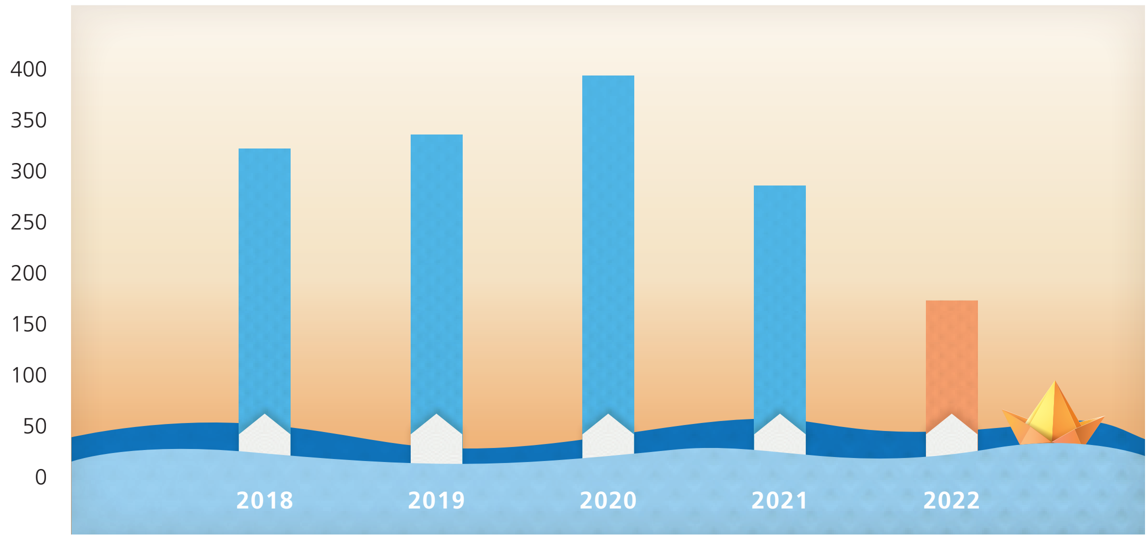
FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED ASSETS AND LIABILITIES – AS AT 31 DECEMBER

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Assets					
Property, plant and equipment	7,099,255	7,296,727	7,571,430	7,822,457	8,095,356
Right-of-use assets	1,192,081	979,055	970,171	988,245	–
Construction-in-progress	969,210	509,647	489,052	543,534	580,790
Investment properties	166,696	216,293	213,609	226,233	225,036
Land use rights	–	–	–	–	844,532
Intangible assets	656,976	724,778	755,444	724,620	686,558
Prepayments for non-current assets	460,660	468,652	327,989	120,293	124,187
Deferred income tax assets	532,204	544,762	435,853	213,211	132,344
Investment in associates	43,576	53,330	97,188	101,670	101,670
Financial assets at fair value through profit or loss	212,572	194,342	156,593	–	–
Cash and bank balances	18,667,492	18,246,687	20,483,739	20,540,270	21,576,830
Long-term bank deposits	2,895,490	4,035,960	3,482,147	2,430,082	4,338,000
Other current and non-current assets	9,441,030	9,022,515	9,457,710	9,528,160	8,946,849
Total assets	42,337,242	42,292,748	44,440,925	43,238,775	45,652,152
Liabilities					
Long-term borrowings	2,001,334	739,342	2,492,618	1,246,992	4,240,286
Deferred income tax liabilities	149,433	224,633	216,222	171,467	160,170
Other current and non-current liabilities	20,410,738	22,048,323	22,070,611	23,668,438	24,253,017
Total liabilities	22,561,505	23,012,298	24,779,451	25,086,897	28,653,473
Non-controlling interest	252,130	243,410	250,084	278,937	273,519
Net assets attributable to shareholders of the Company	19,523,607	19,037,040	19,411,390	17,872,941	16,725,160

EARNINGS PER SHARE

RMB Cents



COMPANY PRODUCT SERIES

- A “ANERLE” AND “Q • MO” BABY DIAPERS
- B “HEARTTEX” CLEANSING PRODUCTS AND “MISSMAY” PERSONAL CARE PRODUCTS
- C “HEARTTEX” AND BANITOR WET TISSUES
- D “HEARTTEX”, “H’YEAS” AND “HOMELINE” GARBAGE AND FOOD BAGS, PRESERVATION PAPER, TABLE CLOTH AND DISPOSABLE TOILET BRUSH
- E “七度空間” (“SPACE 7”), “ANERLE” SANITARY NAPKINS, PANTILINERS AND OVERNIGHT PANTS
- F “BANITORE” FIRST-AID PRODUCTS AND ”BENDI” ENEMA
- G “HEARTTEX”, “PINO” AND “BAMBOO Π” POCKET HANDKERCHIEFS, BOX AND SOFT TISSUE PAPER, KITCHEN TOWELS/PAPER AND TOILET ROLLS
- H “ELDERJOY” AND “BANITORE” ADULT CARE PRODUCTS

B

D

F

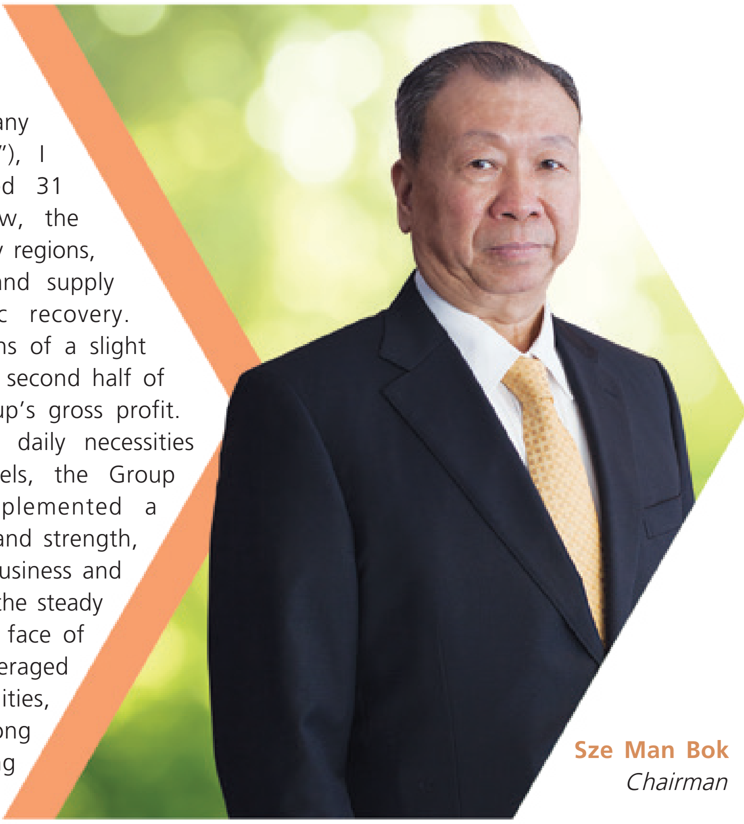
G


A
C
E
H

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present its annual results for the year ended 31 December 2022. During the year under review, the coronavirus epidemic once again broke out in many regions, and geopolitical tensions exacerbated inflation and supply chain bottlenecks, impeding global economic recovery. Although the price of wood pulp has shown signs of a slight decline recently, it rose to a historical high in the second half of 2022, which put significant pressure on the Group's gross profit. Despite the fierce competition in the domestic daily necessities market and the fragmentation of sales channels, the Group adhered to a rational pricing strategy, implemented a premiumisation strategy, continued to enhance brand strength, stepped up its efforts in developing e-commerce business and expanding new retail markets, while strengthening the steady growth momentum of traditional channels. In the face of a challenging operating environment, Hengan leveraged its solid comprehensive strength to seize opportunities, further expand market share, and demonstrate strong business resilience, consolidating the Group's leading position in the market.



Sze Man Bok
Chairman

For the year ended 31 December 2022, the Group's revenue amounted to approximately RMB22,615,878,000 (2021: RMB20,790,144,000), representing an increase of 8.8% as compared to the previous year. Profit attributable to the shareholders of the Company fell to RMB1,925,249,000 (2021: RMB3,273,601,000). After deducting the exchange losses from operating activities – net after tax, the profit attributable to shareholders of the Company only decreased by approximately 10.6% year-on-year. Basic earnings per share was approximately RMB1.657 (2021: RMB2.786). The Board of Directors recommended the payment of a final dividend of RMB0.70 per share (2021: RMB0.70 per share), which together with the interim dividend of RMB0.70 per share (2021: RMB1.00 per share), brings the total dividend for the year to RMB1.40 per share (2021: RMB1.70 per share).

New consumption patterns have become a major trend under the new normal in the post-pandemic era, while domestic e-commerce and new retail channels continue to thrive. Hengan embraced the opportunities brought about by the transformation of consumption patterns. While actively expanding its e-commerce platforms and new retail channels, Hengan strengthened the Group's sales advantages in traditional channels and enhanced its omni-channel sales capabilities. During the year, the Group made good progress in the development of e-commerce and other new retail channels, which effectively improved its market share. As a result, the proportion of e-commerce sales rose to approximately 26.9%, and sales from other new retail channels accounted for more than 13.0% of the Group's overall sales.

Benefiting from the steady rise in national income and the sustained high level of health awareness, China's consumer market continues to expand, and consumer demand brought by consumption upgrade continues to be released, driving the personal and household hygiene products industry to move towards premiumisation and refined development. The escalating population ageing of China continues to prompt the rapid development of the elderly care industry. Since the current penetration rate of adult incontinence products in China is still far lower than that of mature foreign markets, the adult disposable diapers market offers huge potential for development. High-quality products and good reputation will be the key to Hengan's success in tapping the immense growth potential of the adult incontinence products market.

With the support of strong research and development and production capabilities as well as solid brand advantages, the Group actively developed premium products and optimised product portfolio, which effectively enhanced the market share and brand reputation, and seized market opportunities. During the year, the Group's premium tissue paper series "Cloudy Soft Skin" (雲感柔膚) and premium disposable diapers series "Q • MO", which were in great demand, posted

CHAIRMAN'S STATEMENT

good sales growth and continued to gain market share. The Group's new premium sanitary napkin series "Fruit Moisturizing series" (果滋潤) launched during the year also received enthusiastic response, adding momentum to the sales of the sanitary napkin business. The Group fully grasped the growth opportunities in China's adult incontinence product market, and continued to increase market penetration of its adult disposable diapers brand, "ElderJoy" (安而康). The sales of the Group's adult disposable diapers business maintained a robust growth momentum, accounting for approximately 23.7% of the overall sales of its disposable diapers business. In the future, the Group will press ahead with its premiumisation strategy, devote more resources to develop more high-quality products, and strive to increase the proportion of premium products, driving the long-term growth of the Group's overall revenue and profit.

Looking forward to 2023, with the optimisation and adjustment of domestic epidemic prevention and control measures, consumer demand will be gradually released, which will promote the steady recovery of China's economy. The long-term sound fundamentals of China's economy are still in place. China is firmly implementing the strategy of expanding domestic demand, accelerating the upgrading of consumption quality, cultivating new types of consumption, and accelerating the release of consumption potential. The national living standards will be further improved, driving consumers demand for high-quality hygiene products and daily necessities and offering promising prospects for the development in the domestic hygiene and daily necessities market. The Group will keep abreast of the consumption upgrade trend, continue to focus on the premiumisation strategy for future development, research and develop more premium and upgraded products, and gain an in-depth understanding of diversified consumer needs. At the same time, the Group will pay close attention to changes in market trends, flexibly transform products, channels and sales strategies, so as to consolidate the Group's industry leadership.

Adhering to the mission of "Growing with You for a Better Life", Hengan implemented three core strategies, including "focus on main businesses", "brand upgrade", and "long-termism", laying a solid foundation for the long-term sustainable development of the Group. The Group will focus on the development of the three main businesses of tissue paper, sanitary napkin and disposable diapers, and capture the growth opportunities brought about by domestic consumption upgrade. In addition, the Group will continue to comprehensively enhance its omni-channel sales capabilities, strengthen its differentiated competitive advantages, further enhance its brand value and market share in domestic and foreign markets, striving to become a "global top-tier supplier of daily products".

Hengan truly understands that employees are the primary support for the sustainable and sound development of the Group. Employees are also an important asset of the Group. For this reason, the Group actively cultivates and retains talents, and insists on aligning employees' interests with Hengan's interests, enabling employees to grow with the Group. During the year, the Group granted 44,747,000 share options to certain directors and employees of the Group in January and granted 1,526,000 share options to employees in December to motivate the team to make continuous improvement, thereby realising a win-win situation between corporate value and personal value.

Lastly, I would like to take this opportunity to express my gratitude to every member of staff for their unremitting efforts in the past year, working with the Group to promote the long-term development of Hengan. At the same time, I would like to thank business partners for their support and shareholders for their long-standing support and trust, growing with the Group. All members of Hengan International's staff will continue to do their outmost to lead the Group to a more prosperous future and create sustainable return for shareholders.

Sze Man Bok
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

In 2022, high inflation and sharply tightened monetary policies in major advanced economies curbed global demand and hindered the pace of global economic recovery. The volatile coronavirus epidemic situation and geopolitical tensions have also added uncertainties to the global economy. Under the impact of the epidemic control measures, China's gross domestic product ("GDP") increased by only 3.0% year-on-year to RMB121.02 trillion in 2022. The epidemic has disrupted economic activities and weakened consumer sentiment. In 2022, the total retail sales of consumer goods decreased by 0.2% year-on-year. The overall operating environment was very challenging, and high raw material prices accelerated industry consolidation. Leveraging its strong competitive advantages and effective sales strategies, Hengan seized the opportunity of eliminating the weak and retaining the strong in the industry, further expanded its market share, and demonstrated strong business resilience.

Hui Ching Lau
Chief Executive Officer

Under the New Normal in the post-pandemic era, the popularisation of new consumption patterns is accelerating, and the market penetration of domestic e-commerce platforms and new retail channels continues to increase. Hengan stimulated the consumption potential released by the transformation of consumption patterns. During the year, Hengan greatly expanded the e-commerce platforms and new retail channels through effective price stabilisation strategies and continuous launch of upgraded products. It also promoted sales and created new growth points in traditional channels, and achieved good results in omni-channel development. Therefore, for the year ended 31 December 2022, the Group's revenue increased by 8.8% to approximately RMB22,615,878,000 (2021: RMB20,790,144,000) as compared to last year. Benefitting from the ongoing omni-channel strategy and continuous enhancement of the brand image, the Group's revenue is expected to maintain growth in 2023.

In 2022, 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")) to actively seize business opportunities and market share. During the year, the Group further increased its proportion of e-commerce sales (including Retail Integrated ("零售通") and New Channel ("新通路")) to close to approximately 26.9% (2021: 23.1%), of which other new retail channels (including online-to-offline (O2O) platform, community group-buying, etc.) have also made good progress with sales accounting for more than 13.0% of the overall sales. The Group is also committed to developing premium products and continuously optimising its product mix, while enhancing its brand image to cater to domestic consumers' pursuit of quality of life and high-quality diversified products. The premium tissue paper series "Cloudy Soft Skin" (雲感柔膚) and the premium disposable diapers series "Q • MO" were well received by consumers during the year and maintained a strong sales momentum. The sales of various upgraded and premium products also achieved good year-on-year growth.

During the year under review, rising raw material prices and operating costs brought huge challenges to the industry, which accelerated market consolidation of eliminating the weak and retaining the strong. Hengan, with its advantage of scale, strong brand, and rapid adaptability, successfully expanded its market share against the sluggish market. However, the price of wood pulp, the main raw material of tissue paper, remained high during the year due to geopolitical upheavals, the epidemic, and inflation, and rose to a record high in the second half of the year. Focusing on the long-term development of the brand, the Group adopted a stable pricing strategy and restrained sales promotions during the year. Although the Group's upgraded products and premium product series both grew significantly during the year, which helped partially offset the impact of the soaring price of raw material for tissue paper production, the gross profit of the tissue paper segment was still under significant pressure. In 2022, the Group's overall gross profit decreased by approximately 1.1% to approximately RMB7,689,499,000 (2021: RMB7,772,318,000), and the overall gross profit margin dropped to approximately 34.0% (2021: 37.4%) due to the price hike in raw material. Although the price of

CHIEF EXECUTIVE OFFICER'S REPORT

wood pulp is expected to drop from the high level, the extent of the decline is still uncertain. In addition, the Group still needs to consume the existing high-cost inventory in most of the first half of 2023. It is expected that the positive impact of the decrease in wood pulp price will be reflected in the cost of the tissue paper segment in the second half of 2023, and the gross profit margin will improve by then.

During the year, operating profit fell approximately 36.9% to approximately RMB2,869,154,000 (2021: RMB4,543,591,000). Although the Group's sales achieved market-defying growth, the sharp depreciation of the Renminbi against the US dollar and HK dollar during the year resulted in a substantial foreign exchange loss before tax of about RMB912,865,000 in the Group's operations. Therefore, profit attributable to shareholders of the Company was approximately RMB1,925,249,000 (2021: RMB3,273,601,000), representing a year-on-year decrease of approximately 41.2%. If deducting the operating foreign exchange loss (net after tax), profit attributable to shareholders of the Company would only decrease by approximately 10.6% year-on-year. Basic earnings per share was approximately RMB1.657 (2021: RMB2.786).

The Board of Directors declared a final dividend of RMB0.70 per share (2021: RMB0.70 per share) for the year ended 31 December 2022, together with the interim dividend of RMB0.70 per share (2021 first half: RMB1.00 per share) already paid, total dividend for the year amounted to RMB1.40 per share (2021: RMB1.70 per share) or RMB1,626,970,000 (2021: RMB1,988,606,000), accounting for approximately 84.5% (2021: 60.7%) of the profit attributable to shareholders of the Company. This ratio is calculated by dividing total dividend by the profit attributable to shareholders of the Company.

Sanitary Napkin

China has the world's largest feminine care products market. The growing awareness of feminine care and increasing spending power in China have led to a continuous expansion of the feminine care products market. However, the market competition is very fierce. During the year, many domestic and foreign brands adopted price reductions and aggressive sales promotion strategies to tap into the mid-to-high-end market and young consumers, in an attempt to seize market share in third- and fourth-tier cities. Instead of blindly fighting the price wars, Hengan adhered to a rational and stable pricing strategy to maintain its brand image, and accelerated product upgrades and premiumization, continued to enhance its brand image and strengthen the Group's leading position in the mid-to-high-end market and traditional sales channels. The Groups' upgraded sanitary napkin products, such as the "Ultra-thin for Teen Girls" (少女特薄) and "Pants-style" (褲型) series, were well received by consumers due to their excellent quality and brand image, driving the sales growth of the overall sanitary napkin business.

New consumption patterns have accelerated the fragmentation of sales channels. E-commerce platforms and other emerging retail channels (including O2O platforms, community group-buying) continue to flourish. The Group fully captured the opportunities of new consumption trends, actively expanded emerging channels, and maintained its leading edge in traditional channels, which effectively boosted sales of sanitary napkins and maintained market share. During the year, the Group achieved satisfactory sales in new retail channels. Despite the severe epidemic situation and fierce market competition, the Group's sanitary napkin business still saw growth in its revenue. In 2022, the revenue of the Group's sanitary napkin business increased by approximately 0.7% to approximately RMB6,156,060,000 (2021: RMB6,116,530,000), accounting for approximately 27.2% (2021: 29.4%) of the Group's overall revenue. Driven by the higher proportion of upgraded and premium products and the continuous growth of traditional sales channels, it is expected that the Group's sanitary napkin business in 2023 will maintain a steady growth in its revenue.

As the Group adhered to a stable pricing strategy and the price of petrochemical raw materials, the main raw material for sanitary napkins, dropped due to the decline in petroleum and commodity prices in the second half of the year, the gross profit margin of the sanitary napkin business improved in the second half of the year compared to the first half of the year. The overall gross profit margin in 2022 dropped by approximately 3.7 percentage points to approximately 66.8% (2021:

CHIEF EXECUTIVE OFFICER'S REPORT

70.5%), which slightly improved from 65.3% in the first half of 2022. Benefiting from the steady increase in the proportion of premium and upgraded products which offset the temporary rising cost pressure, the gross profit margin is expected to remain stable in 2023.

The Group's sanitary napkin brand, 七度空間 has always been a leader in the domestic market, and has long secured a leading position in terms of sales volume and market share. The Group continued to launch upgraded and premium products to enhance the brand image, cater to the premiumization trend of the feminine care products market and meet consumer needs. In recent years, the upgraded products such as the "Ultra-thin" (特薄), "Extra-long – Night Use" (加長夜用) and "Pants-style" series, were well received by the market. Among them, the newly launched "Fruit Moisturizing series" (果滋潤系列) received an overwhelming response, resulting in a continuous rise in the market share of this product. During the year, the Group "Space 7" signed female artists with bright and positive image, including actress Zhao Jinmai, as brand ambassadors to inject youthful vitality into the brand. With the theme of "Freedom Without Limits", the Group launched a variety of promotional activities, such as brand ambassadors live streaming and lucky draws, to further enhance the brand image and tap into young consumers.

In addition, the "Pants-style" series has immense growth potential. The Group will continue to vigorously promote the "Pants-style" series of products to consumers, and plans to launch an upgraded version of "Sweet Dream Pants" (萌睡褲) to attract more consumers and further increase market penetration. The Group believes that the upgraded version 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. Meanwhile, the Group will continue to expand new retail channels and increase the sales proportion of new retail channels, strive to develop higher quality products for new retail channels, adhere to a stable price strategy, and maintain stable growth in traditional channels, promoting the Group's long-term development and consolidating the Group's leading position.

The Group will also continue to actively develop and launch other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, and capture growth opportunities brought about by domestic consumption upgrade.

Tissue Paper

In 2022, the epidemic repeatedly impacted the Chinese economy and the overall retail market, but the Group turned the crisis into an opportunity with a flexible and pragmatic strategy, and the sales of tissue paper bucked the market downturn and achieved a substantial growth. The epidemic resurgence further raised the national health awareness, and the demand for tissue paper remained robust. In the face of rising costs and fierce market competition, some small and medium-sized tissue paper companies have withdrawn from the market. 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 price strategy and effectively control sales promotions. During the year under review, the revenue of the Group's tissue paper business increased remarkably by approximately 24.4% to approximately RMB12,248,011,000 (2021: RMB9,842,429,000), accounting for approximately 54.2% of the Group's overall revenue (2021: 47.3%). The Group will continue to upgrade its products and increase the penetration rate of premium products. It is expected that the revenue of the Group's tissue paper business will maintain rapid growth in 2023.

During the year, the Group was affected by the sharp rise in the price of wood pulp due to factors such as the tight supply of wood pulp and logistics disruption. The wood pulp price surge exerted significant pressure on the Group's gross profit, which dropped to approximately 20.7% in 2022 (2021: 26.4%). Although the price of wood pulp has shown signs of a slight decline recently, it is expected that the positive impact of the drop in wood pulp price will be reflected in the cost of sales in the second half of 2023 after the Group consumes the

CHIEF EXECUTIVE OFFICER'S REPORT

existing high-cost wood pulp inventory. Therefore, the gross profit margin of the Group's tissue paper business is expected to improve in the second half of the year.

Amid the epidemic, the demand for tissue paper products remained at a high level. The Group's premium tissue paper products garnered very encouraging sales results. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of close to 80.0% and accounted for more than 10.0% of the overall tissue paper sales. In terms of the Group's wet wipes business, the sales for the year amounted to approximately RMB841,993,000 (2021: RMB735,612,000), recording a sales growth of nearly 14.5%, accounting for approximately 6.9% of the overall sales of the tissue paper business (2021: 7.5%). The wet wipes business has maintained a good growth momentum in recent years, the Group will continue to expand its market share in the domestic wet wipes market and maintain its leading position in the wet wipes market. The Group actively responded to the fragmentation of sales channels and the efforts and resources invested in implementing an omni-channel strategy in the early years has entered the harvest period. The sales of tissue paper business in e-commerce channels increased by more than 46.0%, accounting for more than 34.0% of the overall sales of tissue paper. Meanwhile, emerging channels such as O2O platforms and community group-buying also saw an increase of more than 17.0%, delivering stellar performance. In the future, the Group will continue its endeavors in expanding different sales channels, striving for the largest market share.

Against the background of the improving living standards of people and the continuous high level of health awareness, there are lots of opportunities in the overall tissue paper market. In the face of fierce market competition, the Group will continue to strive to meet the diversified needs of consumers, develop more high-quality products, improve the cost-effectiveness of tissue paper production, increase the production capacity of production bases and build new production capacity to seize business opportunities in domestic tissue paper and expand market share, consolidating the leading position in the tissue paper market. During the year, the Group maintained its production capacity at approximately 1.42 million tons and increased production capacity in Hunan, Hubei, Guangdong and other regions. The Group expects the production capacity will increase further in the coming year to actively cope with future market conditions and to support sales growth.

Disposable Diapers

The improvement of people's living standards and the ageing population continue to promote the growth of China's adult disposable diaper market. The change in parenting concept and the trend of consumption upgrade have also promoted the continuous increase in the penetration rate of baby disposable diapers, and there is enormous room for development in China's disposable diaper market.

In order to meet consumers' growing demand for product quality, the Group continued to develop high-quality baby and adult care products. During the year, sales of the flagship premium product "Q • MO" maintained growth momentum and saw a year-on-year growth of nearly 17.4%, and its proportion further increased to more than 30.0%. Meanwhile, benefiting from the growing domestic adult incontinence products market and the higher penetration rate of the Group's adult disposable diapers, sales of the Group's adult disposable diaper business grew approximately 12.9% during the year, accounting for approximately 23.7% of the overall diaper sales. In 2022, the Group strived to strengthen the development of e-commerce and maternity sales channels. The proportion of sales of e-commerce and maternity sales channels increased to more than 60.2% and approximately 18.5%, respectively. However, due to fierce market competition, the sales growth of the Group's premium products only partly

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offset the decline in the sales of mid-to-low-end products and products in traditional channels. As a result, the sales of the Group's disposable diaper business still fell approximately 1.4% to approximately RMB1,202,347,000 (2021: RMB1,219,445,000), accounting for approximately 5.3% (2021: 5.9%) 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 is expected to resume sales growth in 2023.

In terms of gross profit margin, the gross profit margin of the disposable diaper business saw a decline in the light of the rise in the cost of sales caused by the price increase in petrochemical raw materials for disposable diapers during the year. However, since the increase in the proportion of sales of the higher-margin "Q • MO" products and adult disposable diapers offset part of the impact of rising costs on the overall business profitability, the gross profit margin for the full year slightly dropped to about 36.9% (2021: 37.7%), while the gross profit margin of the disposable diaper business improved in the second half of 2022 as compared with 35.3% in the first half of the year.

During the year, the Group continued to seize market opportunities, further developed the premium product market and improved product quality. Regarding the baby diaper business, the Group reshaped the "Anerle" brand, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today's consumers. On the other hand, "Q • MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very popular in the market. The Group will continue to optimise "Q • MO" products to instill growth momentum into the Group's future development. Through the dual-brand strategy, after a year of sorting out, the Group expects the sales of the entire baby diaper business to resume stable growth in 2023.

In addition, as the country pays more and more attention to the development of the elderly care industry, there will be huge room for development in the field of domestic adult care products. The Group will invest more resources in the development of adult care products, so that the "ElderJoy" (安而康) brand and its products can fully penetrate the domestic market and at the same time expand the market share in Southeast Asia.

In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with 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 the 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 continue 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 year, which mainly includes revenues from raw material trading business, household products business, Wang-Zheng Group in Malaysia, and medical related products business, decreased by approximately 16.7% year-on-year to approximately RMB3,009,460,000 (2021: RMB3,611,740,000). The decline was mainly due to the tight supply of raw materials and the higher demand for tissue paper products during the year, resulting in an increase in the demand for raw materials. Therefore, the Group's preferred to keep raw materials in reserve for production, which caused the revenue from raw material trading business to drop significantly to approximately RMB1.6 billion (2021: approximately RMB2.5 billion).

Revenue from the household products business was approximately RMB325,962,000 (2021: RMB314,614,000), representing a year-on-year increase of approximately 3.6%, accounting for approximately 1.4% (2021: 1.5%) of the Group's revenue, which was mainly because the export business of household products gradually picked up as the epidemic situation began to improve in other regions.

In 2022, 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 products to overseas markets.

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Looking ahead, the Group believes that the growth potential in the business of household products is immense. The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness. In addition to the revenue from the household products segment, the Group's other income also includes revenue from Wang-Zheng Group in Malaysia and other medical related products. As for the business of other medical products, the demand for medical products rose significantly due to the resurgence of the epidemic. Thus, the sales of medical products increased notably and recorded a revenue contribution of approximately RMB272,922,000 (2021: RMB108,065,000). As medical products have higher profit margin, it therefore effectively boosted the overall gross profit margin of other businesses to approximately 19.7% (2021: 11.0%).

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 2022, turnover of overseas channel (including Wang-Zheng Group business) was approximately RMB2,086,791,000 (2021: RMB1,709,260,000), accounting for approximately 9.2% of the Group's overall sales (2021: 8.2%).

During the year, with the easing of the epidemic and the reopening of the region, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approximately 17.1% year-on-year to approximately RMB411,704,000 (2021: RMB351,553,000), accounting for approximately 1.8% of the Group's overall sales (2021: 1.7%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include "Dry Pro" disposable diapers and "Carina" personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult disposable diapers into the Southeast Asian market.

In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch more premium products under the Hengan 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. In 2022, the national online retail sales of physical goods reached RMB12 trillion, an increase of 6.2%, of which the online retail sales of consumer goods increased by 5.7%. 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 year, the Group carried out higher quality products promotions for various brands in new channels, which received positive responses from the market and further enhanced the Group's brand awareness and market share in online and other new retail channels.

In 2022, the Group's e-commerce channels (including Retail Integrated and New Channel) maintained a strong development momentum and sales for the year soared over 26.8% to approximately RMB6.1 billion (2021: RMB4.8 billion), bringing the proportion of e-commerce sales up to approximately 26.9% (2021: 23.1%) of the Group's overall sales.

In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin), improve data analysis capabilities for end customers, and conduct precision marketing to boost conversion rates, and strive to achieve the strategic goal of becoming a global top-tier supplier of daily products. In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide differentiated products that suit the characteristics and preferences of consumers in each channel, and continuously improve the seamless omni-channel consumer experience in both online and offline channels.

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The Group will consistently introduce products into the new retail market with higher quality products and stable prices to reduce the impact on other channels, while maintaining its competitiveness. In view of the new consumer trends, the Group will also actively build a brand community, interact with consumers through livestream sales and other community activities, and strengthen the connection with young consumers. The Group also appointed Xiao Zhan, a popular artist, as the brand ambassador of "Hearttex" to further enhance the brand influence, and continue to leverage new consumption models such as limited-edition products, community group-buying and livestream sales to attract consumers and increase the Group's market share in the e-commerce and new retail channels sector while grasping the opportunities brought by the digital economy to inject strong impetus for rapid growth in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize the opportunities arising from the post-epidemic economic recovery, put forward effective sales strategies and conduct end-consumer data analysis, continue precise positioning and optimise the product portfolio to bring satisfactory return for shareholders. During the year, the Group faced the challenge of an approximately over 15.4% increase in transportation costs due to geopolitical tension and the epidemic. In addition, as the Group granted share options to certain directors and employees of the Group in January 2022, the share option expenses apportioned during the year were approximately RMB66,189,000. As a result, the Group's selling and administrative expenses during the year amounted to approximately RMB4,888,813,000, representing a year-on-year increase of approximately 8.0%. However, as the increase in the Group's total revenue was greater than the increase in expenses, the proportion of the Group's selling and administrative expenses to the total revenue for the year slightly dropped to approximately 21.6% (2021: 21.8%). The Group believes that the total revenue is expected to continue to increase in the coming year, together with the effective sales and promotion strategies to precisely allocate expenses, the proportion of such expenses to revenue is expected to improve continuously.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi. During the year, due to the sharp depreciation of Renminbi against the H.K. dollar and the U.S. dollar, the Group's operating exchange gain turned to a loss of approximately RMB912,865,000 (2021: exchange gain of approximately RMB109,152,000), which was mainly attributed to the sharp depreciation of Renminbi against the H.K. dollar during 2022, resulting in an exchange loss of approximately RMB721 million in respect of Renminbi dividends receivable from domestic subsidiaries in the Group's Hong Kong company.

As at 31 December 2022, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Appointment of Professional Consultant

In order to further optimise and upgrade the Group's SAP system, logistics network, inventory management and informatisation plan, the Group signed a contract with SAP (Beijing) Software System Co., Ltd. (SAP) in June 2022 for the use of SAP's updated cloud software, and appointed SAP to perform software update to meet the growing business development in the future.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2022, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB21,563,284,000 (31 December 2021: RMB22,282,950,000); and bank borrowings and other borrowings amounted to approximately RMB17,029,952,000 (31 December 2021: RMB18,227,095,000).

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In December 2021, the Group successfully registered two batches of medium-term notes in an aggregate amount of not more than RMB5.5 billion. From March to June 2022, the Group issued short-term commercial papers in four batches of RMB4.5 billion in total with the coupon rates ranging from 2.1% to 2.5% per annum and a tenor of 180 days, which were fully repaid during the year.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.4% to 5.2% (2021: from 0.4% to 3.7%)

As at 31 December 2022, the Company moderately utilised internal cash to repay all short-term commercial papers, so 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) further improved to approximately 87.2% (31 December 2021: 95.7%), while the net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 23.2% (31 December 2021: negative 21.3%) as the Group was in a net cash position. The Group will stay committed to optimising the gearing ratio, maintaining a solid net cash position and maintaining a sound financial position. During the year, the Group's capital expenditure was approximately RMB1,327,206,000 (2021: RMB640,396,000). As at 31 December 2022, the Group had no material contingent liabilities.

In February 2023, the Group completed the issuance of the first tranche of super short-term commercial papers on the National Association of Financial Market Institutional Investors, with an aggregate principal amount of RMB1,500,000,000, with a coupon rate 2.40% per annum. The super short-term commercial papers will mature in 180 days from the respective issue date.

Share Option Scheme

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

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

On 21 December 2022, the Group granted 1,526,000 share options ("Share Options") to certain employees of the Group to subscribe for a total of 1,526,000 ordinary shares in the share capital of the Company. The exercise price of the share options granted is HK$40.30 per share.

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

Human Resources and Management

During the year, 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 31 December 2022, the Group employed approximately 23,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

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Latest Awards

In 2022, awards and honours won by the Group were as follows:

Awards/Honours	Organisation
Top 500 Most Valuable Chinese Brands	GYbrand 2022
All-Asia Executive Team 2022 rankings: Most Honoured Company: Hengan International, Best IR Program, Best ESG, Best CEO (Mr. Hui Ching Lau) and Best CFO (Mr. Li Wai Leung) in the consumer staples sector category	Institutional Investor
Ingenious Product of China's Tissue Paper & Hygiene Products Industry in 2022	The 29th China International Disposable Paper Expo Award Ceremony and Ingenious Product List
Asia's Best CEO (Hui Ching Lau) and Best CFO (Li Wai Leung)	Corporate Governance Asia
Winner of the 4th China's Best Managed Companies Awards	Deloitte China
Top 10 China's Most Chosen Brands	"Asia Brand Footprint 2022" report by Kantar Worldpanel

Corporate Social Responsibility

Hengan continues to implement the concept of sustainable development, comprehensively coordinates environmental and social responsibilities, establishes and improves the four-level ESG management structure, and deeply cultivates various fields such as product innovation, quality assurance, energy conservation and carbon reduction, talent cultivation, health and safety, and philanthropy, leading the company to steadily achieve 100 billion in 100 years with sustainable development.

Hengan has continuously improved the transparency of ESG information disclosure, actively responded to ESG rating questionnaires at home and abroad and greatly improved its ratings. Among them, its MSCI ESG rating was upgraded from B to BB, and S&P Global CSA score was higher than 78% of its peers. In addition, Hengan was included in the top 200 of Hong Kong Quality Assurance Agency's Corporate Social Responsibility Index Plus this year for the first time. In February 2023, the Group was included in the 2022 Forbes China Top 50 Sustainable Development Industrial Enterprises.

In 2022, the Group won awards such as "Best Environmental, Social and Corporate Governance (ESG)" by *Institutional Investors* and "Most Socially Responsible Brand of Chinese Listed Companies", and CEO Mr. Hui Ching Lau was awarded "Best Investor Relations (Chairman/CEO)" by *Institutional Investors*.

Innovative Research and Development

Adhering to the "consumer-oriented" market principle, the Group is committed to its corporate vision of becoming a "global top-tier supplier of daily products through sustainable innovation and provision of high-quality products and services", regards innovation capability as the driving force for corporate development, and continuously optimises its product portfolio to provide the public with high-quality and reliable personal and household hygiene products.

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In response to consumers' rising demand for environmental protection, the Group vigorously introduces and cultivates innovative talents, and establishes a complete product research and development system and high-level corporate standards to strictly regulate product design and development. Based on the advantages of innovation capability, the Group focuses on the development of safer and healthier eco-friendly products, striving to develop products that are environmentally friendly and reliable in terms of quality.

With the main objective of developing reusable and recyclable materials that reduce the use of resources, we planned to establish sustainable development platform for plastics during the reporting period to study the Reduce, Reuse, Recycle (3R) and Degradable (1D) of plastics.

Philanthropy

As a leading enterprise in the industry, Hengan sets an example by setting a benchmark for fulfilling corporate social responsibility and promoting the development of public welfare undertakings, and actively participates in charity events. In 2022, during the period of epidemic prevention and control, the Group paid close attention to community health and provided all possible support to China to ensure supplies. In response to the earthquake, the Group donated hygiene products worth RMB520,000 including sanitary napkins and disposable diapers to the disaster-stricken areas in Maerkang City, Aba Prefecture, Sichuan Province. The Group attaches great importance to women's health and education. We have been investing in the Spring Bud project for four consecutive years, and donated supplies worth RMB1.73 million in total to women and girls in need in Guang'an City, Sichuan Province. The Group also gives back to its hometown and promotes the local economic development of enterprises. In 2022, the Group donated RMB19 million in cash and materials for the fundraising initiative of Caring for the New Residents of Jinjiang.

Environmental Protection and Carbon Reduction

Hengan closely follows the national strategy to cope with climate change, formulates a sustainability plan, steps up its efforts in energy conservation, emission reduction and environmental protection, and actively promotes green production, contributing to the transformation of the national low-carbon economy and the goal of carbon peak and carbon neutrality. In 2022, Hengan's greenhouse gas (GHG) emission intensity was 0.67 tCO2e/revenue in RMB10,000; the energy consumption per unit product of the papermaking sector of the Group was 0.31 tonnes of standard coal, far lower than the advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825–2015) (420kg standard coal/ton); the recycling of wastewater from paper production was greater than 99%, the water consumption per tonne of paper in the Hengan's papermaking segment was 5.6 tonnes, far lower than the national standard upper limit of water withdrawal per tonne of product specified in GB/T18916.5 Water Quotas Part 5: Paper Products.

Hengan promotes the fulfilment of environmental and social responsibilities in the value chain. The Group joined the Green Recycled Plastics Supply Chain Joint Working Group, served as the Vice-Chairman and planned to establish a sustainable development platform for plastics to enhance the green attributes of products. The Group continues to promote responsible procurement for wood pulp and join hands with suppliers to propel the sustainable development of the supply chain for wood pulp. In 2022, six paper production subsidiaries of Hengan received the Forest Stewardship Council (FSC) Chain of Custody (CoC) Certification, and 100% of pulp suppliers of Hengan obtained FSC or PEFC (Programme for the Endorsement of Forest Certification Schemes) certificates.

During the reporting period, Fujian Hengan Homecare Products Co., Ltd., a subsidiary of the Group, was named "2021 Green Factory" by the Ministry of Industry and Information Technology. In addition, Hengan was also awarded the "2022 Green Sustainable Development Contribution Award" at the 2022 International Green Zero-carbon Festival and the ESG Summit.

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Talent Development

The Group actively responds to human rights principles such as the Universal Declaration of Human Rights, earnestly protects the rights and interests of employees, provides employees with comprehensive remuneration and benefits policies and career development channels, achieving a win-win situation between corporate value and personal value. Hengan actively carries out the principle of equal employment and shows no discrimination towards employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc.

The Group formulated the "Overall Framework of the Talent Training System" and the talent management mechanism to provide employees with comprehensive skills and quality training at different levels and stages, and select outstanding employees through multiple channels to enter the promotion channel. The Group also cultivates internal trainers and builds an inward talents training base. In 2022, the Group provided employees with diversified training programs, such as the Executive Development Programme (EDP), a mid-to-senior management training programme, in cooperation with Xiamen University, to help employees improve their professionalism and shape new business cognition and thinking.

As of the end of 2022, Hengan had a total of approximately 23,000 employees, of which 58% were female employees, the total number of training hours exceeded 260,000 hours, the number of management positions promoted was 78, and the percentage of employees joining the labour union was 100%.

Health and Safety

Hengan formulates comprehensive safety management policies and objectives, implements sound management and established control procedures, and continuously improves safety management capabilities and performance. The Group established and passed the ISO 45001 Occupational Health and Safety Management System 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 phase II of the comprehensive safety management this year, striving to become a model enterprise in safety management in the industry.

The Group is committed to maintaining the occupational health and safety of its employees. It regularly organised fire training and drills, and carried out safety production month activities this year to raise the safety awareness and strengthen self-protection capabilities of all employees. In 2022, the Group had no work-related fatalities, the incidence of occupational diseases was 0, and the number of working days lost due to work injury was 2,883 days.

Hengan cares about the mental health of employees. It carries out various cultural activities to enrich the leisure time of employees, regularly visits the families of employees in difficulty and employees with disabilities, providing support and assistance and improving employees' sense of happiness.

Outlook

Looking ahead to 2023, with the further relaxation of China's epidemic control policies, the orderly implementation of various policies and measures for stabilising the economy and expanding domestic demand is expected to support the gradual recovery of the economy and consumer market. However, the Russo-Ukrainian War continues to impact global trade, and inflation remains at a high level despite signs of slowing. In addition, the monetary policies of central banks led by the U.S. Federal Reserve are expected to remain tight, posing challenges to global economic development and China's economic growth. The Group will continue to pay close attention to the development of the epidemic at home and abroad and changes in market trends, respond flexibly and make prudent decisions.

Against the backdrop of resumption of production and the release of new production capacity in wood pulp mills around the world, the supply of wood pulp is expected to gradually increase this year. Although the price of wood pulp has recently dropped, the downward trend is still not obvious. Since the Group needs to consume the existing high-cost wood pulp inventory first, the positive impact of the decrease in wood pulp price is expected to reflect in the cost of the tissue paper business in the second half of the year, and the gross profit margin will improve by then. The Group will closely monitor the impact of external factors on the prices of imported wood pulp, petrochemical raw materials, and other materials.

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The competition in the domestic daily necessities market has become increasingly fierce. Leveraging its solid research and development and production capabilities and positive brand image, coupled with its extensive nationwide distribution and diversified product portfolio, Hengan still demonstrated strong resilience in a challenging operating environment, successfully seized the opportunity of industry consolidation, and gained market share against the market trend.

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 upgrade" 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 penetration into rural markets and other markets in the mainland China, and seize the huge development opportunities in the domestic daily necessities market.

In the future, the Group will further enhance the brand image of its products, including brand upgrades through strategies such as product premiumisation, new packaging, and accurate allocation of marketing resources, as well as the establishment of a marketing department to comprehensively optimise the brand image. The Group will continue to enhance its product mix and accelerate product premiumisation, such as the hot-selling series "Q • MO" and "Cloudy Soft Skin", 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, improve team efficiency, and allocate resources to improve infrastructure and enhance supply chain efficiency, such as cloudification of the SAP system, and strive to improve the quality of the system, so as to effectively monitor operational data and improve operational visibility to formulate appropriate business strategies.

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 sanitary napkin, disposable diapers, wet wipes plant in Neikeng, Fujian, and the expansion of tissue paper production capacity in Xiaogan, Hunan, and Yunfu, Guangdong. It is expected that the new production capacity will be put into operation successively in 2024.

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. 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".

Hui Ching Lau
Chief Executive Officer

Hong Kong, 22 March 2023

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Sze Man Bok

Mr. Hui Lin Chit

Mr. Hung Ching Shan

Mr. Hui Ching Lau

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 73, is the Chairman of the Group and Executive Director of the Company. He is also a director of most of the subsidiaries of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders and a member of the Nomination Committee of the Company. Mr. Sze has over 40 years of experience in manufacturing and distribution of consumer products. He is the father of Mr. Sze Wong Kim, an Executive Director of the Company. Mr. Sze is currently an non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited (stock code 1583) ("Qinqin Foodstuffs"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Sze was appointed as executive director of Wang-Zeng Berhad ("WZB") on 15 June 2017, a company listed on the Main Market of Bursa Malaysia Securities Berhad with a stock code of 7203. He was designated as non-independent non-executive director of WZB on 25 September 2017.

Mr. Hui Lin Chit (former known as Hui Chi Lin), aged 69, is the Vice-Chairman and executive director of the Company. He is also a director of most of the subsidiaries of the Group. He provides support for the Group's long-term development. Mr. Hui is one of the founding shareholders of the Company and has over 40 years of experience in manufacturing and distribution of consumer products. He resigned as Chief Executive Officer, the authorized representative (for the purposes of Rule 3.05 of the Listing Rules) (the "Authorized Representative"), a member of nomination committee and remuneration committee of the Company on 18 August 2021. During the period of 1998 and 18 August 2021, Mr. Hui was appointed as Chief Executive Officer of the Company and responsible for strategic planning, human resources and the overall management of Hengan Group. Mr. Hui has the title of senior economist in People's Republic of China ("PRC"). He is also a Deputy Chairman of All-China General Chamber of Industry and Commerce, Chairman of Fujian Province Industry and Trade Association, United Nations Maritime-Continental Silk Road Cities Alliance, and the Jinjiang City Charity Federation.

Mr. Hui was a member of the 9th, 10th and 11th National Committee of Chinese People's Political Consultative Conference (CPPCC) from 1998 to 2012. During the period from 1997 to 2011, he was also a member of the Executive Committee (at the 8th CPPCC National Committee) and Standing Committee (at the 9th CPPCC National Committee), and deputy chairman (at the 10th CPPCC National Committee) of All-China Federation of Industry and Commence. He was also a deputy chairman of the 9th, 10th and 11th Quanzhou Municipal CPPCC Committee and the chairman of the 10th, 11th, 12th and 13th Quanzhou Federation of Industry and Commence.

He is the father of Mr. Hui Ching Lau, Chief Executive Officer and an Executive Director of the Company and Mr. Hui Ching Chi, an executive director of the Company. Mr. Hui was the Chairman and is currently a non-executive director of Qinqin Foodstuffs, a company listed on the Main Board of the Stock Exchange. Mr. Hui was appointed as executive director of WZB on 15 June 2017 and designated as non-independent non-executive chairman of WZB on 25 September 2017.

Mr. Hung Ching Shan, aged 73, he is a director of the Company and a director of certain subsidiaries of the Group, is responsible for supervising the Group's purchasing tender assignments. He has over 44 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Hui Ching Lau, aged 43, appointed as Executive Director of the Company on 10 December 2020. He was further appointed as Chief Executive Officer, Authorised Representative, a member of the nomination committee and remuneration committee of the Company on 18 August 2021. He is also a director of most of the subsidiaries of the Group. He has about 21 years of experience in corporate management and is responsible for providing planning, guidance and strategic advice on strategic development and overall management of the Group. He is currently an executive director and chairman of the board of directors of Qinqin Foodstuffs. He is the managing director of Lianjie Investments Group Limited.

Mr. Hui was a director of AGORA Hospitality Group Co., Ltd. (a company whose shares are listed on the Tokyo Stock Exchange, stock code: 9704) from 29 March 2018 to 3 December 2020. Mr. Hui was a non-executive director of China Huiyuan Juice Group Limited ("Huiyuan Juice") from 29 January 2018 to 10 January 2019. Huiyuan Juice is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Stock Exchange of Hong Kong (Stock code: 1886) until 18 January 2021 which the listed status were cancelled by the stock exchange, being principally engaged in production and sale of fruit juice, fruit and vegetable juice and other beverages. In October 2019, a winding-up petition and provisional liquidators application at the High Court of Hong Kong was served on Huiyuan Juice. For further details of the proceedings, please refer to the announcements of Huiyuan Juice including that dated 24 January 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0124/ltn201901249978.pdf), 24 October 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1025/2019102401207.pdf), 19 November 2020 (https://www1.hkexnews.hk/listedco/listconews/

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Xu Shui Shen

Mr. Xu Da Zuo

Mr. Xu Chun Man

Mr. Sze Wong Kim

Mr. Hui Ching Chi

Mr. Li Wai Leung

sehk/2020/1119/2020111901298.pdf) and 30 November 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1130/2020113001375.pdf).

Mr. Hui is a member of the 11th and 12th Fujian Provincial Committee of Chinese People's Political Consultative Conference ("CPPCC") from 2013 to 2022 and a member of the 14th National Committee of CPPCC since 2023. He is the executive vice president of the Fourth Youth Committee of All-China Federation of Returned Overseas Chinese since December 2014. Mr. Hui is also the Vice-Chairman of Fujian Federation of Industry and Commerce (11th session), an executive committee member of All-China Federation of Industry and Commence (12th session), a standing committee member of the 10th Committee of All-China Federation of Returned Overseas Chinese, the life honorary president of the World Jinjiang Youth Association, the life honorary advisor of Federation of Jinjiang Hong Kong Associations, the life honorary chairman of the Hong Kong Federation of Fujian Associations and co-chairman of the China Paper Chamber of Commerce.

Mr. Hui graduated with a Degree of Bachelor of Arts in Accounting & Finance and Economics from the University of Kent at Canterbury in July 2001, and a Degree of Master of Science in Finance from the University of London (Imperial College of Science, Technology and Medicine) in November 2002, in the United Kingdom. He also received a Degree of Executive Master of Business Administration from Cheung Kong Graduate School of Business in September 2010 in the People's Republic of China.

Mr. Hui is the son of Mr. Hui Lin Chit, an executive director and the Vice-Chairman of the Board of the Company. Mr. Hui is also the brother of Mr. Hui Ching Chi, an executive director of the Company.

Mr. Xu Shui Shen, aged 53, is the Senior Advisor of the Group. During 2011 to 2022, he was Chief Executive Officer of Tissue Paper Division of the Group. He joined the Group in 1985 and has over 38 years of experience in operation management and business development. He graduated from business administration department in the Huaqiao University and holds the title of senior economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo, an executive director of the Company.

Mr. Xu Da Zuo, aged 56, is the Director of Capital Management of the Group. He is responsible capital operation and investment management of the Group. He was the Chief Financial Officer of the Group. Joining the Group in 1985, Mr. Xu has over 38 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is an elder brother of Mr. Xu Shui Shen, an executive director of the Company.

Mr. Xu Chun Man, aged 48, is responsible for the Group's overall business development strategy. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 32 years of experience in business development and customer service management.

Mr. Sze Wong Kim, aged 47, is responsible for overall business strategy of the Group. Before joining the Group on 1 June 2010, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He was appointed as the Company Secretary and authorised representative of the Company on 30 November 2016 and resigned on 3 January 2017. He is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and an executive director of the Company.

Mr. Hui Ching Chi, aged 38, is the Group Vice President. He is responsible for the Group's international business development. During 2015 to 2016, he was the Chief Executive Officer of Supply Chain Management. He was the Director of Supply Chain Management of the Group from 2015 to 2016. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Vice-Chairman and an executive director of the Company and a younger brother of Mr. Hui Ching Lau, the Chief Executive Officer and an executive director of the Company. He is a director of certain subsidiaries of the Group. Mr. Hui was appointed as executive director and Group Chief Executive Officer of WZB on 25 September 2017 and 1 July 2022.

Mr. Li Wai Leung, aged 44, is appointed as the Chief Financial Officer of the Group on 26 March 2020. Mr. Li is also the Company Secretary and Authorized Representative of the Company. He is a director of certain subsidiaries of the Group. He has over 22 years of experience in accounting, finance and business advisory work. Before joining the Group on 3 January 2017, Mr. Li worked as the chief financial officer of various sizable PRC based manufacturing companies and as a senior manager in PricewaterhouseCoopers. Mr. Li obtained his bachelor's degree in Business Administration in Accounting and Finance from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia. Mr. Li was appointed as executive director of WZB on 15 June 2017.

DIRECTORS AND SENIOR MANAGEMENT PROFILES


Mr. Chan Henry


Ms. Ada Ying Kay Wong, JP


Mr. Theil Paul Marin


Mr. Ho Kwai Ching Mark


Mr. Chen Chuang

Independent Non-Executive Directors

Mr. Chan Henry, aged 57, is an Independent Non-Executive Director of the Company appointed in 1998. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Chan has over 36 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of the Stock Exchange and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, and an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange with stock code 0311, which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of CPCC in Xiamen, Fujian Province, China. Mr. Chan holds a Master degree in Business Administration.

Ms. Ada Ying Kay Wong, JP, aged 63, is an Independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Ms. Wong, a practicing solicitor, is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors & Notaries. She is also a culture and creative education advocate. She is the supervisor of HKICC Lee Shau Kee School of Creativity and the council member of Hong Kong Shue Yan University. She was Chair of the Wanchai District Council (2004–2007) and during the period of 20 October 2016 and 19 October 2022, Ms. Wong was a member of Museum Advisory Committee and Art Sub-committee, Museum Advisory Committee. During the period 7 September 2004 and 30 September 2022, she was an independent non-executive director of Pak Fah Yeow International Limited, a company listed on the main board of the Stock Exchange with stock code 0239.

Mr. Theil Paul Marin, aged 69, was appointed as an independent non-executive director and also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company on 17 May 2019. He has had extensive experience in the finance and investment industry. He is the founder and has been the Chairman of Shenzhen Zhong An Credit Investment Co., Ltd since January 2008. He is an independent non-executive director of Qin Qin Foodstuffs. From October 2013 to June 2021, Mr. Theil was an independent director of China Industrial Bank Co. Ltd., a company listed on the Shanghai Stock Exchange (Stock code: 601166) since October 2013, and he was redesignated as supervisor since June 2021. He was also previously a director of the Company from July 2000 to September 2001.

Mr. Theil graduated from Yale University with a Degree of Bachelor of Arts in June 1975 and a Degree of Master of Arts in East Asian Studies in June 1975. He also graduated with a Degree of Juris Doctor and a Degree of Master of Business Administration from Harvard Law School and Harvard Business School in June 1980 and November 1981 respectively.

Mr. Ho Kwai Ching Mark, aged 61, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He is currently the co-founder and CEO of ProMEX Limited, an independent non-executive director of Lee Kee Holdings Limited (stock code 0637) and Green Future Food Hydrocolloid Marine Science Company Limited (stock code 1084). He was the Chief Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 28 years of experience in the securities and futures industry.

Mr. Ho received a Bachelor Degree in Social Sciences from the University of Hong Kong in 1984 and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Chen Chuang, aged 45, is an Independent Non- executive Director of the Company appointed on 20 May 2022. He is also a member of each of the Remuneration Committee, Audit Committee and Nomination Committee of the Company, has over 17 years of experience in corporate strategy, large enterprises innovation, and internal innovation. Mr. Chen is an independent non-executive director of 361 Degrees International Limited (stock code: 1361) since August 2019, a company listed on the main board of the Stock Exchange. He was awarded a bachelor degree and a master degree in Management from the Faculty of Management and Economics of Dalian University of Technology. He also received his doctorate degree in Business Administration from the School of Economics and Management of Tsinghua University. He is currently a professor of business management at the Master of Business Administration Education Center of the School of Management of Xiamen University. Mr. Chen is a committee member of the Case Research Division of Chinese Society for Management Modernisation.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Zhou Fang Sheng

Mr. Zhou Fang Sheng, aged 73, was an Independent Non-executive Director of the Company appointed on 1 January 2013 and retired on 20 May 2022. He was also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has more than 29 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as a director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. From 2012 to 2017, Mr. Zhou was appointed as an independent non-executive director of Beijing BDStar Navigation Co., Ltd (listed on Shenzhen Stock Exchange). Mr. Zhou is currently appointed as a supervisor of Sinotrans Limited, a company listed in Hong Kong with stock code 598. Mr. Zhou is also an independent non-executive director of China National Building Material Company Limited (a company listed in Hong Kong with stock code 3323) and an independent director of Chenguang Biotech Group Co.,Ltd. (a Shenzhen stock code 300138).

Senior Management

Mr. Xu Wen Mo, aged 57, is the Director of Risk Department of the Group and responsible for risk management and internal control of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 34 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Ms. Liu Ying, aged 54, is the Director of the Administration Department of the Group. She is responsible for the overall management of the Group's brand public relations, corporate culture, and administrative logistics. Joining the Group in 1995, she has accumulated over 36 years of experience in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of senior economist in the PRC.

Mr. Wang Xiang Yang, aged 54, is the President of Supply Chain Development. He is responsible for the Group's supply chain, sanitary product production, paper product production, diaper production, wet tissue production and other businesses. During the 2021 to 2022, he was the Procurement Director of Supply Chain Development. He joined the Group in 1999 and resigned in February 2015. His position before leaving the Group was Director of Supply Chain Management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang re-joined the Group in February 2017 and has over 24 years' experience in supply chain and logistic management. Mr. Wang graduated from Hua Qiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Zhu Jian Shui, aged 48, is the Financial Controller (Mainland China) of the Group. He joined the Group in 1998 and has over 27 years of experience in finance and auditing areas. He is a graduate from Tianjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, certified auditor, senior economist and corporate legal consulate.

Ms. Jin Bei Bei, aged 40, the Director of Hygiene Products Division, is responsible for the overall management and business development of sanitary napkins of the Group. She joined the Group in 2004 and has over 19 years of experience in products category, brand management and marketing. Ms. Jin graduated from Fujian Normal University with a bachelor's degree in economics.

Mr. Lin Yu Xian, aged 43, Director of Business Development Department, is responsible for regional sales and new retail business development. Mr. Lin joined the Group in 2001 and has over 22 years of experience in sales and marketing. He graduated in accounting computerization from the Department of Economics and Management at Liming Vocational University.

Mr. Yang Cheng Long, aged 38, is the Director of the Human Resources Department. He is responsible for the human resources management of the Group. He joined the Group in 2008 and has over 18 years of experience in human resources. He graduated from Beijing Wuzi University with a bachelor of management degree in human resources management, and has the title of senior economist in the PRC.

Ms. Li Li, aged 39, is the Director of Marketing Department. She is responsible for the overall management of the Group's brands, membership, and consumer experience. Ms. Li joined the Group in 2019 and has over 10 years of experience in branding development. She graduated from Chengdu University of Technology and Xiamen University with a Master Degree in Engineering and a Master Degree in Business Administration respectively.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Hengan International Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") recognise the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders, and the board of directors (the "Board") is fully committed to doing so. The Board believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, achieve high standard of accountability and protect stakeholders' interests.

The Group has adopted a corporate governance statement of policy which provides guidance on the application of the corporate governance principles on the Group, with reference to the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors of the Company (the "Director(s)"), the Company has complied with all code provisions as set out in the CG Code throughout the year ended 31 December 2022 (the "Year") and up to the date of this annual report.

CORPORATE CULTURE AND STRATEGY

"Growing with you for a better life" has always been the mission of the Group. We will continue to adhere to our corporate spirit of "Integrity, Diligent, Innovation and Dedication". The Company's culture is moulded by our mission and values. The values embed throughout the Company's vision, mission, policies and business strategies.

The Group will continuously review and adjust, if necessary, its business strategies and keep track of the changing market conditions to ensure prompt and proactive measures will be taken in respond to the changes and meet the market needs to foster the sustainability of the Group.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the Group, which includes (1) leadership and control of the Company and oversees the Group's businesses; (2) the preparation of interim and annual reports and announcements for the Board's approval before publishing; (3) implementation of adequate internal controls and risk management procedures; and (4) compliance with relevant statutory and regulatory requirements and rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives. The management team is delegated with the authority and responsibility by the Board for the day-to-day management of the Group. While allowing management substantial autonomy to run and develop the business, the Board plays a key role in structuring and monitoring the reporting systems and internal controls. The composition and functions of each Board committee are described below. The final decision still rests with the Board unless otherwise provide for in the terms of reference of relevant committees.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgment. Directors with various professional qualifications, experience and related financial management expertise have contributed to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders. Hence, the Board believes that the current Board composition satisfies the balance of expertise, skills and experience to the corporate governance requirements of the Group as well as the ongoing development and management of its business activities.

The Board comprises fifteen directors, of which ten are executive Directors, namely Mr. Sze Man Bok (Chairman of the Board, "Chairman"), Hui Lin Chit (Vice-Chairman), Mr. Hung Ching Shan, Mr. Hui Ching Lau (Chief Executive Officer), Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Li Wai Leung (Chief Financial Officer and Company Secretary); and five are independent non-executive Directors, namely Mr. Chan Henry, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching, Mark, Mr. Chen Chuang and Mr. Theil Paul Marin. During the year, Mr. Zhou Fang Sheng retired as an independent non-executive director and Mr. Chen Chuang was elected as an independent non-executive director of the Company. The roles of the Chairman and the Chief Executive Officer are segregated in order to reinforce their independence and accountability. Mr. Sze Man Bok, the Chairman of the Group, is responsible for the Group's overall corporate direction and business strategy, and ensure that good corporate governance practices and procedures are established. Mr. Hui Ching Lau, Chief Executive Officer of the Group, is responsible for strategic planning, human resources and the overall management of the Group. The biographies of the Directors are set out in "Profile of Directors and Senior Management" on pages 22 to 25 of this report.

CORPORATE GOVERNANCE REPORT

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's interim and annual results. During the Year, four regular Board meetings were held and the attendance of each Director at the Board meetings is set out in the section headed "Board and Committees Meetings" of this report.

The Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquires if necessary. A Director, who considers there is necessary to seek independent professional advice in order to perform his duties as a Director, may convene, or request the company secretary of the Company (the "Company Secretary") to convene, a Board meeting to approve the consultation of independent legal or other professional adviser for advice at the Company's expenses.

Regular Board meetings for each year are scheduled in advance to facilitate maximum attendance of Directors. All Directors are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Pursuant to the articles of association of the Company, all Directors appointed to fill a causal vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

Save for the family relationships disclosed in the Profile of Directors and Senior Management set out on pages 22 to 25 of this annual report, the Directors do not have material financial, business or other relationships with one another.

NON-EXECUTIVE DIRECTORS

The non-executive Directors, including independent non-executive Directors, who are appointed to fill a casual vacancy or as an addition to the existing Board, shall hold office only until the next following general meeting after his or her appointment and shall then be eligible for re-election.

The Company has not appointed any non-executive director. The letters of appointment of independent non-executive directors with Mr. Chan Henry and Ms. Ying Kay Ada Wong, Mr. Ho Kwai Ching Mark will expire on 15 December 2023, and 31 December 2024 respectively. Mr. Chen Chuang and Mr. Theil Paul Marin are appointed with no specific term.

In accordance with the CG Code and the Articles of Association, all Directors, including Independent Non-executive Directors, are subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmations of independence from all five Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules.

The Board, through the Nomination Committee, has reviewed the independence of all Independent Non-Executive Directors and concluded that all of them are independent within the definition of the Listing Rules. Furthermore, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any of the Independent Non-Executive Directors has been impaired up to the date of this report.

MECHANISM ON INDEPENDENT VIEWS TO THE BOARD

The Company recognises that board independence is critical to good corporate governance. The Board has established a mechanism is to enable Directors to seek independent professional advice when exercising Directors' duties to ensure a strong independent element to the decision made by the Board which is key to an effective Board.

According to the mechanism, subject to the prior approval by the executive Director of the Company (which approval shall not be unreasonably withheld or delayed), the Directors may seek independent legal, financial or other professional advice from advisors independent of those advising the Company as and when necessary in appropriate circumstances to enable them to discharge their responsibilities effectively, either on the Company's affairs or in respect of their fiduciary or other duties, at the Company's expense. In case of the Board is seeking independent professional advice, prior approval must be given by the executive Director of the Company (which approval shall not be unreasonably withheld or delayed).

The Board will review this mechanism on an annual basis to ensure the implementation and effectiveness of this mechanism.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointing a new Director, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire relevant knowledge and skills. All Directors had provided to the Company records of training received during the year, including attended seminars, briefing or workshop and reading materials in respect of regulatory updates about the directors' duties, the Group's business and relevant industry, etc.

BOARD AND EMPLOYEES DIVERSITY POLICY

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to talents, skills, experience, independence and knowledge. The Company will also take into consideration its own business model and specific needs from time to time. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

As at the date of this report, the Board comprises fifteen Directors, amongst them, five are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of age, professional experience, skills, gender and knowledge.

The Nomination Committee will review the board diversity policy and its implementation annually to ensure its effectiveness. Having reviewed the board diversity policy and the Board's composition during the year ended 31 December 2022, the Nomination Committee considered that the requirements of the board diversity policy had been met, implementation was effective and no measurable objective had been set to implement the board diversity policy.

The Board is committed to upholding diversity of gender, background, skills and experience across our workforce. The employee male-to-female ratio of the Group as at 31 December 2022 is 58:42. The Group when hiring employees considers a number of factors, including but not limited to gender, age, cultural and education background, qualification, ethnicity, professional experience, skills, knowledge and length of service, and the Group will make sure achieving gender diversity across the workforce.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. All Directors have confirmed, upon specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code throughout the Year.

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Board with specific written terms of reference. Details of the authority and responsibilities of the Remuneration Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange. The Remuneration Committee consists of a majority of Independent Non-executive Directors and its members are:

Mr. Hui Ching Lau *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) – Chairman of the Committee*
Ms. Ada Ying Kay Wong *(Independent Non-executive Director)*
Mr. Ho Kwai Ching Mark *(Independent Non-executive Director)*
Mr. Theil Paul Marin *(Independent Non-executive Director)*
Mr. Chen Chuang *(Independent Non-executive Director) (elected on 20 May 2022)*
Mr. Zhou Fang Sheng *(Independent Non-executive Director) (retired on 20 May 2022)*

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the Non-executive Directors. In developing remuneration policies and making recommendations as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and key executives.

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. During the Year, one remuneration committee meeting was held. The attendance of each member of the Remuneration Committee is set out in the section headed "Board and Committees Meetings" of this report.

During the Year, the Remuneration Committee had performed the following:

– reviewed the Group's remuneration policy and made recommendations to the Board;

– reviewed and approved the proposed 2022 overall remuneration of the Group; and

– approved granting of share options to the employees of the Group.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. Details of emoluments of Directors and the five highest paid individuals of the Group as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Notes 39 and 12 to the consolidated financial statements.

For the year ended 31 December 2022, the remuneration of the members of the senior management who are not directors are within the following bands:

Remuneration band	Number of persons
HK$0 to HK$1,000,000 (equivalent to RMB0 to RMB862,800)	4
HK$1,000,001 to HK$1,500,000 (equivalent to RMB862,801 to RMB1,294,200)	3
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,294,201 to RMB1,725,600)	0
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,725,601 to RMB2,157,000)	1

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process, internal controls and risk management matters of the Company. The Audit Committee comprises five Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Theil Paul Marin, Mr. Chan Henry, Mr. Ho Kwai Ching Mark, Mr. Zhou Fang Sheng (retired on 20 May 2022) and Mr. Chen Chuang (elected on 20 May 2022).

Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the CG Code. Details of the authority and responsibilities of the Audit Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange. The Audit Committee is required, amongst other things, to oversee the relationship with the external auditor, to review the Group's interim and annual results, to review the scope, extent and effectiveness of the internal controls and risk management systems of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

During the Year, the Audit Committee held two meetings to review the interim and the annual results before their submission to the Board and monitored the integrity of such financial statements; and review the internal control and risk management systems with external auditor. The attendance of each member of the Audit Committee is set out in the section headed "Board and Committees Meetings" of this report.

The Audit Committee has also discussed and reviewed the key audit matters determined by the external auditor under the new and revised reporting standards under Hong Kong Standards on Auditing for the Year.

All issues raised by the external auditor and the Audit Committee have been addressed by the senior management. The work and findings of the Audit Committee have been reported to the Board. During the Year, no issues brought to the attention of the senior management and the Board were of sufficient significance for disclosure in the annual report.

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

The Company's audited consolidated financial statements for the Year have been reviewed by the Audit Committee. The Audit Committee considered that relevant audited consolidated financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and disclosures have been fully made.

NOMINATION COMMITTEE

A Nomination Committee has been established by the Board with specific terms of reference, which included the selection criteria and nomination procedures, for nomination of new Directors. In identifying and selecting suitable candidates for directorships, the Nomination Committee will consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. According to the nomination policy, for filling a casual vacancy or appointing an additional director to the Board, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election or re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation of candidates to stand for election or re-election at any general meeting. Details of the authority and responsibilities of the Nomination Committee are set out in the terms of reference which are available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The Nomination Committee consists of a majority of Independent Non-executive Directors and its members are Mr. Sze Man Bok (Chairman of the Board), Mr. Hui Ching Lau (Chief Executive Officer), and all Independent Non-executive Directors, namely Mr. Ho Kwai Ching Mark (Chairman of the Nomination Committee), Ms. Ada Ying Kay Wong, Mr. Chan Henry, Mr. Zhou Fang Sheng (retired on 20 May 2022), Mr. Theil Paul Marin and Mr. Chen Chuang (elected on 20 May 2022).

During the year ended 31 December 2022, the Nomination Committee held two meetings to review the nomination policy and board diversity policy and to review and recommend the renewal of the terms of appointment and re-election of Directors. The Nomination Committee has also reviewed the structure, size and composition of the Board and concluded that members of the Board has possessed the expertise and independence to carry out the Board's functions and responsibilities during the year ended 31 December 2022. The attendance of each member of the Nomination Committee is set out in the section headed "Board and Committees Meetings" of this report.

In accordance with Articles 99 and 116 of the Articles of Association of the Company and the CG Code, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man, Mr. Chan Henry and Mr. Ho Kwai Ching Mark will retire office at the Company's annual general meeting to be held on 22 May 2023 ("AGM"), and being eligible, will offer themselves for re-election. Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man and Mr. Chan Henry will retire from the office at the AGM but will not offer themselves for re-election.

Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man and Mr. Chan Henry confirm that, in relation to their proposed retirement, they have no disagreement with the Board and there are no other matters that need to be brought to the attention of the Shareholders and/or the Stock Exchange.

Mr. Ho Kwai Ching Mark has served on the Board for more than nine years. The Board considers that Mr. Ho is independent of management and free of any relationship which could materially interfere with the exercise of her independent judgment. The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules, and affirmed that Mr. Ho remains independent. Hence, the Board considers that the long service of Mr. Ho would not affect his exercise of independent judgment in his service with the Company, and proposes Mr. Ho for re-election as an independent non-executive Director at the AGM.

BOARD AND COMMITTEES MEETINGS

The individual attendance records of each Director attendance in person or through electronic means of communication at the meetings of the Board, Remuneration Committee, Nomination Committee, Audit Committee and annual general meeting in 2022 are set out below:

	Attendance/Number of Meetings Held				
Directors	Full Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A	2/2	1/1
Mr. Hui Lin Chit *(Deputy-chairman)*	4/4	N/A	N/A	N/A	1/1
Mr. Hung Ching Shan	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Lau *(Chief Executive Officer)*	4/4	N/A	1/1	2/2	1/1
Mr. Xu Shui Shen	4/4	N/A	N/A	N/A	1/1
Mr. Xu Da Zuo	4/4	N/A	N/A	N/A	1/1
Mr. Xu Chun Man	4/4	N/A	N/A	N/A	1/1
Mr. Sze Wong Kim	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Chi	4/4	N/A	N/A	N/A	1/1
Mr. Li Wai Leung	4/4	2/2*	1/1*	2/2*	1/1
Independent Non-executive Directors					
Mr. Chan Henry	4/4	2/2	1/1	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	2/2	1/1
Mr. Ho Kwai Ching Mark	4/4	2/2	1/1	2/2	1/1
Mr. Zhou Fang Sheng#	1/4	1/2	N/A	1/2	1/1
Mr. Theil Paul Marin	4/4	2/2	1/1	2/2	1/1
Mr. Chen Chuang#	3/4	1/2	1/1	1/2	N/A

The Company's external auditor also attended the annual general meeting.

During the year ended 31 December 2022, the chairman held a meeting with the independent non-executive Directors without the presence of other Directors.

Mr. Zhou Fang Sheng retired and Mr. Chen Chuang was elected as an independent non-executive director of the Company at the annual general meeting held on 20 May 2022.

* Being the secretary of the meetings.

AUDITOR'S REMUNERATION

The Group was charged approximately RMB5,900,000 and RMB1,560,000 by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2022. Non-auditing services mainly included services provided for tax advisory services, preliminary announcements of results, prepare for "Environmental, Social and Governance Report" etc. during the Year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2022 which gives a true and fair view of the state of affairs of the Group as at 31 December 2022, and of the results and cash flows for year then ended. In preparing the financial statements for the year ended 31 December 2022, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The interim and annual results of the Group are announced in a timely manner within the limit of two months and three months, respectively, after the end of the relevant periods in accordance with the Listing Rules.

The Directors have acknowledged their responsibility for preparing all information and representation contained in the financial statements of the Group for the year ended 31 December 2022. The reporting responsibilities of external auditor are set out in the section "Independent Auditor's Report".

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the design and implementation of the systems of internal controls which covers financial reporting, operations, compliance and risk management of the Company, as well as continuous monitoring the effectiveness of such systems. The Board has delegated such responsibility to the management of the Group. The management, under the supervision of the Board, has established an on-going process for identifying, evaluating and managing significant risks faced by the Group.

The Audit Committee reviews the risk management and internal control systems that are significant to the Group on an on-going basis. The Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, as well as their training programmes and budgets.

The Group has an independent and objective internal audit department which reviews and monitors all critical aspects of the Group's authorities and its internal controls. Internal audit reports are presented to the Board and the Audit Committee annually. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staff are competent to carry out their roles and responsibilities.

During the Year, the Company's internal audit department reviewed the Company's internal control procedures and made recommendations to the Board on improvements that can be made to the existing internal control procedures. Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's internal control systems for the year ended 31 December 2022 and considered that the Group's internal control systems effective and adequate and is of the view that the system of internal control and accounting adopted for the year ended 31 December 2022 is sound and effective to safeguard the interests of the shareholders' investments and the Group's assets.

CORPORATE GOVERNANCE REPORT

The Board is satisfied that the risk management and internal control systems in place covering all material controls including financial, operational and compliance controls for the year ended 31 December 2022 under review and up to the date of issuance of the annual report is reasonably effective and adequate.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented – principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group – regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified; and

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control – review of the annual internal audit report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal control, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

DIVIDEND POLICY

The Company has adopted a policy on payment of dividends pursuant to code provision of the CG Code, which sets out the principles and guidelines that the Company intends to apply in relation to the recommendation, declaration, payment or distribution of dividends to shareholders of the Company (the "Shareholders"). The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles of Association of the Company and all applicable laws and regulations and the factors set out below.

The Board will also take into account the financial results; cash flow situation; balance of distributable reserves; business conditions and strategies; statutory fund reserve requirements; capital requirements and expenditure plans; future operations and earnings; interests of Shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant of the Group when considering the declaration and payment of dividends.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

COMPANY SECRETARY

Mr. Li Wai Leung has been the Company Secretary of the Company since January 2017. He is a full time employee of the Company and has adequate working knowledge on the Company to discharge his duty as the Company Secretary. Mr. Li reports to the Chairman of the Board and is responsible for advising the Board on corporate governance matters. For the year under review, Mr. Li has confirmed that he has taken not less than 15 hours of relevant professional training as required under Rule 3.29 of the Listing Rules.

DIRECTORS AND OFFICERS INSURANCE

Appropriate insurance covers on Directors' and officers' liabilities have been in force to protect the Directors and officers of the Group from their risk exposure arising from the business of the Group and, as at the date of this report, the Directors and officers of the Company are indemnified under a Directors' and officers' liability insurance against any liability incurred by them in discharge of their duties while holding office as the Directors and officers of the Company. The Directors and officers of the Company shall not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an Extraordinary General Meeting ("EGM")

Pursuant to the Company's articles of association and the Companies Act (as consolidated and revised) of the Cayman Islands (the "Companies Act"), registered shareholders of the Company (the "Shareholders") holding not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "EGM Requisitionists") can deposit a written request to convene an EGM at the principal office of the Company in Hong Kong (the "Principal Office"), which is presently situated at Unit 2101D, 21/F, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong. The EGM Requisitionists must state in their request(s) the objects of the EGM and such request(s) must be signed by all the EGM Requisitionists and may consist of several documents in like form, each signed by one or more of the EGM Requisitionists.

The Share Registrars will verify the EGM Requisitionists' particulars in the EGM Requisitionists' request. Promptly after confirmation from the Share Registrars that the EGM Requisitionists' request is in order, the Company Secretary will arrange with the Board to convene an EGM by serving sufficient notice to all the registered Shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the EGM Requisitionists' request is verified not in order, the EGM Requisitionists will be advised of the outcome and a EGM will not be convened as requested.

The EGM Requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM if within twenty-one (21) days of the deposit of the EGM Requisitionists' request, the Board does not proceed duly to convene an EGM provided that any EGM so convened is held within a further twenty-one (21) days from the date of the original EGM Requisitionists' request. An EGM so convened by the EGM Requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Company.

Procedures for Shareholders to Put Forward Proposals at a General Meeting

There are no provisions in the Company's articles of association or the Companies Act for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholders' meetings to the Board in writing to the Principal Office of the Company or directly by raising questions at the general meeting of the Company.

Shareholders' enquires

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or call its customer service hotline at (852) 2980 1333. Shareholders may also make enquiries to the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted the Shareholders Communication Policy with the objective of ensuring that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company. The Company has established several channels to communicate with the shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hengan.com;

(ii) periodic announcements are published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

During the year, the Board has reviewed the implementation and effectiveness of the shareholders' communication policy and was satisfied with the said policy and considered the overall communication with shareholders was effective with the variety of communication channels provided above. The Company continues to promote investor relations and enhance communication with the existing shareholders and potential investors.

The Company welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

CONSTITUTIONAL DOCUMENTS

The Company has adopted the Amended and Restated Memorandum and the Amended and Restated Articles of Association at the 2022 annual general meeting of the Company held on 20 May 2022. An up-to-date consolidated version of the Company's Memorandum and Articles of Association has been posted on both the websites of the Company and the Stock Exchange.

WHISTLEBLOWING POLICY

The Group is committed to high standards of integrity, ethics, openness, accountability and good corporate governance. In compliance with code provision D.2.6 of the CG Code, the Board has adopted a Whistleblowing Policy. It provides employees and the relevant third parties who deal with the Group (e.g. customers, suppliers, creditors and debtors) with guidance and reporting channels on reporting any existing or potential misconduct, malpractice or irregularities in any matters related to the Group directly addressed to the designated person.

An email account (jubao@hengan.com) has been set up for this purpose. All reported matters will be investigated independently and, in the meantime, all information received from a whistleblower and its identity will be kept confidential and anonymous.

The Board and the Audit Committee will regularly review the Whistleblowing Policy and mechanism to improve its effectiveness.

ANTI-CORRUPTION POLICY

In compliance with the code provision D.2.7 of the CG Code, the Board has adopted an Anti-Fraud and Anti-Corruption Policy. It outlines guidelines and the minimum standards of conducts, all applicable laws and regulations in relation to the anti-corruption and anti-bribery, the responsibilities of employees to resist fraud, to help the Group defend against corrupt practices and to report any reasonably suspected case of fraud and corruption or any attempts thereof, to the management or through an appropriate reporting channel. The Group would not tolerate all forms of fraud and corruption among all employees and those acting in an agency or fiduciary capacity on behalf of the Group, and in its business dealing with third parties.

The Board and the Audit Committee will review the Anti-Fraud and Anti-Corruption Policy and mechanism periodically to ensure its effectiveness and enforce the commitment of the Group to the prevention, deterrence, detection and investigation of all forms of fraud and corruption.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing, distribution and sale of personal hygiene products, mainly in the PRC.

(1) An analysis of the Group's revenue and contribution to operating profit by business segments is as follows:

	2022		2021	
	Revenue RMB'000	**Contribution to operating profit RMB'000**	Revenue RMB'000	Contribution to operating profit RMB'000
Personal hygiene products				
– Sanitary napkin products	**6,156,060**	**2,507,569**	6,116,530	2,712,686
– Disposable diaper products	**1,202,347**	**135,815**	1,219,445	77,951
– Tissue paper products	**12,248,011**	**136,505**	9,842,429	422,558
Others	**3,009,460**	**88,591**	3,611,740	43,245
	22,615,878	**2,868,480**	20,790,144	3,256,440

(2) The geographical analysis of the Group's revenue is shown as follows:

	2022		2021	
	Revenue RMB'000	**Percentage of total revenue (%)**	Revenue RMB'000	Percentage of total revenue (%)
PRC				
Fujian and Jiangxi	**8,187,637**	**36.2**	7,017,628	33.8
North-western	**827,929**	**3.7**	749,878	3.6
South-western	**1,745,045**	**7.7**	1,616,730	7.8
Guangdong, Guangxi, Hunan and Hubei	**3,060,991**	**13.5**	2,860,410	13.8
North-eastern	**713,695**	**3.2**	667,804	3.2
Northern	**1,104,590**	**4.9**	1,022,795	4.9
Shandong and Henan	**1,601,428**	**7.1**	1,596,001	7.7
Eastern	**2,901,901**	**12.8**	2,825,319	13.6
Hong Kong and Macau	**1,960,976**	**8.7**	1,919,720	9.2
Overseas	**511,686**	**2.2**	513,859	2.4
	22,615,878	**100**	20,790,144	100

RESULTS AND DIVIDEND

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 54.

The Board has adopted a dividend policy. Subject to the Articles of Associations of the Company and all applicable laws and regulations, the Board will also take into account the financial results; cash flow situation; balance of distributable reserves; business conditions and strategies; statutory fund reserve requirements; capital requirements and expenditure plans; future operations and earnings; interests of Shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant of the Group when considering the declaration and payment of dividends.

The Directors declared an interim dividend of RMB0.70 (2021: RMB1.00) per ordinary share, totalling RMB813,485,000 (2021: RMB1,175,121,000), which was paid on 7 October 2022.

The Directors recommend the payment of/paid a final dividend of RMB0.70 (2021: RMB0.70) per ordinary share, totalling RMB813,485,000 (2021: RMB813,485,000). Such dividend is to be approved by Shareholders of the Company at the annual general meeting to be held on 22 May 2023.

Dividends payable to Shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK$0.797985 per share using the exchange rate of HK$ to RMB on 21 March 2023, which is 0.87721.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2023 AGM

The 2023 AGM is scheduled to be held on Monday, 22 May 2023. For determining the entitlement to attend and vote at 2023 AGM, the register of members of the Company will be closed from Wednesday, 17 May 2023 to Monday, 22 May 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at 2023 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 16 May 2023.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2023 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2022, the register of members of the Company will also be closed from Monday, 29 May 2023 to Tuesday, 30 May 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 25 May 2023.

BUSINESS REVIEW

A discussion and analysis of the Group's performance during the Year, the key factors affecting its results and financial position, and the information on the compliance with laws and regulations, environmental policy and relationships with stakeholders are set out in the section headed "Chief Executive Officer's Report" of this annual report. Furthermore, a fair review of, and an indication of likely future development in the Group's business, are set out in the sections headed "Chairman's Statement" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operation, business and prospects may be affected by a number of risks and uncertainties. A variety of financial risk factors affects the Group's activities are set out in Note 3 to the accounts.

SUBSIDIARIES

Details (including the principal activities) of the Company's principal subsidiaries as at 31 December 2022 are set out in Note 37 to the accounts in this annual report.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 58.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB66,601,000 (2021: RMB21,089,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 25 to the accounts.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company as at 31 December 2022 amounted to approximately RMB8,847,043,000 (2021: RMB7,581,252,000). Under section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to the Shareholders subject to the provisions of the articles of association of the Company (the "Articles of Association"), and no distribution may be paid to the Shareholders out of the Company's share premium unless the Company shall be able to pay its debt as they fall due in the ordinary course of business.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 4 and 5 respectively.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities on the Stock Exchange.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors
Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Hung Ching Shan
Mr. Hui Ching Lau
Mr. Xu Shui Shen
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Sze Wong Kim
Mr. Hui Ching Chi
Mr. Li Wai Leung

Independent Non-Executive Directors
Mr. Chan Henry
Ms. Ada Ying Kay Wong
Mr. Ho Kwai Ching Mark
Mr. Chen Chuang (elected on 20 May 2022)
Mr. Theil Paul Marin
Mr. Zhou Fang Sheng (retired on 20 May 2022)

In accordance with Articles 99 and 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man, Mr. Ho Kwai Ching Mark, Mr. Chan Henry will retire office at the forthcoming annual general meeting (the "AGM"), and being eligible, offer themselves for re-election. While Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man and Mr. Chan Henry will retire from office at the forthcoming AGM but will not offer themselves for re-election. Mr. Ho Kwai Ching Mark will offer himself for re-election at the AGM.

Mr. Ho Kwai Ching Mark has served on the Board for more than nine years. The Board considers that Mr. Ho is independent of management and free of any relationship which could materially interfere with the exercise of her independent judgment. The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules, and affirmed that Mr. Ho remains independent. Hence, the Board considers that the long service of Mr. Ho would not affect his exercise of independent judgment in his service with the Company, and proposes Mr. Ho for re-election as an independent non-executive Director at the AGM.

Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man and Mr. Chan Henry confirms that, in relation to their proposed retirement, they have no disagreement with the Board and there are no other matters that need to be brought to the attention of the Shareholders and/or the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Each Executive Director has entered into a service contract with the Company for an initial term of three years and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party.

The Company has not appointed any non-executive director. The letters of appointment of Independent Non-Executive Director with Mr. Chan Henry and Ms. Ying Kay Ada Wong, Mr. Ho Kwan Ching Mark will expire on 15 December 2023 and 31 December 2024 respectively. Mr. Chen Chuang and Mr. Theil Paul Marin are appointed with no specific term.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

BIOGRAPHICAL AND EMOLUMENT DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 22 to 25.

Directors' and Senior Management Emoluments

Directors' emoluments are set out on Note 39. The emoluments payable to eight senior management (2021: eight senior management) during the year within the following bands:

	Number of individuals	
	2022	2021
Emolument bands		
HK$0 to HK$1,000,000 (equivalent to RMB0 to RMB862,800)	**4**	6
HK$1,000,001 to HK$1,500,000 (equivalent to RMB862,801 to RMB1,294,200)	**3**	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,294,201 to RMB1,725,600)	**0**	1
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,725,601 to RMB2,157,000)	**1**	0

DIRECTOR'S INTERESTS IN THE SHARES AND SHARE OPTIONS IN THE COMPANY OR ANY ASSOCIATED CORPORATION

During the year ended 31 December 2022, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

REPORT OF THE DIRECTORS

Name of Directors	Capacity/Nature of Interest Number of shares: Personal interests/ Beneficiary	Capacity/Nature of Interest Number of shares: Family Interest	Number of unlisted shares (Note (1)): Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok (Note (2))	238,990,399	–	100,000	239,090,399	20.57%
Mr. Hui Lin Chit (Note (3))	268,892,733	–	300,000	269,192,733	23.16%
Mr. Hung Ching Shan (Note (4))	7,150,000	–	100,000	7,250,000	0.62%
Mr. Hui Ching Lau	–	–	9,000,000	9,000,000	0.77%
Mr. Xu Shui Shen	–	33,030	500,000	533,030	0.05%
Mr. Xu Da Zuo (Note (5))	17,710,000	–	300,000	18,010,000	1.55%
Mr. Xu Chun Man (Note (6))	9,040,000	–	100,000	9,140,000	0.79%
Mr. Sze Wong Kim	851,700	–	100,000	951,700	0.08%
Mr. Hui Ching Chi	40,000	–	400,000	440,000	0.04%
Mr. Li Wai Leung	–	–	300,000	300,000	0.03%

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company, details of which are set out on pages 41 to 44.

(2) Out of the 238,990,399 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 238,414,799 ordinary shares while Mr. Sze had personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited ("Credit Suisse") as nominee and being the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

(3) An Ping Holdings Limited held 268,892,733 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Hui Family Trust in the Company.

(4) Out of the 7,150,000 ordinary shares, Wan Li Company Limited ("Wan Li") held 7,100,000 shares in the Company while Mr. Hung had personal interests in 50,000 ordinary shares in the Company. Wan Li is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

(5) Skyful Holdings Limited held 17,710,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company.

(6) Out of the 9,040,000 ordinary shares, Zhong Shen Holdings Limited ("Zhong Shen") holds 9,000,000 shares in the Company while Mr. Xu had personal interests in 40,000 ordinary shares in the Company. Zhong Shen is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company.

(7) Interests in shares and share options were long position.

(8) The percentage expressed are based on the total number of issued Shares 1,162,120,917 as at 31 December 2022.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SHARE OPTION SCHEMES

(1) The share option scheme of the Company adopted on 26 May 2011 (the "2011 Share Option Scheme") had expired on 26 May 2021. No further share options shall be offered or granted under the 2011 Share Option Scheme but in all other respects the provisions of the 2011 Share Option Scheme shall remain in full force and effect, and all share options granted prior to such expiration and not exercised nor forfeited/lapsed at the date of termination shall remain valid. Please refer to 2020 annual report of the Company for the terms of the 2011 Share Option Scheme. The Company has adopted a share option scheme (the "Scheme") on 17 May 2021 which is valid and effective for a period of 10 years commencing on the date of adoption of the Scheme. The terms of the Scheme are summarised as follows:

(i) Purpose of the Scheme

The purpose of the Scheme is to encourage participants to contribute to our Group through giving them certain equity interest of our Company and to enhance the value of our Company and our Shares, for the ultimate benefit of our Company and our Shareholders as a whole.

(ii) Eligible Persons

Participants of the Scheme comprise of directors (including executive Director(s), non-executive Directors and independent non-executive Directors) any full-time or part-time employees of the Group. as determined by the Board from time to time. The Directors may, at their discretion, invite participants to participate in the Scheme. In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(iii) Maximum Number of Shares Available for Issue

The maximum number of shares available for issue after considering the options already granted under the Scheme as at the date of the annual report are 71,480,742, representing 6.15% of total issued shares of the Company as at the date of this annual report, which are not more than 10% of the issued share capital of the Company (i.e. 117,753,742 shares) as at the date of the approval of the Scheme.

(iv) Maximum Entitlement of Each Participant

The total number of Shares issued and to be issued upon the exercise of the Options granted to each Participant pursuant to the Scheme and any other share option scheme(s) of our Company in any 12-month period shall not exceed 1% of our Shares in issue. Where further Options are granted to a Participant, and all such shares issued and to be issued upon the exercise of the Participant's granted and to-be granted Options (including exercised, cancelled and outstanding Options) represent in aggregate over 1% of the Shares in issue in the 12-month period up to and including the date of such further grant, such Offer must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. Our Company must send a circular to our Shareholders containing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant), information required under the Listing Rules.

Where any proposed grant of Options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in our Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of our Shares then in issue; and

(b) having an aggregate value, based on the closing price of our Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK$5 million,

such further grant of Options shall be subject to prior approval by resolution of our Shareholders (voting by way of poll). Grantee, his associates and all core connected persons of the Company shall abstain from voting in favour of the resolution, but they may vote against the resolution at such general meeting of our Shareholders (provided that they have indicated such preference in their letters to the Shareholders.

(v) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme and the offer of the grant of an option at any time commencing on the date of grant and expiring on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant.

REPORT OF THE DIRECTORS

(vi) Acceptance of Offer

An offer for the grant of options must be accepted not less than 30 business days after the offer date and must be accompanied by payment of HK$1.00.

(vii) Subscription Prices

The Subscription Price shall be determined by our Board in its absolute discretion but in any event shall be at least the highest of:

(a) the closing price of each of our Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day;

(b) the average closing price of each of our Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five (5) Business Days immediately preceding the Date of Grant; and

(c) the nominal value of each of our Shares.

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 17 May 2031.

The Company should comply with the new requirements under the amended Chapter 17 of the Listing Rules in respect of the matters of share options.

(2) Details of movements in the share options as at 31 December 2022 which have been granted under the Scheme are as follows:

	Number of share options								
Eligible person	Balance as at 01/01/2022	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 31/12/2022	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Mr. Sze Man Bok	10,000	–	–	–	(10,000)	–	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	(5,000)	–	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	(5,000)	–	72.75	27/07/2012	28/07/2017–27/07/2022
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Hui Lin Chit	74,000	–	–	–	(74,000)	–	72.75	27/07/2012	28/07/2015–27/07/2022
	37,000	–	–	–	(37,000)	–	72.75	27/07/2012	28/07/2016–27/07/2022
	37,000	–	–	–	(37,000)	–	72.75	27/07/2012	28/07/2017–27/07/2022
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Hung Ching Shan	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Hui Ching Lau	–	2,700,000	–	–	–	2,700,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	2,700,000	–	–	–	2,700,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	3,600,000	–	–	–	3,600,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Xu Shui Shen	30,000	–	–	–	(30,000)	–	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	(40,000)	–	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	(40,000)	–	72.75	27/07/2012	28/07/2017–27/07/2022
	–	150,000	–	–	–	150,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	150,000	–	–	–	150,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	200,000	–	–	–	200,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Xu Da Zuo	54,000	–	–	–	(54,000)	–	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	(27,000)	–	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	(27,000)	–	72.75	27/07/2012	28/07/2017–27/07/2022
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Xu Chun Man	10,000	–	–	–	(10,000)	–	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	(5,000)	–	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	(5,000)	–	72.75	27/07/2012	28/07/2017–27/07/2022
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Sze Wong Kim	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	30,000	–	–	–	30,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	40,000	–	–	–	40,000	41.48	18/01/2022	18/01/2025–17/01/2026

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Eligible person	Number of share options: Balance as at 01/01/2022	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 31/12/2022	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Mr. Hui Ching Chi	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	160,000	–	–	–	160,000	41.48	18/01/2022	18/01/2025–17/01/2026
Mr. Li Wai Leung	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2023–17/01/2024
	–	90,000	–	–	–	90,000	41.48	18/01/2022	18/01/2024–17/01/2025
	–	120,000	–	–	–	120,000	41.48	18/01/2022	18/01/2025–17/01/2026
Participants	2,542,500	–	–	–	(2,542,500)	–	72.75	27/07/2012	28/07/2015–27/07/2022
	1,341,750	–	–	–	(1,341,750)	–	72.75	27/07/2012	28/07/2016–27/07/2022
	1,349,554	–	–	–	(1,349,554)	–	72.75	27/07/2012	28/07/2017–27/07/2022
	2,666,500	–	–	–	–	2,666,500	79.20	05/10/2015	05/10/2018–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2019–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2020–05/10/2025
	–	10,064,100	–	–	–	10,064,100	41.48	18/01/2022	18/01/2023–17/01/2024
	–	10,064,100	–	–	–	10,064,100	41.48	18/01/2022	18/01/2024–17/01/2025
	–	13,418,800	–	–	–	13,418,800	41.48	18/01/2022	18/01/2025–17/01/2026
	–	457,800	–	–	–	457,800	40.30	21/12/2022	21/12/2023–20/12/2024
	–	457,800	–	–	–	457,800	40.30	21/12/2022	21/12/2024–20/12/2025
	–	610,400	–	–	–	610,400	40.30	21/12/2022	21/12/2025–20/12/2026
	10,972,804	46,273,000	–	–	(5,639,804)	51,606,000			

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of exercise period.

2. The closing price of the Shares immediately before the date on which the share options being granted on 26 July 2012, 2 October 2015, 17 January 2022 and 20 December 2022 was HK$70.00, HK$77.90, HK$39.15 and HK$40.10 respectively.

3. During the year, no options wee cancelled under the Scheme.

The Company has used the Binomial Model for assessing the fair value of the share options granted. It is an appropriate model to estimate the fair value of an option that can be exercised before the expiry of the option period. The assumptions adopted in the calculation are:

	Options granted in 2012 to Directors	Options granted in 2012 to Employees	Options granted in 2015 to Employees	Options granted in January 2022 to Directors	Options granted in January 2022 to Employees	Options granted in December 2022 to Employees
Fair value at grant date – HK$	22.60–23.00	18.90–20.90	24.23–25.74	2.70–3.84	2.63–3.84	4.01–4.97
Share price at grant date – HK$	72.75	72.75	79.20	38.65	38.65	40.30
Exercise price – HK$	72.75	72.75	79.20	41.48	41.48	40.30
Risk-free rate *(note (a))*	0.80%	0.80%	1.50%	0.68%–1.22%	0.68%–1.22%	3.51%–4.05%
Volatility *(note (b))*	32.50%	32.50%	34.50%	24%–25%	24%–25%	23%–25%
Dividend yield *(note (c))*	1.80%	1.80%	2.04%	4.88%	4.88%	5.83%
Trigger Price multiple (time)	2.2	1.6	2.51	2.75	2.20	2.20
Expected turnover rate	5.80%	14.70%	16.70%	1.98%	24.69%	23.90%
Expected life (year)	10	10	10	2–4	2–4	2–4

Notes:

(a) Risk-free rate is determined with reference to the yield of Hong Kong Exchange Fund Notes.

(b) Expected volatility is estimated with reference to the historical share price of the Company.

(c) Dividend yield is estimated by reference to the historical share price and dividend paid of the Company.

REPORT OF THE DIRECTORS

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2022, amounted to RMB66,189,000 (2021: RMB Nil) and the remaining unamortised fair value of RMB67,168,000 for options granted in 2022 (2021: RMB122,277,000) will be charged to the consolidated statement of profit or loss in the future years.

It should be noted that the value of an option varies with different variables of certain subjective assumptions; any change in variables so adopted may materially affect the fair value estimate.

(3) The table below sets out the additional information in respect of the Scheme during the year ended 31 December 2022:

Number of options available for grant as at 1 January 2022	Number of options available for grant as at 31 December 2022	Number of outstanding options divided by weighted average number Shares in issue as at 31 December 2022
117,753,742	71,480,742	4.44%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2022, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	*Note*	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	*(1)*	Beneficial owner	238,414,799 (L)	20.52%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	238,414,799 (L)	20.52%
An Ping Holdings Limited	*(2)*	Beneficial owner	268,892,733 (L)	23.14%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	268,892,733 (L)	23.14%
Credit Suisse Trust Limited	*(3)*	Trustee	552,820,002 (L)	47.57%
Artisan Partners Holdings LP		Interests of corporation controlled	69,382,000 (L)	5.97%
Artisan Partners Limited Partnership		Investment Manager	69,382,000 (L)	5.97%
Artisan Partners Asset Management Inc.		Interests of corporation controlled	69,382,000 (L)	5.97%

(L) denotes long position

Notes:

(1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being the trustee of the Sze's Family Trust.

(2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being the trustee of the Hui Family Trust.

(3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust, the Wan Li Trust and others and is deemed to be interested in the shares held by these trusts.

(4) The percentage expressed are based on the total number of issued Shares 1,162,120,917 as at 31 December 2022.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for Share Option Scheme disclosed above, at no time during the year, was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

SHAREHOLDERS' INTERESTS IN SECURITIES OF SIGNIFICANCE

Other than the interests disclosed above in respect of the substantial shareholders, as at 31 December 2022, no other person is individually or collectively entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and are able, as a practicable manner, to direct or influence the management of the Company.

REVIEW BY AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference in compliance with Rules 3.21 of the Listing Rules and paragraph D.3 of the CG Code. The primary duties of the Audit Committee including, but not limited to, the followings: (i) making recommendations to the Board on the appointment and removal of the external auditor; (ii) reviewing the financial statements of the Group and monitoring the integrity of such financial statements; and (iii) overseeing the financial reporting system and internal control procedures. The Audit Committee comprises five members, namely Ms. Ada Ying Kay Wong (chairlady of the Audit Committee), Mr. Theil Paul Marin, Mr. Chan Henry, Mr. Ho Kwai Ching Mark, Mr. Zhou Fang Sheng (retired on 20 May 2022) and Mr. Chen Chuang (elected on 20 May 2022).

The audited consolidated financial statements of the Group for the year have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the Listing Rules and legal requirements, and adequate disclosures have been made.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, there were no transactions which need to be disclosed as connected transactions and continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected transactions and continuing connected transaction", no transactions, arrangement or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company or any its subsidiaries was a party in which a Shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the Independent Non-executive Directors and is satisfied of their independence.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. All Directors have confirmed, upon specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code throughout the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The Board believes during the year ended 31 December 2022, the Directors did not have interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 23,000 employees (2021: 23,000 employees). The Group implements remuneration policy, bonus and share options scheme to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration.

The Group also committed to continuing education and development of its employees, and the Group provides various education and training programs both internally and externally to cultivate its employees in improving their skills and developing their potential.

Remuneration of Directors and senior management of the Group is reviewed by the Company's remuneration committee against the Company's goals and objectives.

PERMITTED INDEMNITY PROVISION

The Group's customers primarily comprise of distributors, direct key accounts and other retailers and the Group mainly sell its products to a broad network of distributors. The Group has maintained well-established relationships with its distributors and leverages the strength of their distribution channels to efficiently distribute products and reach consumers in different regions of China.

Save as disclosed herein, at no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

MAJOR CUSTOMERS AND SUPPLIERS

The Group selects its suppliers based on price, product quality, safety and market reputation and typically collaborate with reliable and reputable suppliers of raw materials. The Group has had stable relationships with many of its suppliers of raw materials, and the Group generally has various sources of supply for each type of raw material to reduce the reliance on a single supplier and to make reference to prevailing market prices for the same raw material.

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, in defending any proceedings, whether civil or criminal, in which judgment is given in his favor, or in which he is acquitted. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

REPORT OF THE DIRECTORS

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases of goods and services for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	12.8%
– five largest suppliers combined	38.2%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

PUBLIC FLOAT

As at the date of this report, the Company has maintained enough public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of Directors.

TAX RELIEF

The Company is not aware of any relief from taxation to which the Shareholders are entitled by reason of their holding of the Shares.

CORPORATE GOVERNANCE CODE

The Company is committed to implementing good corporate governance practices. Information on the principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders unless otherwise required by the Stock Exchange.

EQUITY-LINKED AGREEMENT

Save for the share option scheme as disclosed in this report, no equity-linked agreement was entered during the year or subsisted at the end of the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Details of the Company's environmental, social and governance practices are set out in the Environmental, Social and Governance Report of the Company.

EVENTS AFTER THE REPORTING PERIOD

In February 2023, the Group completed the issuance of the first tranche of super short-term commercial papers on the National Association of Financial Market Institutional Investors, with an aggregate principal amount of RMB1,500,000,000, with a coupon rate 2.40% per annum. The super short-term commercial papers will mature in 180 days from the respective issue date.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2022 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment. The Board has taken the Audit Committee's recommendation that a resolution will be proposed at the forthcoming annual general meeting of the Company to reappoint PricewaterhouseCoopers as auditor of the Company. There is no change of independent auditor of the Company during the past three years.

On behalf of the Board
Sze Man Bok
Chairman

Hong Kong, 22 March 2023

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Hengan International Group Company Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 54 to 128, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter identified in our audit is summarised as follows:

- Revenue recognition – sales of goods

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of goods	
Refer to notes 2 (21) (Summary of significant accounting policies) and 5 (Revenue and segment information) to the Group's consolidated financial statements. Revenue from sales of goods amounted to RMB22,616 million for the year ended 31 December 2022. Revenue is recognised net of estimated volume discount and other customer incentives when the Group satisfies a performance obligation by transferring the control of promised good or service to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that good or service. We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers, including direct customers and distributors, in many different locations.	We understood, evaluated and validated, on a sample basis, management's key controls in respect of the Group's activities in relation to contract with customers including identification of key contract terms and obligation for goods delivery, acceptance, volume discount and customer incentives; recording sales transactions from customer orders' approval, goods delivery, sales recording, obtaining customer's goods receipt notes, cash receipts, through to subsequent settlements of trade receivables. In addition, we tested the general IT control environment of the Group's systems and the specific automated controls associated with revenue recording to assess the completeness and accuracy of the revenue entries being recorded in the general ledger accounting system. We inspected agreements with major customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, applicable rebate and discount arrangements and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards. We conducted testing of revenue recorded covering different locations and customers by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt notes. In addition, we confirmed selected trade receivables balances as at the balance sheet date. The items tested were selected on a sample basis by considering the amount, nature and characteristics of the customers. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

		Year ended 31 December	
	Note	**2022 RMB'000**	2021 RMB'000
Revenue	*5*	**22,615,878**	20,790,144
Cost of goods sold	*7*	**(14,926,379)**	(13,017,826)
Gross profit		**7,689,499**	7,772,318
Selling and distribution costs	*7*	**(3,369,466)**	(3,153,718)
Administrative expenses	*7*	**(1,519,347)**	(1,372,575)
Net impairment losses on financial assets	*7*	**(19,231)**	(9,425)
Other income and other gains – net	*6*	**87,699**	1,306,991
Operating profit		**2,869,154**	4,543,591
Finance income	*8*	**445,865**	294,662
Finance costs	*8*	**(468,159)**	(465,565)
Finance costs – net		**(22,294)**	(170,903)
Share of net losses of associates		**(13,574)**	(43,122)
Profit before income tax		**2,833,286**	4,329,566
Income tax expense	*9*	**(883,986)**	(1,039,362)
Profit for the year		**1,949,300**	3,290,204
Profit attributable to:			
Shareholders of the Company		**1,925,249**	3,273,601
Non-controlling interests		**24,051**	16,603
		1,949,300	3,290,204
Earnings per share for profit attributable to shareholders of the Company			
– Basic	*10*	**RMB1.657**	RMB2.786
– Diluted	*10*	**RMB1.657**	RMB2.786

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Profit for the year	**1,949,300**	3,290,204
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Currency translation differences	**(238,713)**	(14,428)
Items that will not be subsequently reclassified to profit or loss		
– Currency translation differences	**368,951**	–
Total comprehensive income for the year	**2,079,538**	3,275,776
Attributable to:		
Shareholders of the Company	**2,047,519**	3,268,302
Non-controlling interests	**32,019**	7,474
Total comprehensive income for the year	**2,079,538**	3,275,776

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December	
	Note	2022 RMB'000	2021 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*13*	**7,099,255**	7,296,727
Right-of-use assets	*14*	**1,192,081**	979,055
Construction-in-progress	*16*	**969,210**	509,647
Investment properties	*15*	**166,696**	216,293
Intangible assets	*17*	**656,976**	724,778
Prepayments for non-current assets	*18*	**460,660**	468,652
Deferred income tax assets	*30*	**532,204**	544,762
Investments in associates	*35*	**43,576**	53,330
Financial assets at fair value through profit or loss	*24*	**212,572**	194,342
Long-term bank time deposits	*23*	**2,895,490**	4,035,960
		14,228,720	15,023,546
Current assets			
Inventories	*20*	**4,544,935**	4,162,477
Trade and bills receivables	*21*	**2,931,887**	2,970,182
Other receivables, prepayments and deposits	*21*	**1,920,248**	1,881,213
Current income tax recoverable		**42,168**	7,427
Derivative financial instruments	*22*	**1,490**	913
Restricted bank deposits		**302**	303
Cash and bank balances	*23*	**18,667,492**	18,246,687
		28,108,522	27,269,202
Total assets		**42,337,242**	42,292,748
Equity			
Equity attributable to shareholders of the Company			
Share capital	*25*	**123,345**	123,345
Other reserves	*27*	**3,143,018**	2,862,648
Retained earnings	*28*	**16,257,244**	16,051,047
		19,523,607	19,037,040
Non-controlling interests		**252,130**	243,410
Total equity		**19,775,737**	19,280,450

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	**RMB'000**	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*29*	**2,001,334**	739,342
Lease liabilities	*14*	**16,636**	10,843
Deferred income tax liabilities	*30*	**149,433**	224,633
		2,167,403	974,818
Current liabilities			
Trade and bills payables	*31*	**2,920,685**	2,565,486
Other payables and accrued charges	*31*	**1,671,547**	1,455,267
Contract liabilities	*5*	**453,741**	225,627
Derivative financial instruments	*22*	**32,838**	5,028
Lease liabilities	*14*	**18,109**	17,607
Current income tax liabilities		**268,564**	280,712
Borrowings	*29*	**15,028,618**	17,487,753
		20,394,102	22,037,480
Total liabilities		**22,561,505**	23,012,298
Total equity and liabilities		**42,337,242**	42,292,748

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 54 to 128 were approved by the Board of Directors on 22 March 2023 and were signed on its behalf.

Director
Sze Man Bok

Director
Hui Ching Lau

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

		Attributable to shareholders of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022		123,345	2,862,648	16,051,047	19,037,040	243,410	19,280,450
Profit for the year		–	–	1,925,249	1,925,249	24,051	1,949,300
Currency translation differences	*27(c)*	–	122,270	–	122,270	7,968	130,238
Total comprehensive income		–	122,270	1,925,249	2,047,519	32,019	2,079,538
Transactions with owners:							
2021 final dividends paid	*11*	–	–	(813,485)	(813,485)	(2,119)	(815,604)
2022 interim dividends paid	*11*	–	–	(813,485)	(813,485)	(16,419)	(829,904)
Liquidation of subsidiaries		–	(474)	474	–	(6,000)	(6,000)
Capital contribution by non-controlling interests		–	–	–	–	7,500	7,500
Capital reduction of a subsidiary		–	–	–	–	(3,146)	(3,146)
Change in ownership interests in subsidiaries without change of control		–	–	(171)	(171)	(2,109)	(2,280)
Disposal of a subsidiary		–	–	–	–	(1,006)	(1,006)
Share-based compensation – value of employee services		–	66,189	–	66,189	–	66,189
Total of transactions with owners		–	65,715	(1,626,667)	(1,560,952)	(23,299)	(1,584,251)
Appropriation to statutory reserves	*27, 28*	–	92,385	(92,385)	–	–	–
Balance at 31 December 2022		123,345	3,143,018	16,257,244	19,523,607	252,130	19,775,737

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

		Attributable to shareholders of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021		125,366	3,133,402	16,152,622	19,411,390	250,084	19,661,474
Profit for the year		–	–	3,273,601	3,273,601	16,603	3,290,204
Currency translation differences	*27(c)*	–	(5,299)	–	(5,299)	(9,129)	(14,428)
Total comprehensive income		–	(5,299)	3,273,601	3,268,302	7,474	3,275,776
Transactions with owners:							
2020 final dividends paid	*11*	–	–	(1,530,799)	(1,530,799)	(1,150)	(1,531,949)
2021 interim dividends paid	*11*	–	–	(1,175,121)	(1,175,121)	(12,401)	(1,187,522)
Buy-back of shares	*25, 27*	–	(936,732)	–	(936,732)	–	(936,732)
Cancellation of shares	*25, 27, 28*	(2,021)	563,170	(561,149)	–	–	–
Capital reduction of a subsidiary		–	–	–	–	(2,097)	(2,097)
Capital contribution by non-controlling interests		–	–	–	–	1,500	1,500
Total of transactions with owners		(2,021)	(373,562)	(3,267,069)	(3,642,652)	(14,148)	(3,656,800)
Appropriation to statutory reserves	*27, 28*	–	108,107	(108,107)	–	–	–
Balance at 31 December 2021		123,345	2,862,648	16,051,047	19,037,040	243,410	19,280,450

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

		Year ended 31 December	
	Note	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**4,803,030**	5,434,784
Income tax paid		**(993,168)**	(831,178)
Net cash generated from operating activities		**3,809,862**	4,603,606
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets, construction-in-progress and other non-current assets		**(1,244,657)**	(781,334)
Proceeds from disposal of property, plant and equipment, intangible assets and right-of-use assets	*32(b)*	**10,844**	5,093
Decrease in long-term and short-term bank time deposits		**6,740,483**	11,823,575
Increase in long-term and short-term bank time deposits		**(12,272,031)**	(9,407,579)
Proceeds from disposal of financial assets at fair value through profit or loss	*24*	**–**	102,447
Interest received		**705,636**	933,862
Investment in an associate		**(428)**	–
Cash disposal on losing control of a subsidiary		**(5,756)**	–
Net cash (used in)/generated from investing activities		**(6,065,909)**	2,676,064
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling interests		**7,500**	1,500
Payment to non-controlling interests for capital reduction of a subsidiary		**(3,146)**	(2,097)
Proceeds from borrowings	*32(c)*	**23,560,087**	19,960,481
Repayment of borrowings	*32(c)*	**(25,579,200)**	(22,305,005)
Lease payments for right-of-use assets excluding land use rights	*32(c)*	**(23,961)**	(19,862)
Decrease in restricted bank deposits		**–**	4,509
Payments for shares buy-back		**–**	(936,732)
Interest paid	*32(c)*	**(458,365)**	(469,653)
Dividends paid	*11*	**(1,626,970)**	(2,705,920)
Dividends paid to non-controlling interests		**(5,081)**	(13,734)
Payment to non-controlling interests for liquidation of subsidiaries		**(6,000)**	–
Transactions with non-controlling interests		**(2,280)**	–
Net cash used in financing activities		**(4,137,416)**	(6,486,513)
(Decrease)/increase in cash and cash equivalents		**(6,393,463)**	793,157
Cash and cash equivalents at 1 January	*23*	**12,339,816**	11,607,059
Effect of foreign exchange rate changes		**142,250**	(60,400)
Cash and cash equivalents at 31 December	*23*	**6,088,603**	12,339,816

The notes on pages 61 to 128 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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, Ugland House, Grand Cayman, KY1-1104, British West Indies.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") since December 1998.

These consolidated financial statements were presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 22 March 2023.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(1) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss("FVPL") (including derivative instruments and unlisted equity security), which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(i) New and amended standards adopted by the Group

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

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 31 December 2022 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKFRS 16	Lease liability in a sale and leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(2) Principles of consolidation and equity accounting subsidiaries

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of change in equity and consolidated balance sheet respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Principles of consolidation and equity accounting subsidiaries *(continued)*

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income ("OCI") of the investee in OCI. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of net losses of associates' in consolidated statement of profit or loss.

(iii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, the equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Principles of consolidation and equity accounting subsidiaries *(continued)*

(iii) Business combinations (continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill (Note 2(7)(i)). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recorded in equity.

(v) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

(vi) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(3) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executives Directors who make strategic decisions.

(4) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is HK$ and the functional currency of the majority of the Group's companies is RMB. The consolidated financial statements are presented in RMB.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within "finance income" and "finance costs", where applicable. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other income and other gains – net".

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions), and

(3) all resulting currency translation differences are recognised in OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Property, plant and equipment and construction-in-progress

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress ("CIP") represents buildings, machineries and software under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for their intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Machinery	10–20 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(8)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income and other gains – net" in the consolidated statement of profit or loss.

(6) Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of investment properties is derecognised upon disposal or when no future economic benefits is expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of not exceeding 20 years.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of not exceeding 10 years.

(iv) Computer software

Computer software represent purchased software and are amortised over their estimated useful lives, which do not exceed 10 years.

(8) Impairment of investments in non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments as financial assets measured at amortised cost, financial assets measured subsequently at fair value through OCI, and financial assets measured subsequently at fair value through profit or loss.

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Financial assets *(continued)*

(iii) Measurement *(continued)*

Financial assets measured at FVPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See Note 3(a)(ii) for further details.

(10) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. There are no derivatives designated as a hedging instrument for the Group.

Derivatives of the Group are categorised as financial assets/liabilities at fair value through profit or loss and the changes in fair value are recognised in the consolidated statement of profit or loss under "other income and other gains – net" in the year in which they arise.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(12) Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade, bills and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2(9) for further information about the Group's accounting for trade, bills and other receivables and Note 2(9)(iv) and Note 3(a)(ii) for a description of the Group's impairment policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(13) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(14) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled.

(15) Trade and bills payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and bills payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(16) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs), and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(17) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

(18) Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Current and deferred income tax *(continued)*

(ii) Deferred income tax

(a) Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Employee benefits

(i) Retirement benefits

The Group's companies in Mainland China participate in defined contribution retirement schemes administered by local governments in different locations of the PRC (the "Central Schemes"). The Group's companies and the employees in Mainland China are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes.

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee has to contribute an amount equal to 5% of the relevant income of the employee to the MPF Scheme, subject to a cap of HK$1,500, equivalent to RMB1,294 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

(ii) Share-based compensation

The Group operates equity-settled share-based payment plans (Note 26). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expenses. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium account.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(21) Revenue recognition

The Group manufactures and sells a range of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The personal hygiene products are often sold with retrospective volume discounts and other customer incentives based on aggregate sales over a period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in other payables and accrued charges) is recognised for expected discounts payable to customers in relation to sales. No element of financing is deemed present as the sales are made with a credit term of 30–90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(21) Revenue recognition *(continued)*

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

For certain payments to customers for promotion activities, the Group did not provide a distinct good or service to customers and therefore recorded as a deduction of sales price.

The Group does not expect to have any contract containing financing components. As a consequence, the Group does not adjust any of the transition prices for the time value of money.

(22) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year and excluding treasury share.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(23) Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. See Note 8 below for details.

(24) Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(25) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The Group leases various offices, warehouses and vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, and leased assets may not be used as security for borrowing purposes.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments.

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs, and
- Restoration cost

Depreciation of right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(25) Leases *(continued)*

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded at cost as right-of-use assets, which are depreciated over the lease periods using the straight-line method.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of office furniture.

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised in the year ended 31 December 2022.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

(26) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

(27) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the year in which the dividends are approved by the Company's Directors or shareholders, when appropriate.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign exchange risk

The Company's functional currency is HK$ and the majority of its subsidiaries' functional currencies are RMB. Foreign exchange risk arises from future commercial transactions or purchases from overseas by the Company's subsidiaries and recognised assets or liabilities, such as cash and bank balances, trade and bills and other receivables and payables, and borrowings held by its subsidiaries, which are denominated in RMB, United States dollar ("US$") and other currencies.

The Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant as HK$ and US$ are pegged. During the year ended 31 December 2022, the fluctuations in exchange rates between RMB (the functional currency of the majority of the Group's entities), US$ (the denomination currency of majority of the Group's imports of raw materials and property, plant and equipment and borrowings) and HK$ (the denomination currency of borrowings) resulted in a total exchange loss of RMB797,056,000 (2021: exchange gain of RMB121,185,000). The Group has not experienced any difficulties in getting sufficient foreign currencies for settlement of purchase obligations or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies or repayment of bank loans.

At 31 December 2022, if HK$ and US$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit for the year would have been RMB81,088,000 (2021: RMB309,799,000) higher/lower.

(2) Price risk

The Group is exposed to raw material price risk because of the volatility of major raw materials such as wood pulp. To manage price risks, the Group enters into long term contracts and diversifies its suppliers to mitigate the risk of significant raw material price changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk (continued)

(3) Cash flow and fair value interest rate risk

Except for restricted bank deposits, long-term bank time deposits and cash and bank balances (Note 23), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group manages certain of its cash flow risk by purchasing interest swap contracts. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates and terms of repayments of borrowings are disclosed in Note 29.

At 31 December 2022, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit for the year would have been RMB40,131,000 (2021: RMB36,855,000/RMB30,110,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, FVPL, trade and bills receivables, other receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions. Majority of the Group's sales are settled in cash or by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that settlement of trade receivables are followed up on a timely basis.

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, FVPL, trade and bills receivables, and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk *(continued)*

At 31 December 2022, all restricted bank deposits and bank balances were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows the balances with counterparties as at 31 December 2022 and 2021:

	2022 RMB'000	2021 RMB'000
Counterparties		
– Big 4 domestic banks *(Note)*	**6,407,099**	2,222,326
– Other reputable and sizeable domestic commercial banks	**10,433,055**	19,333,062
– Highly reputable and sizeable foreign-owned banks	**4,722,869**	727,225
	21,563,023	22,282,613

Note:

Big 4 domestic banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk (continued)

On that basis, the loss allowance as at 31 December 2022 was determined as follows for trade and bills receivables:

31 December 2022	Within 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Gross carrying amount	**2,686,627**	**189,311**	**117,196**	**2,993,134**
Expected loss rate	**0.60%**	**1.44%**	**36.29%**	
Loss allowance	**15,992**	**2,722**	**42,533**	**61,247**

31 December 2021	Within 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Gross carrying amount	2,793,798	137,069	97,335	3,028,202
Expected loss rate	0.64%	1.34%	39.31%	
Loss allowance	17,925	1,837	38,258	58,020

The closing loss allowances for trade and bills receivables as at 31 December reconcile to the opening loss allowances as follows:

	2022 RMB'000	2021 RMB'000
Opening loss allowance as at 1 January	**58,020**	67,164
Increase in loss allowance recognised in profit or loss during the year *(Note 7)*	**19,231**	9,425
Receivables written off during the year as uncollectible	**(16,170)**	(18,211)
Currency translation differences	**166**	(358)
Closing loss allowance at 31 December	**61,247**	58,020

Trade and bills receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60–90 days past due.

Impairment losses on trade and bills receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk

Cash flow is managed at Group level by head office finance department ("Group Finance"). Group Finance monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. Group Finance usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Group Finance mainly invests surplus cash in time deposits, with appropriate maturities.

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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 5 years RMB'000	Total RMB'000
At 31 December 2022					
Borrowings	**15,028,618**	**2,001,150**	**184**	**–**	**17,029,952**
Interest payables of borrowings	**259,054**	**27,515**	**–**	**–**	**286,569**
Net settled derivative financial instruments	**32,838**	**–**	**–**	**–**	**32,838**
Lease liabilities	**19,186**	**12,278**	**3,581**	**1,346**	**36,391**
Trade, bills and other payables	**4,345,112**	**–**	**–**	**–**	**4,345,112**
Total	**19,684,808**	**2,040,943**	**3,765**	**1,346**	**21,730,862**
At 31 December 2021					
Borrowings	17,487,753	737,083	2,081	178	18,227,095
Interest payables of borrowings	164,152	6,590	63	–	170,805
Net settled derivative financial instruments	5,028	–	–	–	5,028
Lease liabilities	18,458	8,785	2,166	182	29,591
Trade, bills and other payables	3,781,703	–	–	–	3,781,703
Total	21,457,094	752,458	4,310	360	22,214,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gross gearing ratio is calculated on the basis of the total borrowings as a percentage of the total shareholders' equity excluding non-controlling interests. The net gearing ratio is calculated on the basis of net debt as a percentage of the shareholders' equity excluding non-controlling interests. Net debt is calculated as total borrowings less long-term bank time deposits and cash and bank balances.

During the year ended 31 December 2022, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December was as follows:

	2022 RMB'000	2021 RMB'000
Gross gearing ratio:		
Total borrowings	**17,029,952**	18,227,095
Total equity excluding non-controlling interests	**19,523,607**	19,037,040
Gross gearing ratio	**87.2%**	95.7%
Net gearing ratio:		
Total borrowings	**17,029,952**	18,227,095
Less: long-term bank time deposits and cash and bank balances	**(21,562,982)**	(22,282,647)
Net debt	**(4,533,030)**	(4,055,552)
Total equity excluding non-controlling interests	**19,523,607**	19,037,040
Net gearing ratio	**N/A**	N/A

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2022 and 2021 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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 asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Fair value estimation *(continued)*

Recurring fair value measurements	*Notes*	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2022					
Financial assets					
FVPL	*24*	**–**	**–**	**212,572**	**212,572**
Derivative financial instruments	*22*	**–**	**1,490**	**–**	**1,490**
		–	**1,490**	**212,572**	**214,062**
Financial liabilities					
Derivative financial instruments	*22*	**–**	**(32,838)**	**–**	**(32,838)**

Recurring fair value measurements	*Notes*	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2021					
Financial assets					
FVPL	*24*	–	–	194,342	194,342
Derivative financial instruments	*22*	–	913	–	913
		–	913	194,342	195,255
Financial liabilities					
Derivative financial instruments	*22*	–	(5,028)	–	(5,028)

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. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) 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 year ended 31 December 2022:

	Unlisted preference shares RMB'000
Closing balance 31 December 2021	194,342
Currency translation differences	18,230
Closing balance as at 31 December 2022	**212,572**

(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
	31 Dec 2022 RMB'000	31 Dec 2021 RMB'000			
Unlisted preference shares	**212,572**	194,342	Risk-free Rate	1.25%	The higher the risk-free rate, the higher the fair value
			Volatility	45.00%	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Current tax and deferred income tax

The Group is subject to income taxes in the PRC and certain overseas countries. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

(c) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(7)(i). The recoverable amounts of CGUs was determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 17). These calculations require the use of estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 REVENUE AND 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 internal reports provided for review 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), income tax expense and share of net losses of associates which is consistent with that in the consolidated financial statements.

Operations are mainly organised under the segment of the Group's 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 at terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the consolidated statement of profit or loss. Revenues from sales of goods recognised during the year are as follows:

	2022 RMB'000	2021 RMB'000
Personal hygiene products		
– Sanitary napkin products	**6,156,060**	6,116,530
– Disposable diaper products	**1,202,347**	1,219,445
– Tissue paper products	**12,248,011**	9,842,429
Others	**3,009,460**	3,611,740
	22,615,878	20,790,144

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

The total non-current assets (other than deferred income tax assets and long-term bank time deposit) located in Mainland China amounted to RMB9,759,407,000 as at 31 December 2022 (2021: RMB9,433,579,000) and the total non-current assets located in other places amounted to RMB1,041,619,000 (2021: RMB1,009,244,000).

During the year ended 31 December 2022, there was no single customer generated more than 10% of the Group's total revenue (2021: None).

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

Additions to non-current assets comprise additions to property, plant and equipment (Note 13), right-of-use assets (Note 14), investment properties (Note 15), construction-in-progress (Note 16) and intangible assets (Note 17).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 REVENUE AND SEGMENT INFORMATION *(continued)*

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

	2022				
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,358,599	1,300,680	12,997,505	3,863,091	24,519,875
Inter-segment sales	(202,539)	(98,333)	(749,494)	(853,631)	(1,903,997)
Revenue of the Group	6,156,060	1,202,347	12,248,011	3,009,460	22,615,878
Segment profit	2,507,569	135,815	136,505	88,591	2,868,480
Unallocated costs					(87,025)
Other income and other gains – net					87,699
Operating profit					2,869,154
Finance income					445,865
Finance costs					(468,159)
Share of net losses of associates					(13,574)
Profit before income tax					2,833,286
Income tax expense					(883,986)
Profit for the year					1,949,300
Non-controlling interests					(24,051)
Profit attributable to shareholders of the Company					1,925,249
Other items for the year ended 31 December 2022					
Additions to non-current assets	421,283	176,090	624,414	105,419	1,327,206
Depreciation of property, plant and equipment and investment properties	171,741	42,928	532,961	52,259	799,889
Depreciation of right-of-use assets	13,728	3,896	26,844	9,226	53,694
Amortisation charge	22,992	3	42	10,373	33,410
As at 31 December 2022					
Segment assets	4,347,292	1,134,152	12,254,049	2,055,975	19,791,468
Deferred income tax assets					532,204
Current income tax recoverable					42,168
Investments in associates					43,576
FVPL					212,572
Long-term time deposits					2,895,490
Cash and bank balances					18,667,492
Unallocated assets					152,272
Total assets					42,337,242
Segment liabilities	1,101,507	293,649	3,162,454	432,501	4,990,111
Deferred income tax liabilities					149,433
Current income tax liabilities					268,564
Borrowings					17,029,952
Unallocated liabilities					123,445
Total liabilities					22,561,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 REVENUE AND SEGMENT INFORMATION *(continued)*

	2021				
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,167,719	1,293,759	10,713,445	4,468,751	22,643,674
Inter-segment sales	(51,189)	(74,314)	(871,016)	(857,011)	(1,853,530)
Revenue of the Group	6,116,530	1,219,445	9,842,429	3,611,740	20,790,144
Segment profit	2,712,686	77,951	422,558	43,245	3,256,440
Unallocated costs					(19,840)
Other income and other gains – net					1,306,991
Operating profit					4,543,591
Finance income					294,662
Finance costs					(465,565)
Share of net losses of associates					(43,122)
Profit before income tax					4,329,566
Income tax expense					(1,039,362)
Profit for the year					3,290,204
Non-controlling interests					(16,603)
Profit attributable to shareholders of the Company					3,273,601
Other items for the year ended 31 December 2021					
Additions to non-current assets	157,674	43,390	373,306	66,026	640,396
Depreciation of property, plant and equipment and investment properties	172,309	38,910	528,608	50,453	790,280
Depreciation of right-of-use assets	12,107	3,444	23,401	7,551	46,503
Amortisation charge	19,769	–	324	14,025	34,118
As at 31 December 2021					
Segment assets	4,190,495	1,279,550	11,414,922	2,163,264	19,048,231
Deferred income tax assets					544,762
Current income tax recoverable					7,427
Investments in associates					53,330
FVPL					194,342
Long-term time deposits					4,035,960
Cash and bank balances					18,246,687
Unallocated assets					162,009
Total assets					42,292,748
Segment liabilities	1,027,890	272,345	2,434,935	453,465	4,188,635
Deferred income tax liabilities					224,633
Current income tax liabilities					280,712
Borrowings					18,227,095
Unallocated liabilities					91,223
Total liabilities					23,012,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Contract liabilities		
Sanitary napkins products	**123,526**	66,398
Disposable diapers products	**26,108**	21,735
Tissue paper products	**257,946**	121,602
Others	**46,161**	15,892
Total contract liabilities	**453,741**	225,627

The following table shows how much of the revenue recognised in the current reporting period related to carried-forward contract liabilities from prior year.

	2022 RMB'000	2021 RMB'000
Sanitary napkins products	**66,398**	36,020
Disposable diapers products	**21,735**	20,443
Tissue paper products	**121,602**	68,543
Others	**15,892**	9,841
	225,627	134,847

6 OTHER INCOME AND OTHER GAINS – NET

	2022 RMB'000	2021 RMB'000
Government grants income *(Note)*	**546,165**	477,502
Income from long-term and short-term bank time deposits	**537,444**	679,024
Realised fair value gains on derivative financial instruments	**5,889**	15,449
Fair value gains on FVPL	**–**	41,908
Unrealised fair value losses on derivative financial instruments	**(31,348)**	(4,174)
Losses on disposal of property, plant and equipment, intangible assets, and right-of-use assets	**(69,245)**	(31,339)
Exchange (losses)/gains from operating activities – net	**(912,865)**	109,152
Others	**11,659**	19,469
	87,699	1,306,991

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and distribution costs, administrative expenses and net impairment losses on financial assets were analysed as follows:

	2022 RMB'000	2021 RMB'000
Raw materials and consumables used	**12,479,033**	10,893,213
Employee benefit expense, including Directors' emoluments *(Note 12)*	**2,134,375**	1,946,671
Transportation and loading expenses	**1,068,499**	891,176
Marketing and advertising expenses	**1,067,215**	957,548
Utilities and various office expenses	**867,427**	731,600
Depreciation of property, plant and equipment *(Note 13)*	**793,670**	783,973
Research and development expenses	**353,283**	352,005
Repairs and maintenance expenses	**145,835**	151,343
Travelling expenses	**134,626**	141,516
Tax surcharges	**94,392**	142,830
Changes in inventories of finished goods	**83,560**	(5,251)
Short-term and low-value lease expenses *(Note 14)*	**74,217**	86,684
Depreciation of right-of-use assets *(Note 14)*	**53,694**	46,503
Amortisation of intangible assets *(Note 17)*	**33,410**	34,118
Net impairment losses on financial assets *(Note 3(a)(ii))*	**19,231**	9,425
Provision for inventories write-down *(Note 20)*	**13,095**	6,594
Auditor's remuneration		
– Audit services	**5,900**	6,000
– Non-audit services	**1,560**	1,937
Others	**411,401**	375,659
Total cost of sales, selling and distribution costs, administrative expenses and net impairment on financial assets	**19,834,423**	17,553,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8 FINANCE INCOME AND FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Finance costs:		
Interest expense		
– Borrowings	**463,922**	453,578
– Lease liabilities	**1,521**	1,340
Other finance charges	**13,803**	16,625
Total finance costs incurred	**479,246**	471,543
Less: Finance costs capitalised in buildings and machinery under construction-in-progress *(Note 16)*	**(11,087)**	(5,978)
	468,159	465,565
Finance income:		
Interest income from cash and cash equivalents	**(330,056)**	(282,629)
Exchange gain	**(115,809)**	(12,033)
	(445,865)	(294,662)
Finance costs, net	**22,294**	170,903

For the year ended 31 December 2022, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 2.10% (2021: 2.18%) per annum.

9 INCOME TAX EXPENSE

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

	2022 RMB'000	2021 RMB'000
Current income tax		
– Current tax on profits for the year	**770,263**	931,197
– PRC withholding income tax	**176,016**	208,848
Deferred income tax, net *(Note 30)*	**(62,293)**	(100,683)
Income tax expense	**883,986**	1,039,362

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9 INCOME TAX EXPENSE *(continued)*

(a) *(continued)*

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

(b) Hong Kong and overseas profits tax has been calculated at the rates of taxation prevailing in the regions in which the Group operates respectively.

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

(d) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the Group's companies as follows:

	2022 RMB'000	2021 RMB'000
Profit before income tax	**2,833,286**	4,329,566
Tax calculated at tax rates applicable to profits of the Group's companies	**696,409**	1,037,410
Tax exemption and concession on the profits of certain subsidiaries	**(93,112)**	(212,661)
Expenses not deductible for income tax purposes	**160,291**	1,763
Withholding tax on distributed profit and unremitted earnings	**102,347**	220,084
Others	**18,051**	(7,234)
Income tax expense	**883,986**	1,039,362

(e) There is no tax charge relating to components of OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10 EARNINGS PER SHARE

(a) Basic

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

	2022	2021
Profit attributable to shareholders of the Company (RMB'000)	**1,925,249**	3,273,601
Weighted average number of shares outstanding (thousands)	**1,162,121**	1,174,893
Basic earnings per share (RMB)	**1.657**	2.786

(b) Diluted

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

For the year ended 31 December 2022 and 2021, share options is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

11 DIVIDENDS

	2022 RMB'000	2021 RMB'000
Interim, paid, RMB0.70 (2021: RMB1.00) per ordinary share *(Note)*	**813,485**	1,175,121
Final, proposed/paid, RMB0.70 (2021: RMB0.70) per ordinary share *(Note)*	**813,485**	813,485
	1,626,970	1,988,606

Note:

The dividends paid in 2022 amounted to RMB1,626,970,000 (2022 interim: RMB0.70 per share, 2021 final: RMB0.70 per share). The dividends paid in 2021 amounted to RMB2,705,920,000 (2021 interim: RMB1.00 per share, 2020 final: RMB1.30 per share).

A final dividend in respect of the year ended 31 December 2022 of RMB0.70 per share, amounting to a total dividend of RMB813,485,000, was proposed by the Board of Directors at a meeting held on 22 March 2023, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 22 May 2023. These financial statements do not reflect this dividend payable.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB0.70 per share equivalent to HK$0.797985 per share using the exchange rate of HK$ to RMB on 21 March 2023, which is 0.87721.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12 EMPLOYEE BENEFIT EXPENSE

	2022 RMB'000	2021 RMB'000
Wages and salaries	**1,768,353**	1,677,370
Retirement and social benefits cost	**299,833**	269,301
Equity-settled share-based payment *(Note 26)*	**66,189**	–
Total employee benefit expense	**2,134,375**	1,946,671

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2021: four) Directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining one individual of 2021 are as follows:

	2022 RMB'000	2021 RMB'000
Basic salaries, other allowances, share options and benefits-in-kind	**–**	1,296

The emoluments fell within the following bands:

	Number of individuals	
	2022	2021
Emolument bands		
HK$1,500,001 to HK$2,000,000 (2021: equivalent to RMB1,243,951 to RMB1,658,600 2022: equivalent to RMB1,294,201 to RMB1,725,600)	**–**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2022					
At 1 January 2022	**3,058,861**	**4,074,563**	**160,750**	**2,553**	**7,296,727**
Additions	**33,202**	**180,456**	**8,902**	**3,192**	**225,752**
Transfer from construction-in-progress *(Note 16)*	**79,996**	**283,608**	**1,636**	**–**	**365,240**
Transfer from investment properties *(Note 15)*	**35,585**	**–**	**–**	**–**	**35,585**
Depreciation for the year *(Note 7)*	**(235,299)**	**(521,821)**	**(35,741)**	**(809)**	**(793,670)**
Disposals	**(7,439)**	**(27,518)**	**(960)**	**(191)**	**(36,108)**
Disposal of a subsidiary	**–**	**–**	**(554)**	**–**	**(554)**
Currency translation differences	**4,063**	**1,988**	**181**	**51**	**6,283**
Closing net book amount	**2,968,969**	**3,991,276**	**134,214**	**4,796**	**7,099,255**
At 31 December 2022					
Cost	**5,236,404**	**9,245,028**	**409,777**	**19,521**	**14,910,730**
Accumulated depreciation and impairment charges	**(2,267,435)**	**(5,253,752)**	**(275,563)**	**(14,725)**	**(7,811,475)**
Net book amount	**2,968,969**	**3,991,276**	**134,214**	**4,796**	**7,099,255**
Year ended 31 December 2021					
At 1 January 2021	3,169,366	4,272,312	126,125	3,627	7,571,430
Additions	15,905	78,434	31,877	190	126,406
Transfer from construction-in-progress *(Note 16)*	112,940	275,188	39,787	–	427,915
Transfer to investment properties *(Note 15)*	(6,102)	–	–	–	(6,102)
Depreciation for the year *(Note 7)*	(229,644)	(517,694)	(35,677)	(958)	(783,973)
Disposals	(2,264)	(32,011)	(1,215)	(277)	(35,767)
Currency translation differences	(1,340)	(1,666)	(147)	(29)	(3,182)
Closing net book amount	3,058,861	4,074,563	160,750	2,553	7,296,727
At 31 December 2021					
Cost	5,105,846	8,921,493	425,145	18,322	14,470,806
Accumulated depreciation and impairment charges	(2,046,985)	(4,846,930)	(264,395)	(15,769)	(7,174,079)
Net book amount	3,058,861	4,074,563	160,750	2,553	7,296,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2022 RMB'000	2021 RMB'000
Manufacturing overheads included under cost of goods sold	**575,149**	574,762
Selling and distribution costs	**7,794**	4,021
Administrative expenses	**210,727**	205,190
	793,670	783,973

As at 31 December 2022, property, plant and equipment with a carrying amount of RMB9,675,000 (cost of RMB13,193,000) are pledged as collateral for the Group's bank borrowings of RMB4,377,000 (2021: property, plant and equipment with a carrying amount of RMB10,386,000 (cost of RMB12,770,000) are pledged as collateral for the Group's bank borrowings of RMB6,111,000) (Note 29).

14 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Right-of-use assets		
– Land use rights	**1,157,972**	951,181
– Buildings	**34,109**	27,874
Total right-of-use assets	**1,192,081**	979,055
Lease liabilities		
– Current	**(18,109)**	(17,607)
– Non-current	**(16,636)**	(10,843)
Total lease liabilities	**(34,745)**	(28,450)

Additions to the right-of-use assets for the year ended 31 December 2022 financial year were RMB270,699,000 (2021: RMB61,363,000).

14 LEASES *(continued)*

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

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

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
Depreciation of right-of-use assets *(Note 7)*		
– Land use rights	**31,035**	27,672
– Buildings	**22,659**	18,831
	53,694	46,503
Interest expense *(Note 8)*	**1,521**	1,340
Short-term and low-value lease expenses *(Note 7)*	**74,217**	86,684

The total cash payment for leases in the year ended 31 December 2022 was RMB98,178,000 (2021: RMB140,136,000), excluding the cash payment for land-use rights.

15 INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
At 1 January		
Opening net book amount	**216,293**	213,609
Currency translation differences	**321**	(592)
Transfer (to)/from property, plant and equipment *(Note 13)*	**(35,585)**	6,102
Transfer (to)/from right-of-use assets	**(8,114)**	3,481
Depreciation for the year	**(6,219)**	(6,307)
Closing net book amount	**166,696**	216,293
At 31 December		
Cost	**252,611**	304,292
Accumulated depreciation and impairment charges	**(85,915)**	(87,999)
Net book amount	**166,696**	216,293

The above investment properties are located in Fujian, Guangxi, Sichuan, Chongqing, Guizhou, Shanghai and Tianjin the PRC, Selangor and Johor, Malaysia, and depreciated on a straight-line basis over 20 to 40 years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15 INVESTMENT PROPERTIES *(continued)*

Amounts recognised in profit and loss for investment properties are as follow:

	2022 RMB'000	2021 RMB'000
Rental income	**36,327**	28,724
Direct operating expenses	**(6,324)**	(5,648)
Net book amount	**30,003**	23,076

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2022 RMB'000	2021 RMB'000
Other income and other gains – net	**6,219**	6,307

16 CONSTRUCTION-IN-PROGRESS

	2022 RMB'000	2021 RMB'000
At 1 January	**509,647**	489,052
Additions	**821,154**	448,510
Currency translation differences	**3,649**	–
Transfer to property, plant and equipment *(Note 13)*	**(365,240)**	(427,915)
At 31 December	**969,210**	509,647

During the year ended 31 December 2022, finance costs capitalised in construction-in-progress amounted to RMB11,087,000 (2021: RMB5,978,000) (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks and licences RMB'000	Customer relationships RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2022					
Cost	**488,290**	**32,456**	**58,945**	**267,540**	**847,231**
Accumulated amortisation	**–**	**(24,657)**	**(22,766)**	**(75,030)**	**(122,453)**
Net book amount	**488,290**	**7,799**	**36,179**	**192,510**	**724,778**
Year ended 31 December 2022					
Opening net book amount	**488,290**	**7,799**	**36,179**	**192,510**	**724,778**
Additions	**–**	**908**	**–**	**8,693**	**9,601**
Amortisation charge for the year *(Note 7)*	**–**	**(5,233)**	**(5,895)**	**(22,282)**	**(33,410)**
Disposals	**–**	**–**	**–**	**(43,903)**	**(43,903)**
Disposal of a subsidiary	**–**	**(19)**	**–**	**(71)**	**(90)**
Closing net book amount	**488,290**	**3,455**	**30,284**	**134,947**	**656,976**
At 31 December 2022					
Cost	**488,290**	**33,345**	**58,945**	**230,565**	**811,145**
Accumulated amortisation	**–**	**(29,890)**	**(28,661)**	**(95,618)**	**(154,169)**
Net book amount	**488,290**	**3,455**	**30,284**	**134,947**	**656,976**
At 1 January 2021					
Cost	488,290	32,404	58,945	264,199	843,838
Accumulated amortisation	–	(16,308)	(16,873)	(55,213)	(88,394)
Net book amount	488,290	16,096	42,072	208,986	755,444
Year ended 31 December 2021					
Opening net book amount	488,290	16,096	42,072	208,986	755,444
Additions	–	52	–	4,065	4,117
Amortisation charge for the year *(Note 7)*	–	(8,349)	(5,893)	(19,876)	(34,118)
Disposals	–	–	–	(665)	(665)
Closing net book amount	488,290	7,799	36,179	192,510	724,778
At 31 December 2021					
Cost	488,290	32,456	58,945	267,540	847,231
Accumulated amortisation	–	(24,657)	(22,766)	(75,030)	(122,453)
Net book amount	488,290	7,799	36,179	192,510	724,778

Amortisation has been charged to administrative expenses in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2022 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified by business segments.

A summary of goodwill by reporting segment is presented below:

	2022 RMB'000	2021 RMB'000
Tissue paper products	**479,713**	479,713
Others	**8,577**	8,577
	488,290	488,290

The recoverable amount of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and assuming revenue growth rate ranging from 2.0% to 4.6% (2021: 2.9% to 3.0%) and gross profit margins ranging from 23.0% to 25.0% (2021: 28.6%). The cash flows are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a pre-tax discount rate of 12.4% (2021: 12.2%) per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2022 and 2021 and any reasonable change to the key assumptions would not lead to an impairment.

18 PREPAYMENTS FOR NON-CURRENT ASSETS

The balance represented prepayments for purchase of property, plant and equipment and land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19 FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade and other receivables, excluding prepayments and value added tax recoverable	**3,614,611**	3,455,887
– Restricted bank deposits	**302**	303
– Long-term bank time deposits *(Note 23)*	**2,895,490**	4,035,960
– Cash and bank balances *(Note 23)*	**18,667,492**	18,246,687
FVPL *(Note 24)*	**212,572**	194,342
Derivative financial instruments *(Note 22)*	**1,490**	913
Total	**25,391,957**	25,934,092

(b) Liabilities

	2022 RMB'000	2021 RMB'000
Financial liabilities		
Financial assets at amortised cost		
– Trade and other payables, excluding non-financial liabilities	**4,345,112**	3,781,703
– Borrowings *(Note 29)*	**17,029,952**	18,227,095
– Lease liabilities *(Note 14)*	**34,745**	28,450
Derivative financial instruments *(Note 22)*	**32,838**	5,028
Total	**21,442,647**	22,042,276

20 INVENTORIES

	2022 RMB'000	2021 RMB'000
Finished goods	**1,699,042**	1,782,602
Raw materials	**2,629,516**	2,147,972
Spare parts and consumables	**216,377**	231,903
Total	**4,544,935**	4,162,477

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB12,562,593,000 (2021: RMB10,887,962,000).

The Group provided a provision for inventories of RMB13,095,000 (2021: RMB6,594,000). These amounts have been included in cost of sales in the consolidated statement of profit or loss (Note 7).

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For the year ended 31 December 2022

21 TRADE, BILLS AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2022 RMB'000	2021 RMB'000
Trade receivables	**2,968,424**	3,006,542
Bills receivables	**24,710**	21,660
	2,993,134	3,028,202
Less: provision for impairment	**(61,247)**	(58,020)
Trade and bills receivables, net	**2,931,887**	2,970,182
Other receivables, prepayments and deposits		
– Advance payments to suppliers	**722,107**	713,471
– Value added tax recoverables	**468,346**	613,150
– Government grants receivables	**228,790**	211,530
– Interest income receivables	**425,662**	263,798
– Prepaid expenses	**47,071**	68,887
– Others	**28,272**	10,377
	1,920,248	1,881,213
Trade, bills and other receivables, prepayments and deposits	**4,852,135**	4,851,395

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

	2022 RMB'000	2021 RMB'000
Within 30 days	**961,667**	1,178,212
31–180 days	**1,724,960**	1,615,586
181–365 days	**189,311**	137,069
Over 365 days	**117,196**	97,335
	2,993,134	3,028,202

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.

Information about the impairment of trade and bills receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22 DERIVATIVE FINANCIAL INSTRUMENTS

These amounts represented the fair value of foreign currency swap contracts and interest rate swap contracts entered into with banks. These contracts are regarded as derivative financial instruments.

	2022 RMB'000	2021 RMB'000
Assets:		
Interest rate swap contracts	1,490	913
Liabilities:		
Interest rate swap contracts	–	(1,075)
Foreign currency swap contract	(32,838)	(3,953)
	(32,838)	(5,028)
Total	(31,348)	(4,115)

Non-hedging derivatives are classified as current assets or liabilities.

For information about the methods and assumptions used in determining the fair value of derivatives, please refer to Note 3(c).

23 LONG-TERM BANK TIME DEPOSITS AND CASH AND BANK BALANCES

	2022 RMB'000	2021 RMB'000
Long-term bank time deposits	2,895,490	4,035,960
Cash and bank balances		
– Bank time deposits	12,578,889	5,906,871
– Cash and cash equivalents	6,088,603	12,339,816
	18,667,492	18,246,687
Total	21,562,982	22,282,647

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

The effective interest rate on bank deposits as at 31 December 2022 was approximately 3.63% (31 December 2021: 3.23%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23 LONG-TERM BANK TIME DEPOSITS AND CASH AND BANK BALANCES *(continued)*

The carrying amounts of the long-term bank time deposits and cash and bank balances were denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
Long-term bank time deposits		
RMB	**1,910,000**	4,035,960
US$	**985,490**	–
Total	**2,895,490**	4,035,960
Cash and bank balances		
RMB	**10,828,245**	14,828,085
US$	**7,574,779**	3,089,129
HK$	**74,387**	100,088
Others	**190,081**	229,385
Total	**18,667,492**	18,246,687

The Group's bank deposits and cash denominated in RMB, US$ and HK$ are mainly deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at fair value through profit or loss include the following:

	2022 RMB'000	2021 RMB'000
Non-current assets		
Unlisted preference shares	**212,572**	194,342

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For the year ended 31 December 2022

25 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	RMB'000
At 1 January 2021	1,186,337,417	125,366
Cancellation of buy-back shares *(Note)*	(24,216,500)	(2,021)
At 31 December 2021 and 31 December 2022	**1,162,120,917**	**123,345**

Note:

The Group acquired its own ordinary shares of 24,216,500 on the Stock Exchange from 23 March 2021 till 8 October 2021, all shares had been cancelled after buy-back. The total amount paid to acquire the shares was RMB936,732,000 and had been deducted from share capital, other reserves and retained earnings within shareholders' equity during the year ended 31 December 2021.

26 SHARE-BASED COMPENSATION

The Company adopted a share option scheme on 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:

	2022		2021	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**75.88**	**10,972**	74.46	15,319
Granted (i)	**41.48**	**44,747**	–	–
Granted (ii)	**40.30**	**1,526**	–	–
Lapsed or forfeited	**72.75**	**(5,639)**	70.87	(4,347)
At 31 December	**45.34**	**51,606**	75.88	10,972

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26 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 21 December 2022. 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 51,606,000 outstanding options (31 December 2021: 10,972,000), 5,333,000 options (31 December 2021: 10,972,000) were exercisable as at 31 December 2022.

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 were 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 *(Note)*	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 year have the following expiry dates and exercise prices:

	Exercise price in HK$ per share option	Options (thousands)	
		2022	2021
Expiry date – 28 July 2022	72.75	**–**	5,639
Expiry date – 5 October 2025	79.20	**5,333**	5,333
Expiry date – 17 January 2026	41.48	**44,747**	–
Expiry date – 20 December 2026	40.30	**1,526**	–
		51,606	10,972

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 year ended 31 December 2022 amounted to RMB66,189,000 (2021: Nil) (Note 12), and the remaining unamortised fair value of approximately RMB67,168,000 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.

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For the year ended 31 December 2022

27 OTHER RESERVES

	Treasury shares RMB'000	Share premium RMB'000 *(Note (a))*	Capital redemption reserve RMB'000	Statutory reserves RMB'000 *(Note (b))*	Share-based Compensation reserve RMB'000	Exchange reserve RMB'000 *(Note (c))*	Total RMB'000
At 1 January 2022	–	–	1,922	2,352,539	332,860	175,327	2,862,648
Other comprehensive income – currency translation differences	–	–	–	–	–	122,270	122,270
Share-based compensation – value of employee services	–	–	–	–	66,189	–	66,189
Appropriation to statutory reserves *(Note 28)*	–	–	–	92,385	–	–	92,385
Liquidation of subsidiaries	–	–	–	(474)	–	–	(474)
At 31 December 2022	–	–	1,922	2,444,450	399,049	297,597	3,143,018
At 1 January 2021	–	373,562	1,922	2,244,432	332,860	180,626	3,133,402
Other comprehensive income – currency translation differences	–	–	–	–	–	(5,299)	(5,299)
Appropriation to statutory reserves *(Note 28)*	–	–	–	108,107	–	–	108,107
Buy-back of shares *(Note 25)*	(936,732)	–	–	–	–	–	(936,732)
Cancellation of shares *(Note 25)*	936,732	(373,562)	–	–	–	–	563,170
At 31 December 2021	–	–	1,922	2,352,539	332,860	175,327	2,862,648

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(b) Statutory reserves represent statutory surplus reserve of the subsidiary companies in Mainland China. The Company's subsidiaries incorporated in Mainland China are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under Mainland China accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in Mainland China at rate of 10% or at the discretion of the board of Directors of Mainland China subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(c) Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from RMB, the presentation currency of the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

28 RETAINED EARNINGS

	2022 RMB'000	2021 RMB'000
At 1 January	**16,051,047**	16,152,622
Profit for the year	**1,925,249**	3,273,601
Appropriation to statutory reserves *(Note 27)*	**(92,385)**	(108,107)
2021/2020 final dividends paid *(Note 11)*	**(813,485)**	(1,530,799)
2022/2021 interim dividends paid *(Note 11)*	**(813,485)**	(1,175,121)
Liquidation of subsidiaries	**474**	–
Change in ownership interests in subsidiaries without change of control	**(171)**	–
Cancellation of buy-back shares	**–**	(561,149)
At 31 December	**16,257,244**	16,051,047

29 BORROWINGS

	2022 RMB'000	2021 RMB'000
Non-current		
Long-term bank loans – unsecured (a)	**1,999,000**	650,305
Long-term bank loans – secured (a)	**2,334**	4,237
Other borrowings – unsecured (a)	**–**	84,800
	2,001,334	739,342
Current		
Short-term bank loans – unsecured (a)	**14,319,923**	15,206,140
Current portion of long-term bank loans – unsecured (a)	**415,433**	1,991,500
Current portion of other borrowings – unsecured (a)	**84,800**	8,320
Trust receipt bank loans (a)	**206,419**	279,919
Current portion of long-term bank loans – secured (a)	**2,043**	1,874
	15,028,618	17,487,753
Total borrowings	**17,029,952**	18,227,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29 BORROWINGS *(continued)*

(a) Bank loans and other borrowings

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
RMB	**8,876,487**	8,271,560
HK$	**6,811,413**	3,827,545
US$	**1,259,556**	6,034,799
Other currencies	**82,496**	93,191
	17,029,952	18,227,095

At 31 December, the Group's long-term bank borrowings are repayable as follows:

	2022 RMB'000	2021 RMB'000
Between 1 and 2 years	**2,001,150**	652,283
Between 2 and 3 years	**184**	2,081
Between 3 and 5 years	**–**	178
	2,001,334	654,542

As at 31 December 2022, the effective interest rate of the Group's bank loans and other borrowings is approximately 2.10% (2021: 2.08%) per annum.

As all the long-term bank loans and other borrowings charge interest at fixed rates, the carrying amounts of the bank loans and other borrowings approximated their fair values as at the balance sheet dates.

As at 31 December 2022, bank borrowings of RMB4,377,000 (31 December 2021: RMB6,111,000) were pledged by the property, plant and equipment (carrying amount of RMB9,675,000 (31 December 2021: RMB10,386,000) and cost of RMB13,193,000 (31 December 2021: RMB12,770,000)) (Note 13).

The Group has complied with all loan covenants throughout the reporting period.

(b) Short-term commercial papers

During 2022, following short-term commercial papers were issued and matured:

	Interest rate	Expiration term	Mature date	Amount RMB'000
22恒安國際CP001	**2.50%**	**180 days**	**2022-08-30**	**1,000,000**
22恒安國際CP002	**2.50%**	**180 days**	**2022-08-30**	**1,000,000**
22恒安國際CP003	**2.40%**	**180 days**	**2022-09-14**	**1,500,000**
22恒安國際CP004	**2.10%**	**180 days**	**2022-12-07**	**1,000,000**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income liabilities are as follows:

	2022 RMB'000	2021 RMB'000
Deferred income tax assets		
– Deferred tax asset to be recovered more than 12 months	**386,617**	374,240
– Deferred tax asset to be recovered within 12 months	**145,587**	170,522
	532,204	544,762
Deferred income tax liabilities		
– Deferred tax liability to be settled more than 12 months	**(31,282)**	(35,205)
– Deferred tax liability to be settled within 12 months	**(118,151)**	(189,428)
	(149,433)	(224,633)
Deferred income tax assets – net	**382,771**	320,129

The gross movement on the deferred income tax account is as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	**320,129**	219,631
Credit to consolidated statement of profit or loss	**62,293**	100,683
Currency translation differences	**349**	(185)
At 31 December	**382,771**	320,129

The movements in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Unrealised profit in inventories arising from intra-group transactions		Provisions		Tax losses		Total	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
At 1 January	**142,661**	124,560	**27,861**	30,011	**374,240**	281,282	**544,762**	435,853
Currency translation differences	**–**	–	**102**	(150)	**–**	(176)	**102**	(326)
(Charged)/credited to consolidated statement of profit or loss	**(28,738)**	18,101	**3,701**	(2,000)	**12,377**	93,134	**(12,660)**	109,235
At 31 December	**113,923**	142,661	**31,664**	27,861	**386,617**	374,240	**532,204**	544,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

30 DEFERRED INCOME TAX (continued)

Deferred income tax liabilities:

	Withholding income tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Accelerated depreciation		Total	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
At 1 January	186,988	175,752	35,634	37,786	2,011	2,684	224,633	216,222
Currency translation differences	–	–	–	–	(247)	(141)	(247)	(141)
(Credited)/charged to consolidated statement of profit or loss	(73,669)	11,236	(2,176)	(2,152)	892	(532)	(74,953)	8,552
At 31 December	113,319	186,988	33,458	35,634	2,656	2,011	149,433	224,633

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB6,533,000 (2021: RMB4,688,000) in respect of losses amounting to RMB39,595,000 (2021: RMB28,410,000), which are not subject to expiration and can be carried forward against future taxable income.

The Group has been providing deferred income tax liabilities on the withholding income tax on certain amount of the unremitted earnings of some PRC subsidiaries following the dividend distribution plan of the Company. As at 31 December 2022 and 2021, deferred income tax liabilities of RMB204,367,000 have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. The unremitted earnings will be permanently reinvested, amounting to RMB4,087,338,000 as at 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

31 TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	2022 RMB'000	2021 RMB'000
Trade payables	**2,913,743**	2,561,424
Bills payables	**6,942**	4,062
	2,920,685	2,565,486
Other payables and accrued charges		
– Accrued expenses and other payables	**1,183,190**	996,703
– Payables for purchase of property, plant and equipment	**241,237**	219,514
– Employee benefit payable	**217,555**	209,977
– Other taxes payables	**29,565**	29,073
	1,671,547	1,455,267
Trade, bills and other payables and accrued charges	**4,592,232**	4,020,753

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

	2022 RMB'000	2021 RMB'000
Within 30 days	**1,609,093**	1,638,196
31–180 days	**1,299,393**	912,070
181–365 days	**8,270**	3,550
Over 365 days	**3,929**	11,670
	2,920,685	2,565,486

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

The carrying amounts of trade and bills payables were denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
US$	**1,748,855**	1,359,160
RMB	**1,160,472**	1,192,130
Other currencies	**11,358**	14,196
	2,920,685	2,565,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2022 RMB'000	2021 RMB'000
Profit before income tax	**2,833,286**	4,329,566
Adjustments for:		
Depreciation of property, plant and equipment *(Note 13)*	**793,670**	783,973
Depreciation of right-of-use assets *(Note 14)*	**53,694**	46,503
Depreciation of investment properties *(Note 15)*	**6,219**	6,307
Amortisation of intangible assets *(Note 17)*	**33,410**	34,118
Unrealised fair value losses on derivative financial instruments *(Note 6)*	**31,348**	4,174
Realised fair value gains on derivative financial instruments *(Note 6)*	**(5,889)**	(15,449)
Losses on disposal of property, plant and equipment, intangible assets and right-of-use assets *(Note 6)*	**69,245**	31,339
Share-based compensation expenses *(Note 26)*	**66,189**	–
Fair value gains on FVPL *(Note 6)*	**–**	(41,908)
Interest income and other finance income	**(983,309)**	(973,686)
Finance costs *(Note 8)*	**454,356**	448,940
Operating profit before working capital changes	**3,352,219**	4,653,877
(Increase)/decrease in inventories	**(328,988)**	138,909
Decrease in trade and bills receivables, other receivables, prepayments and deposits	**780,239**	317,427
Increase in trade and bills payables, other payables and accrued charges	**999,560**	324,571
Cash generated from operations	**4,803,030**	5,434,784

(b) Proceeds from disposal of property, plant and equipment, intangible assets and right-of-use assets

	2022 RMB'000	2021 RMB'000
Net book value	**80,089**	36,432
Losses on disposal of property, plant and equipment, intangible assets and right-of-use assets *(Note 6)*	**(69,245)**	(31,339)
Proceeds from disposal of property, plant and equipment, intangible assets and right-of-use assets	**10,844**	5,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Debt reconciliation

	Bank loans and other borrowings RMB'000	Super Short-term/ Short-term commercial papers RMB'000	Leases RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2022	**18,272,907**	**–**	**28,450**	**–**	**18,301,357**
Cash flows	**(2,423,744)**	**(53,734)**	**(23,961)**	**–**	**(2,501,439)**
Interest expense and other finance charges	**410,188**	**53,734**	**1,521**	**–**	**465,443**
Addition of leases	**–**	**–**	**28,516**	**–**	**28,516**
Currency translation differences	**821,970**	**–**	**219**	**–**	**822,189**
Debt as at 31 December 2022	**17,081,321**	**–**	**34,745**	**–**	**17,116,066**
Debt as at 1 January 2021	19,888,852	–	19,775	1,009,335	20,917,962
Cash flows	(1,722,441)	(58,737)	(19,862)	(1,032,999)	(2,834,039)
Interest expense and other finance charges	371,177	58,737	1,340	23,664	454,918
Addition of leases	–	–	27,344	–	27,344
Currency translation differences	(264,681)	–	(147)	–	(264,828)
Debt as at 31 December 2021	18,272,907	–	28,450	–	18,301,357

33 CONTINGENT LIABILITIES

At 31 December 2022, the Group had no material contingent liabilities (2021: Nil).

34 CAPITAL COMMITMENTS

At 31 December 2022 and 2021, the Group had the following commitments:

(a) Capital commitments

	2022 RMB'000	2021 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	**511,979**	634,792
Leasehold land and buildings	**213,248**	301,479
	725,227	936,271

34 CAPITAL COMMITMENTS *(continued)*

(b) Commitments under operating leases

The Group is the lessor:

The Group leases out certain office premises under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	2022 RMB'000	2021 RMB'000
Not later than 1 year	**24,726**	21,677
Later than 1 year and not later than 5 years	**57,279**	52,488
Later than 5 years	**19,860**	14,803
	101,865	88,968

35 INVESTMENTS IN ASSOCIATES

The amounts recognised in the balance sheet are as follows:

	2022 RMB'000	2021 RMB'000
Interests in associates	**43,576**	53,330

The amounts recognised in the consolidated income statement are as follows:

	2022 RMB'000	2021 RMB'000
Share of net losses	**(13,574)**	(43,122)

The details of investments in associates are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January 2022	**53,330**	97,188
Addition	**428**	–
Disposal of a subsidiary	**5,669**	–
Share of net losses	**(13,574)**	(43,122)
Currency translation differences	**(2,277)**	(736)
At 31 December 2022	**43,576**	53,330

There are no contingent liabilities relating to the group's interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

35 INVESTMENTS IN ASSOCIATES *(continued)*

The particulars of the associates of the Group as at 31 December 2022, 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/registered capital	Principal activities
Finnpulp Oy	Kuopio, Finland	36.46%	EUR10,002	Manufacturing, distribution and sale of wood pulp
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB29,411,800	Research and development of personal hygiene materials
V-camp (Xiamen) Network Technology Co., Ltd.*	Xiamen, PRC	30.00%	RMB36,660,000	Design and promotion of internet images
Karrion Development Limited	Hong Kong, PRC	50.00%	HK$1,000,000	Development, distribution, wholesaling and retailing of medical, healthcare and hygiene products

* For identification purpose only

36 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, 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.

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2022 and 2021:

Key management compensation

	2022 RMB'000	2021 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	22,335	18,144
Share-based payment	19,119	–
Contributions to pension schemes	117	114
	41,571	18,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2022 which, in the opinion of the Directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, E-commerce, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1,367,302,854	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Indirect subsidiaries:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	Pataca de Macau 100,000	100
Anhai International Trading Limited	Macau, limited liability company	Trading and procurement in Macau	Pataca de Macau 100,000	100
Hengan (China) Investment Co., Ltd.*	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and sale of personal hygiene products in Hong Kong	10,000 ordinary shares of HK$2,030,786	70
PT. Hengan Global	Indonesia, limited liability company	Distribution and sale of personal hygiene products in Indonesia	US$6,200,000	90.32
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Indirect subsidiaries: *(continued)*				
Guangdong Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$18,000,000	100
Guangdong Hengan Paper Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB288,888,000	100
Harmony Pharmacare Limited	Hong Kong, limited liability company	Manufacturing, distribution and sale of protective equipment in Hong Kong	25,000,000 ordinary shares of HK$25,000,000	77
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products, personal hygiene material products and household products in the PRC	US$15,800,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products and household products in the PRC	US$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	RMB11,100,000	90.10
Hengan (Sichuan) Family Products Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB76,200,200	100
Hengan (Sichuan) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$16,380,000	100
Hengan (Fushun) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB73,660,000	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Indirect subsidiaries: *(continued)*				
Hengan (Jiangxi) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$94,388,000	100
Hengan (Hefei) Living Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB114,300,000	100
Hunan Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$39,980,000	100
Jiangxi Hengan Biotechnology Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of medical instrument, skin care products and antiseptics in PRC	RMB15,000,000	100
Hengan (Xiaogan) Medical Instruments Technology Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of medical instrument in PRC	US$10,000,000	100
Hengan (China) Paper Industry Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$165,570,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	US$12,000,000	100
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,731,005	100
Hengan (Guangxi) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hunan) Hearttex Paper Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB209,000,000	100
Hunan Hengan Living Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB852,280,000	100

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37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Indirect subsidiaries: *(continued)*				
Hengan (Chongqing) Living Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB959,200,000	100
Jinjiang Hengan Household Tissue Product Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Shandong Hengan Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$188,710,000	100
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$21,987,500	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	100
Hengan (Wuhu) Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB874,000,000	100
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	Japanese Yen 100,000	100
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100
Hengan (Zhejiang) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper in the PRC	US$100,000,000	100

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37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Indirect subsidiaries: *(continued)*				
Fujian Hengan Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB394,930,500	100
Wuhu Hengan Hearttex Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
Xiamen Hengan E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Xiamen Space Seven E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Hengan Li Ren (Jiangxi) Cosmetics Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB35,880,000	100
Xinjiang Hengan Paper Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing and distribution of packaged tissue paper products in the PRC	RMB387,000,000	100
Weifang Hengan Thermal Power Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing and distribution of heating and power in the PRC	US$12,000,000	100
Weifang Hengan Gas Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of gas in the PRC	RMB10,000,000	100
PT. Hengan Global Hygiene Products	Indonesia, limited liability company	Manufacturing, distribution and sales of papers in Indonesia	US$10,000,000	70
Hengan (Malaysia) Investments Company Limited	British Virgin Islands, limited liability company	Investment holding in Malaysia	1 ordinary share of US$1 each	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Indirect subsidiaries: *(continued)*				
Wang-Zheng Berhad	Malaysia, public listed limited	Investment holding in Malaysia	Malaysian Ringgit ("MYR") 80,000,000	57.30
Wang-Zheng Corporation Sdn. Bhd.	Malaysia, limited liability company	Distributor of disposable fibre-based products in Malaysia	MYR 3,325,000	57.30
Quality Hero Corporation Sdn. Bhd.	Malaysia, limited liability company	Manufacturing, distribution and sale of adult diaper, baby diaper and sanitary napkins products in Malaysia	MYR 250,000	57.30
Carefeel Cotton Industries (M) Sdn. Bhd.	Malaysia, limited liability company	Manufacturing and distribution of facial cotton and other cotton related products	MYR 2,187,500	57.30
New Top Win Corporation Sdn. Bhd.	Malaysia, limited liability company	Importing, processing and trading of papers in Malaysia	MYR 1,000,000	57.30
Modern Alpine Sdn. Bhd.	Malaysia, limited liability company	Trading of papers in Malaysia	MYR 3,000,000	57.30
Hengan (Shaanxi) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$24,980,000	100
Hengan (Hubei) Paper Industry Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in PRC	RMB100,000,000	100
Fujian Hengan Hengpin E-commerce Co., Ltd.*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB10,000,000	100

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For the year ended 31 December 2022

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2022 %
Indirect subsidiaries: *(continued)*				
Hengan (Luxembourg) Investment Company Limited	Luxembourg, limited liability company	Investment holding in Luxembourg	Euro 12,500	100
Hengan (Orient) Hygiene Product Co., Ltd.*	Russia, limited liability company	Manufacturing, distribution and sale of personal hygiene products in Russia	Russian Ruble 600,000,000	51
Sunway Kordis Holding Ltd	Cayman, limited liability company	Investment holding in the PRC	2,099,999 ordinary shares of US$2,100	100
Starful Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Sunway Kordis Asia Limited	Hong Kong, limited liability company	Trading and consultancy in Hong Kong	100 ordinary shares of HK$100	100
Sunway Kordis (Shanghai) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US$3,100,000	100
Sunway Household (Weifang) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US$2,000,000	100

* *For identification purpose only*

The non-controlling interests in respect of Hengan Pharmacare Company Limited, Harmony Pharmacare Limited, Fujian Hengan Holding Co., Ltd., Quanzhou Jinjiang Hengan Hygiene Science and Technology Co, Ltd., Hengan Global, PT. Hengan Global Hygiene Products, Hengan (Orient) Hygiene Product Co., Ltd., and its subsidiaries are not material.

For the non-wholly owned subsidiaries, the non-controlling interests represent the remaining interests and the related voting rights other than those held by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**5,587,869**	5,332,144
Current assets		
Amounts due from subsidiaries	**7,015,536**	5,878,406
Other receivables, prepayments and deposits	**160**	166
Derivative financial instruments	**–**	433
Cash and bank balances	**11,994**	34,580
	7,027,690	5,913,585
Total assets	**12,615,559**	11,245,729
Equity		
Equity attributable to shareholders of the Company		
Share capital	**123,345**	123,345
Other reserves *(Note (a))*	**73,299**	(361,842)
Retained earnings *(Note (a))*	**8,780,430**	7,581,252
Total equity	**8,977,074**	7,342,755
Liabilities		
Non-current liabilities		
Amounts due to subsidiaries	**1,809,080**	1,664,788
Current liabilities		
Other payables and accrued charges	**12,433**	11,228
Borrowings	**1,816,972**	2,226,958
	1,829,405	2,238,186
Total liabilities	**3,638,485**	3,902,974
Total equity and liabilities	**12,615,559**	11,245,729

The balance sheet of the Company was approved by the Board of Directors on 22 March 2023 and was signed on its behalf.

Director
Sze Man Bok

Director
Hui Ching Lau

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2022	**7,581,252**	**(361,842)**
Profit for the year	**2,826,148**	**–**
Currency translation differences	**–**	**368,952**
2021 final dividend paid	**(813,485)**	**–**
2022 interim dividend paid	**(813,485)**	**–**
Share-based compensation		
– value of employee services	**–**	**66,189**
At 31 December 2022	**8,780,430**	**73,299**
At 1 January 2021	7,728,653	111,654
Profit for the year	3,119,668	–
Currency translation differences	–	(99,934)
2020 final dividend paid	(1,530,799)	–
2021 interim dividend paid	(1,175,121)	–
Buy-back of shares	–	(936,732)
Cancellation of shares	(561,149)	563,170
At 31 December 2021	7,581,252	(361,842)

39 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and Chief Executive's emoluments

The remuneration of every Director and the Chief Executive for the year ended 31 December 2022 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director						
Mr. Sze Man Bok	**79**	**307**	**–**	**150**	**15**	**551**
Mr. Hui Lin Chit	**79**	**1,212**	**480**	**449**	**15**	**2,235**
Mr. Hung Ching Shan	**52**	**120**	**3**	**149**	**8**	**332**
Mr. Hui Ching Lau	**52**	**7,000**	**–**	**13,444**	**3**	**20,499**
Mr. Xu Shui Shen	**52**	**1,288**	**–**	**747**	**3**	**2,090**
Mr. Xu Da Zuo	**52**	**1,240**	**–**	**448**	**33**	**1,773**
Mr. Xu Chun Man	**52**	**–**	**–**	**149**	**3**	**204**
Mr. Sze Wong Kim	**52**	**–**	**–**	**149**	**3**	**204**
Mr. Hui Ching Chi	**79**	**1,393**	**475**	**598**	**17**	**2,562**
Mr. Li Wai Leung	**79**	**1,346**	**431**	**448**	**17**	**2,321**
Independent Non-Executive Director						
Mr. Chan Henry	**104**	**–**	**–**	**–**	**–**	**104**
Ms. Ada Ying Kay Wong	**104**	**–**	**–**	**–**	**–**	**104**
Mr. Theil Paul Marin	**104**	**–**	**–**	**–**	**–**	**104**
Mr. Ho Kwai Ching, Mark	**104**	**–**	**–**	**–**	**–**	**104**
Mr. Zhou Fang Sheng (i)	**40**	**–**	**–**	**–**	**–**	**40**
Mr. Chen Chuang (ii)	**64**	**–**	**–**	**–**	**–**	**64**

(i) Mr. Zhou Fang Sheng retired from independent Non-Executive Director on 20 May 2022.

(ii) Mr. Chen Chuang was appointed as an independent Non-Executive Director on 20 May 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

39 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) Directors' and Chief Executive's emoluments *(continued)*

The remuneration of every Director and the Chief Executive for the year ended 31 December 2021 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director					
Mr. Sze Man Bok	78	295	–	15	388
Mr. Hui Lin Chit	78	1,525	–	15	1,618
Mr. Hung Ching Shan	50	116	–	8	174
Mr. Hui Ching Lau	50	4,374	–	4	4,428
Mr. Xu Shui Shen	50	1,264	–	2	1,316
Mr. Xu Da Zuo	50	1,128	–	32	1,210
Mr. Xu Chun Man	50	–	–	2	52
Mr. Sze Wong Kim	50	–	–	2	52
Mr. Hui Ching Chi	78	798	66	16	958
Mr. Li Wai Leung	78	1,294	348	16	1,736
Independent Non-Executive Director					
Mr. Chan Henry	100	–	–	–	100
Ms. Ada Ying Kay Wong	100	–	–	–	100
Mr. Theil Paul Marin	100	–	–	–	100
Mr. Ho Kwai Ching, Mark	100	–	–	–	100
Mr. Zhou Fang Sheng	100	–	–	–	100

(b) Directors' termination benefits

There were no termination benefits paid to any director at any time during the year ended 31 December 2022 and 2021.

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2022 and 2021, the Group provided no consideration to third parties for making available director's services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

39 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(d) Information about loans, quasi-loans and other dealings

There were no loans, quasi-loans and other dealings in favour of:

(i) directors of the Company;

(ii) bodies corporate controlled by such directors; and

(iii) entities connected with such directors as at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

40 SUBSEQUENT EVENT

In February 2023, the Group completed the issuance of the first tranche of super short-term commercial papers on the National Association of Financial Market Institutional Investors, with an aggregate principal amount of RMB1,500,000,000, with a coupon rate 2.40% per annum. The super short-term commercial papers will mature in 180 days from the respective issue date.