




# 恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044



## Annual Results 2011 Corporate Presentation

*March 2012*

# Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum



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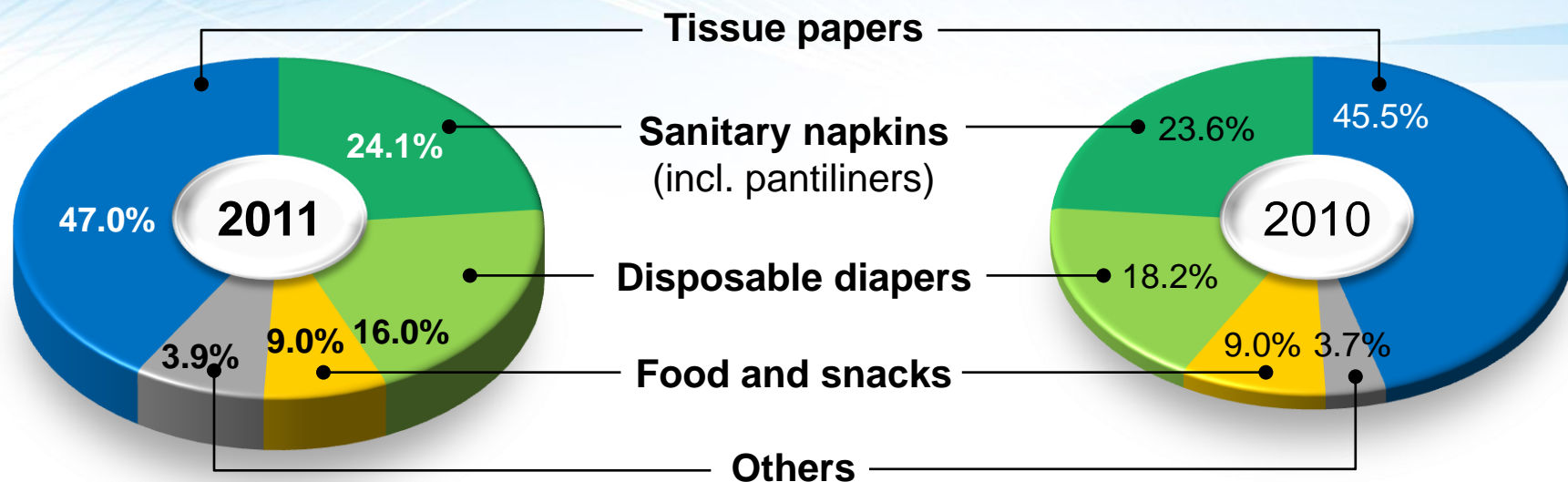
## *Financial Highlights*

# Financial Highlights



	2011	2010	Change
	<i>Year ended 31 December</i>		
	<i>(HK\$ '000)</i>	<i>(HK\$ '000)</i>	<i>(%)</i>
<b>Revenue</b>	<b>17,050,557</b>	13,431,688	 <b>26.9</b>
<b>Cost of sales</b>	<b>(10,250,259)</b>	(7,486,900)	 <b>36.9</b>
<b>Gross profit</b>	<b>6,800,298</b>	5,944,788	 <b>14.4</b>
<b>Operating profit</b>	<b>3,293,776</b>	2,999,700	 <b>9.8</b>
<b>Net profit</b>	<b>2,648,839</b>	2,438,328	 <b>8.6</b>
<b>Earnings per share</b>			
– Basic	HK\$2.160	HK\$1.996	 <b>8.2</b>
– Diluted	HK\$2.156	HK\$1.988	 <b>8.5</b>
<b>Dividend per share</b>			
– Interim	HK\$0.60	HK\$0.6	
– Final	HK\$0.75	HK\$0.7	
– Total	HK\$1.35	HK\$1.3	 <b>3.8</b>

# Solid Revenue Base



	2011	2010	Change
	Year ended 31 December		
	(HK\$ '000)	(HK\$ '000)	(%)
Tissue papers	8,017,520	6,114,379	▲ 31.1
Sanitary napkins (incl. pantliners)	4,114,425	3,169,544	▲ 29.8
Disposable diapers	2,723,014	2,446,901	▲ 11.3
Food and snacks	1,542,511	1,202,726	▲ 28.3
Others	653,087	498,138	▲ 31.1

# Gross Profit Margin Overview

## – By Business Segment



	2011	2010
	<i>Year ended 31 December</i>	
<b>Tissue papers</b>	31.4%	37.3%
<b>Sanitary napkins (incl. pantliners)</b>	60.4%	62.5%
<b>Disposable diapers</b>	35.2%	42.4%
<b>Food and snacks</b>	32.4%	36.2%
<b>Overall</b>	39.9%	44.3%

### ***Major factors affecting overall gross profit margin***

- Drastic increase in production costs resulted from rising raw material prices in 1H 2011
- Measures to mitigate impact of raw material prices increase
  - Optimize product mix
  - Expand production capacity for better economies of scale
  - Implement strict cost control initiatives

# Major Expenses



- Distribution costs and administrative expenses accounted for approximately 23.2% of total revenue (2010: 23.8%). Major expenses are as follows:

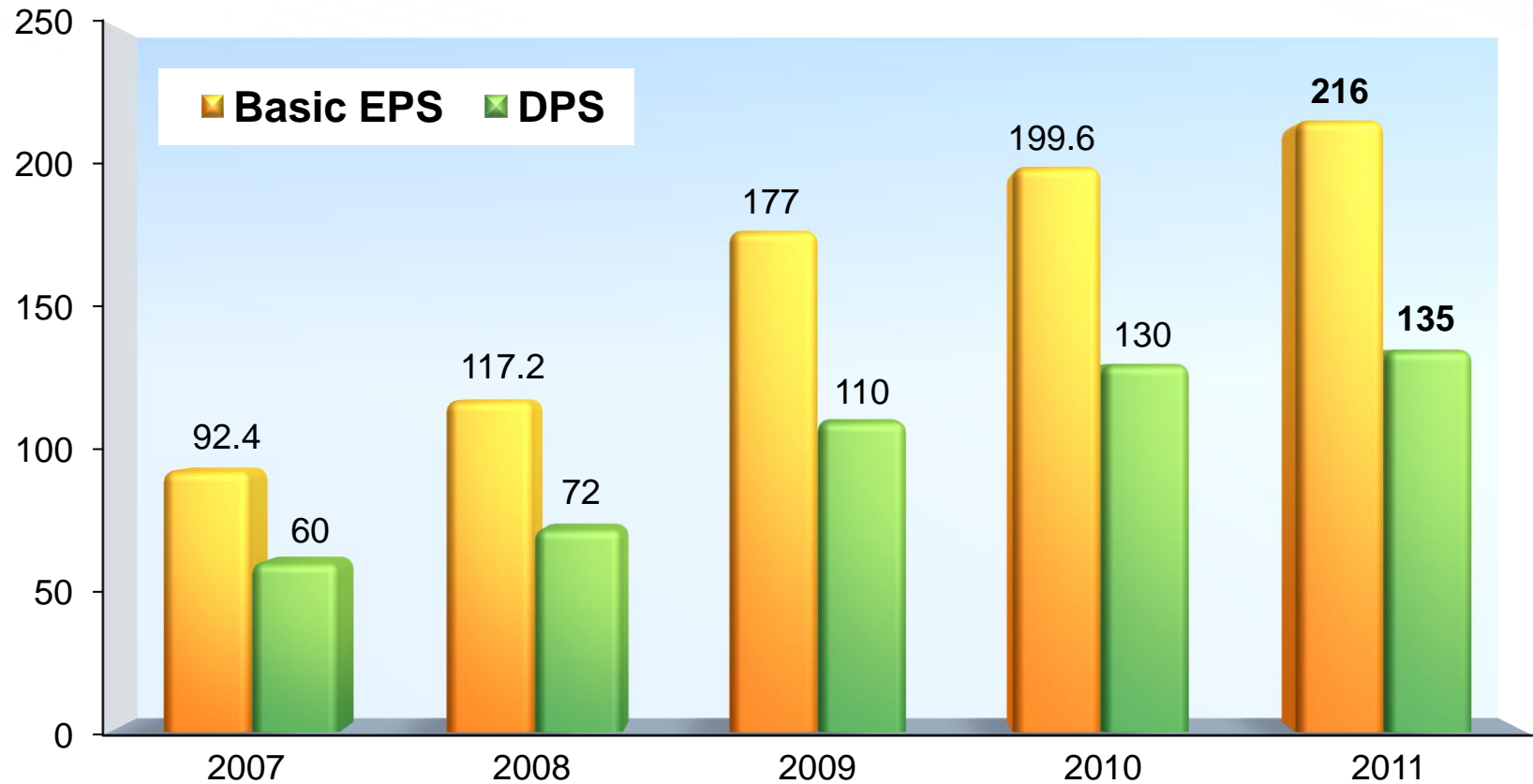
	approximately
<b>Marketing, advertising &amp; promotion expenses</b>	<b>10.0% of revenue (2010: 11.1%)</b>
<b>Transportation expenses</b>	<b>4.0% of revenue (2010: 4.2%)</b>
<b>Staff costs</b> <i>(excluding labour costs)</i>	<b>3.4% of turnover (2010: 3.3%)</b>
<b>City construction tax and education surcharge</b>	<b>0.6% of turnover (2010: nil)</b>

# Basic EPS & DPS



**2011 Dividend payout ratio: 62.6% (2010: 65.3%)**

(HK cents)





# Key Financial Indicators



	2011	2010
	<i>As at 31 December</i>	
<b>Cash on hand (HK\$ '000)</b>	<b>8,622,882</b>	6,834,535
<b>Finished goods turnover</b>	<b>44 days</b>	54 days
<b>Accounts receivable turnover</b>	<b>35 days</b>	31 days
<b>Accounts payable turnover</b>	<b>57 days</b>	53 days
<b>Current ratio</b>	<b>1.4 times</b>	1.8 times
<b>Gross gearing ratio</b>	<b>58.5%</b>	50.6%
<b>Net gearing ratio (net cash)</b>	<b>(10.8%)</b>	(13.9%)

# Other Financial Information



- Current ratio: 1.4 times (2010: 1.8 times)
  - Dropped as short-term bank loans were used to finance long-term capital expenditure (6 new tissue production lines and new Xiamen head office)
  - Will be improved in 2012 as long-term loans will be obtained to replace some short-term ones and the Group will remit money from the PRC to repay part of the short-term loans in Hong Kong
- Large amount of cash on hand HK\$8.6 billion mainly in RMB and large amount of bank borrowings HK\$7.2 billion mainly in HK dollar
  - RMB deposit interest income rate > HK\$ borrowing interest expense rate; and
  - Potential RMB appreciation in the future

# Other Financial Information (Cont'd)



- Government grants: approximately HK\$277 million (2010: HK\$167 million) as encouragement of the Group's investments in these areas
- Donation: around HK\$26 million incurred in 2H 2011(2010: HK\$26 million)
- Effective tax rate : 17.5% (2010 : 18.2%)
  - Write back of deferred dividend withholding tax overprovided in previous year
  - PRC subsidiaries : losing tax preferential treatment
  - New tax scheme will be effective in 2Q 2012
- Capital expenditure incurred excluding prepayments: around HK\$2.4 billion (2010: around HK\$1.3 billion)



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## *Business Review*

# Tissue Papers



## Market overview

- The demand for quality tissue papers in China continued to grow rapidly
- The market size of tissue papers further expanded
- China's annual tissue paper consumption per capita is still much lower than that of other developed countries



## Business performance in 2011

- Revenue increased by about 31.1% to approximately HK\$8.0 billion
- Gross profit margin dropped to approximately 31.4% (2010: 37.3%), reflecting the negative impact brought by the sharp increase in production cost resulted from the significant surge in the price of the major raw material, tissue wood pulp, in 1H 2011
- Continued to adjust product mix to reduce the pressure of rising production costs. The sales of toilet roll products, with relatively lower gross profit margin, accounted for approximately 31.7% of total tissue paper products revenue (2010: 33.4%).

# Sanitary Napkins



## Market overview

- Increasing awareness of personal hygiene and accelerating urbanization have been driving the market penetration rate of sanitary napkins products



## Business performance in 2011

- Revenue increased by about 29.8% to approximately HK\$4.1 billion
- Significant increase in the prices of major raw materials, petrochemical products and fluff pulp, added pressure to the Group's production costs, leading to mild drop in gross profit margin to approximately 60.4% (2010: 62.5%)
- Mitigate the impact by strengthening cost controls and increasing sales of mid-to-high-end products

# Disposable Diapers



## Market overview

- Penetration rate of disposable diapers is still very low in China
- Urbanization along with increasing disposable income per capita helped to boost the rapid development of disposable diapers market in China which saw sales volume growing steadily



## Business performance in 2011

- Revenue grew by about 11.3% to approximately HK\$2.7 billion
- Sluggish sales growth was mainly due to
  - Quality of old version products required further improvement
  - Small and medium players entered into the market
  - International brands continued their development in second and third tier cities
- Gradually introduced upgraded version of diaper products from March to August 2011, the sales of which gradually improved since 4Q2011 as the old version products were gradually digested in the retail market
- Gross profit margin dropped to approximately 35.2% (2010: 42.4%)
  - Prices of major raw materials increased substantially in 1H2011
  - Stepped up efforts in sales promotion of its old version products during the year





## Market overview

- Dedicated to developing food and snacks business into the Group's fourth largest business
- Consumers are putting more emphasis on quality snack food products amid accelerating economic development and urbanization in the PRC



## Business performance in 2011

- Revenue increased by 28.3% to approximately HK\$1.5 billion
- Prices of major raw materials such as sugar, seasoning and flour increased significantly during the year so that the gross profit margin of the food and snacks business dropped to approximately 32.4% (2010: 36.2%)



# Distribution and Marketing Channels



- There were less advertisements and other forms of marketing campaign during the year – the related expenses decreased and accounted for about 10.0% revenue in 2011 (2010 : 11.1%)
- New taxes, city construction tax and education surcharge, totally accounted for around 0.6% of revenue (2010 : nil)
- Sales and distribution costs to revenue ratio decreased to approximately 18.8% accordingly (2010: 19.3%).



# Other Business Updates



## Mainland

***“Fujian Quality Award”***  
by the Fujian Provincial  
Government

***“Meritorious Enterprise  
of Quanzhou City”*** and  
***“Quality Award of Quanzhou  
City”*** by the Quanzhou City  
Government



## Hong Kong

***“2011 The Most Potential  
Company Awards”***



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## Outlook

# Future Outlook



- The country's accelerating urbanization and economic growth will continue to drive the demand for various hygiene products
- Consumers' increasing awareness of personal hygiene will also promote growth in consumption of high quality hygiene products
- Raw material prices started to drop in the 2H 2011; and cost pressure will be alleviated in 2012
- The Group will continue to optimize product mix, control cost stringently, expand production capacity, improve product quality, enhance management efficiency and expand sales network





## Plans and strategies

### Tissue papers



- New tissue paper production base in Chongqing with 60,000 tons production capacity has commenced operation in early January 2012
- In 2012, 60,000 tons production capacity will be added in Chongqing and 120,000 tons production capacity will be added in both Wuhu and Jinjiang
- Total annualized production capacity is expected to reach 900,000 tons by the end of 2012

### Sanitary napkins



- Continue to optimize its product mix
- Launched the high-end Space Seven “Princess” series in seven provinces and cities in December 2011. This series will be available in all supermarkets nationwide in mid 2012



## Plans and strategies

### Diapers



- “Q. Mo” series (formerly known as “Day and Night” series) was launched to many major cities from late August 2011 onwards



- “Q. Mo” series was expected to be launched nationwide by the end of 2Q 2012 or early 3Q 2012.

### Food and snacks



- Exert greater efforts to integrate its distribution network to consolidate profit base





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*Open Forum*