



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

Interim Results 2014 Corporate Presentation

August 2014



Agenda



- ▶ Financial Highlights
- ▶ Business Review
- ▶ Outlook
- ▶ Open Forum





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Financial Highlights



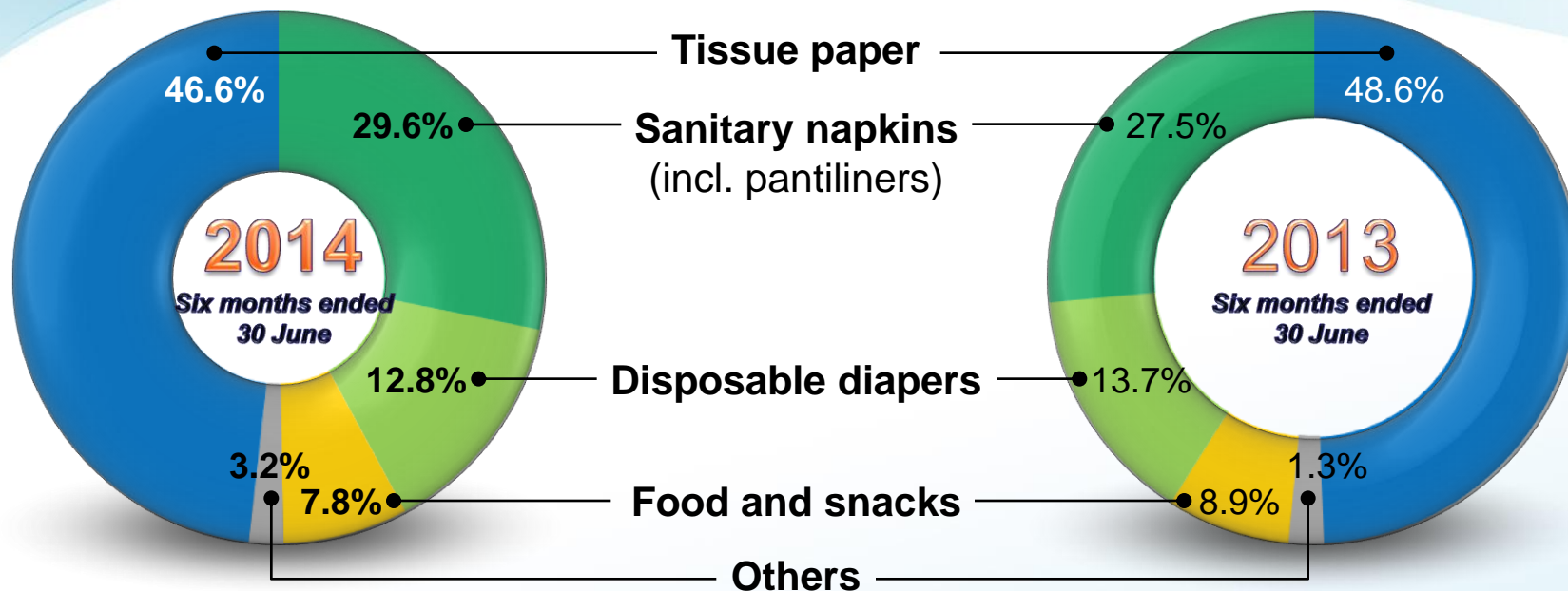
Financial Highlights



	2014	2013	Change
<i>(HK\$ '000)</i>	<i>Six months ended 30 June</i>		
Revenue	12,098,064	10,414,826	 16.2%
Cost of sales	(6,664,224)	(5,703,810)	 16.8%
Gross profit	5,433,840	4,711,016	 15.3%
Operating profit	2,650,479	2,506,009	 5.8%
Net profit	1,775,303	1,858,854	 4.5%
Earnings per share			
– Basic	HK\$1.443	HK\$1.511	 4.5%
– Diluted	HK\$1.441	HK\$1.510	 4.6%
Dividend per share			
– Interim	HK\$0.85	HK\$0.85	-



Solid Revenue Base



	2014	2013	Change
<i>(HK\$ '000)</i>			
<i>Six months ended 30 June</i>			
Tissue paper	5,637,708	5,065,278	↑ 11.3%
Sanitary napkins <i>(incl. pantliners)</i>	3,586,092	2,859,902	↑ 25.4%
Disposable diapers	1,546,057	1,431,773	↑ 8.0%
Food and snacks	946,735	931,548	↑ 1.6%
Others	381,472	126,325	↑ 202.0%



Gross Profit Margin Overview – By Business Segment



	2014	2013
<i>Six months ended 30 June</i>		
Tissue paper	33.2%	34.9%
Sanitary napkins <i>(incl. pantliners)</i>	66.9%	65.1%
Disposable diapers	44.2%	43.5%
Food and snacks	43.6%	42.6%
Overall	44.9%	45.2%

Major factors affecting overall gross profit margin

Margin contracted slightly in 1H2014 due to:

- ▶ Optimization of product portfolio
- ▶ Effective cost control
- ▶ Enhanced economies of scale



- ▶ Slight increase in raw material prices
- ▶ Intensified market competition



Major Expenses



Distribution costs and administrative expenses

- ▶ Distribution costs and administrative expenses accounted for approximately 27.0% of total revenue (1H2013: 24.1%)
- ▶ Major expenses are as follows:

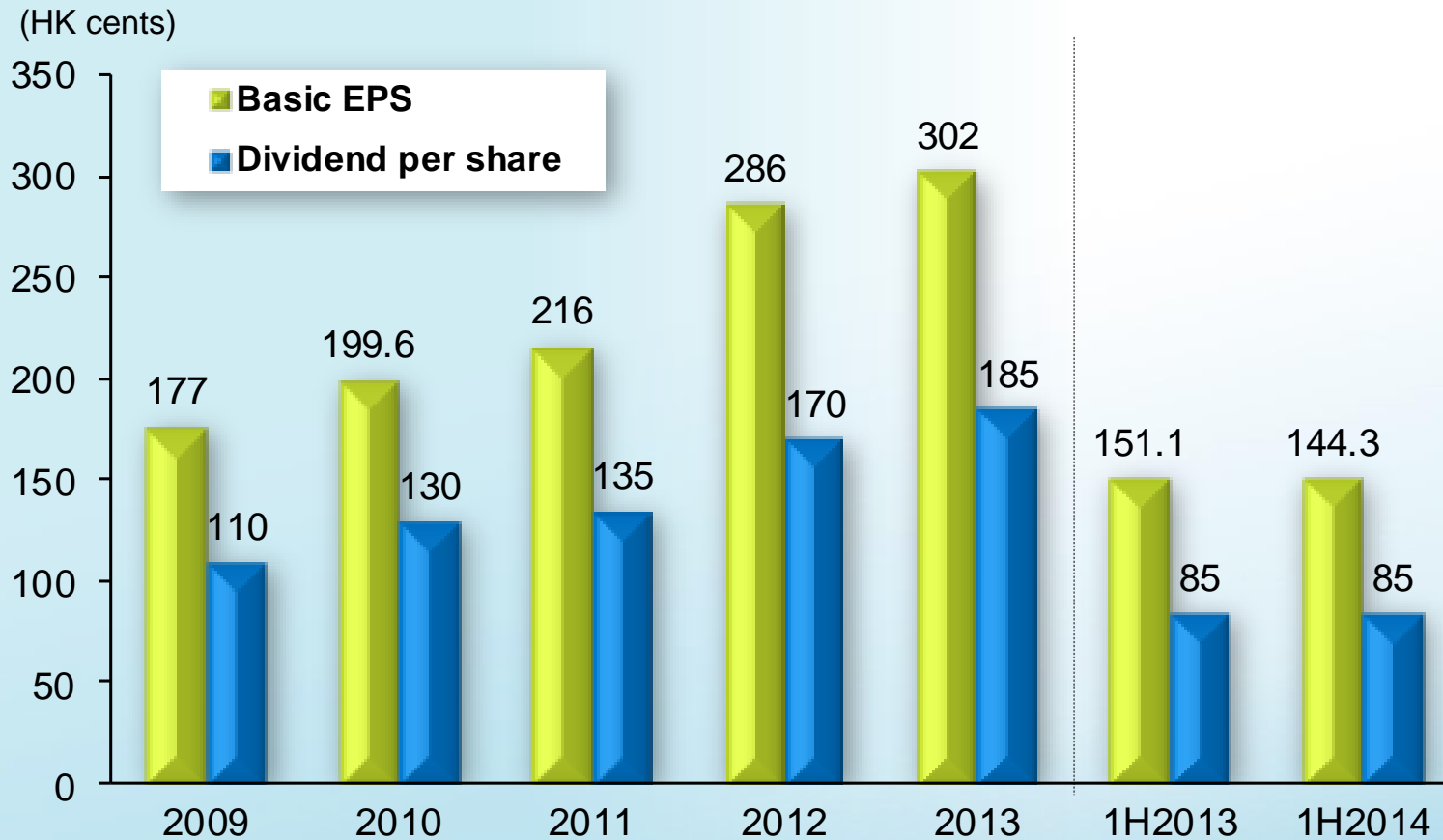
<i>As % of revenue</i>	2014	2013
	<i>Six months ended 30 June</i>	
Marketing, advertising & promotion expenses	11.9%	8.7%
Transportation expenses	4.2%	4.5%
Staff costs <i>(excluding labour costs)</i>	3.7%	3.8%
Research and development	1.1%	0.7%



Basic EPS & DPS



1H2014 Dividend payout ratio: 58.7% (1H2013: 56.3%)



Key Financial Indicators



	1H2014	1H2013	FY2013
Cash on hand (HK\$ '000)	23,736,466	21,213,429	20,438,069
Convertible bonds (HK\$'000)	5,308,072	5,147,422	5,227,130
Finished goods turnover	49 days	46 days	55 days
Accounts receivable turnover	34 days	34 days	35 days
Accounts payable turnover	55 days	59 days	61 days
Current ratio	1.4 times	1.8 times	1.6 times
Gross gearing ratio	135.2%	128.5%	117.5%
Net gearing ratio (net cash)	(7.9%)	(8.8%)	(5.8%)
Rate of return	21.4%	24.1%	22.5%



Other Financial Information



Interest income: around HK\$334 million (1H2013: 185 million)

- ▶ Partly included in other gains:
about HK\$273 million (1H2013: HK\$150 million) interest income on bank deposits over 3 months (short-term investment)
- ▶ Partly included in finance income:
about HK\$61 million (1H2013: HK\$35 million)

Interest expense:

- ▶ About HK\$238 million (1H2013: HK\$132 million)

Exchange loss due to the depreciation of Renminbi: around HK\$178 million (1H2013: gain of about HK\$88 million)

- ▶ Partly included in other gains: a loss of about HK\$54 million (1H2013: a gain of about HK\$25 million)
- ▶ Partly included in finance income and finance costs: a loss of about HK\$124 million (1H2013: a gain of about HK\$63 million)



Other Financial Information (Cont'd)



Government grants:

- ▶ About HK\$249 million (1H2013: HK\$137 million)
- ▶ As encouragement of the Group's contributions to the development of the local economy

Effective tax rate: 23.4% (1H2013: 23.7%)

- ▶ Remains fairly stable

Capital expenditure incurred :

- ▶ Around HK\$729 million (1H2013: around HK\$475 million)
- ▶ Capex is mainly incurred for the new production lines





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Business Review



Tissue Papers



Market overview

- ▶ China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential, despite prolonged market expansion
- ▶ Competition intensified in the short term as new production capacity went on stream amid a general economic slowdown



Business performance in 1H2014 and 2H2014 outlook

- ▶ Revenue increased by about 11.3% to approximately HK\$5,638 million
- ▶ Gross profit margin dropped to about 33.2% (1H2013: 34.9%), due to slight increase in price of major raw material tissue wood pulp, and enhanced efforts in marketing and brand promotion amid intense competition
- ▶ Easing pressure on raw material costs expected in 2H2014 as tissue wood pulp price began to decline from May 2014
- ▶ Capacity investment plan adjusted with annualized production capacity of 120,000 tons, 240,000 tons and 120,000 tons to be added in 2H2014, 2015 and 2016 respectively
- ▶ Overseas market expansion expected to start from 4Q2014 while consolidating the Group's presence in mainland China to increase sales revenue



Sanitary Napkins



Market overview

- ▶ Market growth driven by accelerating urbanization and rising living standard, which continue to raise market penetration and support consumption upgrades of sanitary napkins products
- ▶ Industry landscape remains competitive, triggering market consolidation in the Group's favour



Business performance in 1H2014 and 2H2014 outlook

- ▶ Revenue increased by about 25.4% to approximately HK\$3,586 million
- ▶ The Group continued to improve product mix and invest in new product development
- ▶ Launched “Ultra Thin” products of “Young Lady” series under “Space 7” brand
- ▶ Gross profit margin of sanitary napkin business increased to approximately 66.9% (1H2013: 65.1%), thanks to optimized product portfolio
- ▶ Continue to focus on product innovation, optimize the product mix, improve product quality and increase the sales of mid-to-high-end products in 2H2014



Disposable Diapers



Market overview

- ▶ Long-term growth driven by low penetration rate, steady economic growth, accelerating urbanization and people's increasing awareness of personal hygiene
- ▶ Challenging short-term outlook: a lot of players have entered into this market which intensified competition and affected sales growth of the Group



Business performance in 1H2014 and 2H2014 outlook

- ▶ Revenue increased by about 8.0% to approximately HK\$1,546 million
- ▶ Focus on marketing and promoting mid-end and mid-to-high-end diaper products
- ▶ Launched mid-to-high-end ultra-thin series of products
- ▶ Mid-end and mid-to-high-end diapers: sales increased by about 16.1%
Low end diapers: sales dropped by about 12.3%
- ▶ Gross profit margin increased slightly to about 44.2% (1H2013: 43.5%), as enhanced product mix offset slight increase in raw material prices
- ▶ Continue to enhance brand and products promotions, expand presence in maternity stores and e-commerce sales network in 2H2014





Market overview

- ▶ Demand for snack products affected by economic slowdown as they are not daily necessities
- ▶ Long term business will keep booming as quality of living improves



Business performance in 1H2014 and 2H2014 outlook

- ▶ Revenue grew by about 1.6% to approximately HK\$947 million
- ▶ Gross profit margin increased to about 43.6% (1H2013: 42.6%), due to the decline in costs of major raw materials such as sugar and palm oil
- ▶ Continue to commit resources to enriching its product portfolio so as to cater to the different tastes of consumers in 2H2014



Appointment of Professional Consultants



To further optimize the operation process of supply chain, logistics networks, inventory management and information technology planning, the Group engaged **IBM China Company Limited** in March 2014 to provide professional recommendations in regard to the above aspects

The Group also appointed **Yonyou Software Co. Ltd.** to update and improve Hengan's information systems, including system upgrades, enhancement of information systems management for sales networks and production process, as well as construction of electronic warehouse system in order to support the evolving business in the future





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Outlook



Market Outlook



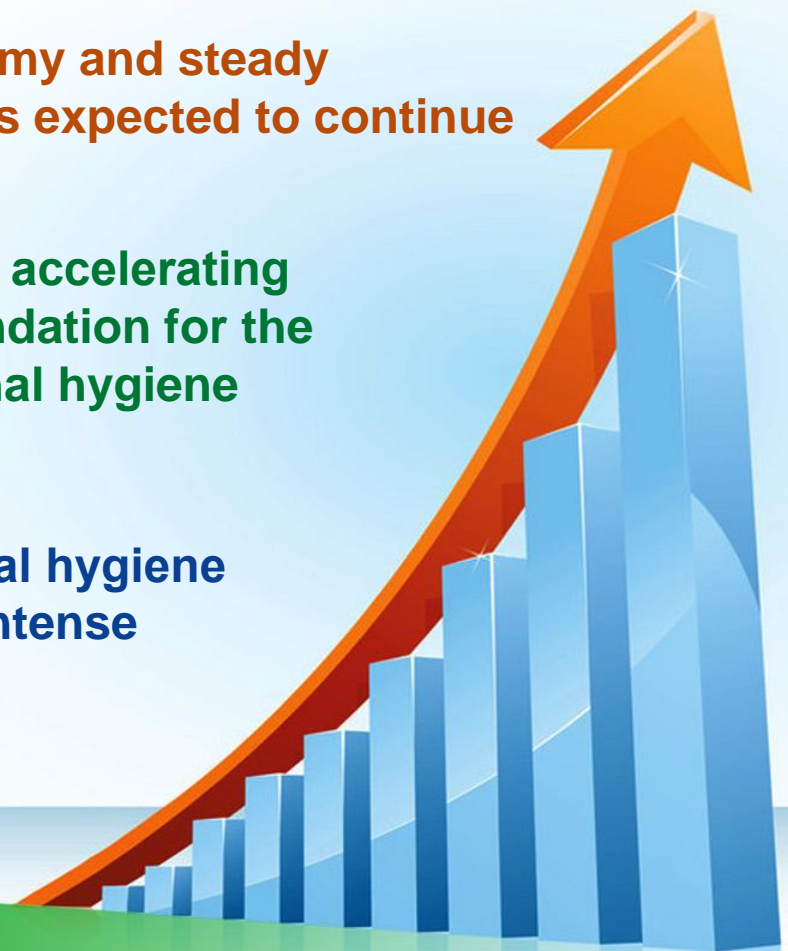
Modest recovery of the global economy and steady expansion of the Chinese economy is expected to continue



China's rising per capita income and accelerating urbanization will provide a solid foundation for the development of the market of personal hygiene products



People's rising awareness of personal hygiene will support market growth despite intense competition in the short-term





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Open Forum

