



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

Annual Results 2012 Corporate Presentation

March 2013



Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum



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Financial Highlights

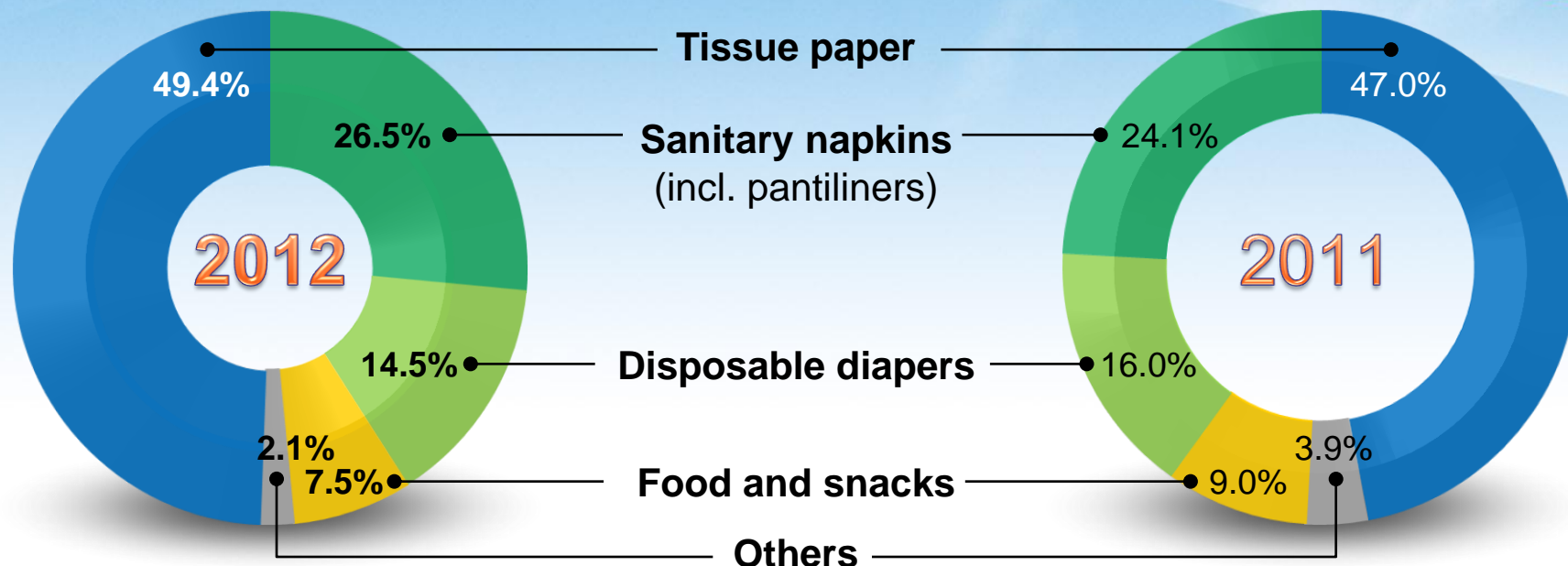
Financial Highlights



Year ended 31 December

(HK\$ '000)	2012	2011	Change
Revenue	18,524,233	17,050,557	↑ 8.6%
Cost of sales	(10,209,030)	(10,250,259)	↓ 0.4%
Gross profit	8,315,203	6,800,298	↑ 22.3%
Operating profit	4,740,835	3,293,776	↑ 43.9%
Net profit	3,518,705	2,648,839	↑ 32.8%
Earnings per share			
– Basic	HK\$2.863	HK\$2.160	↑ 32.5%
– Diluted	HK\$2.861	HK\$2.156	↑ 32.7%
Dividend per share			
– Interim	HK\$0.75	HK\$0.60	
– Final	HK\$0.95	HK\$0.75	
– Total	HK\$1.70	HK\$1.35	↑ 25.9%

Solid Revenue Base



Year ended 31 December

(HK\$ '000)	2012	2011	Change
Tissue paper	9,146,766	8,017,520	↑ 14.1%
Sanitary napkins (incl. pantliners)	4,915,462	4,114,425	↑ 19.5%
Disposable diapers	2,685,473	2,723,014	↓ 1.4%
Food and snacks	1,387,487	1,542,511	↓ 10.1%
Others	389,045	653,087	↓ 40.4%

Gross Profit Margin Overview

– By Business Segment



As at 31 December

	2012	2011
Tissue paper	35.4%	31.4%
Sanitary napkins <i>(incl. pantliners)</i>	65.8%	60.4%
Disposable diapers	42.9%	35.2%
Food and snacks	38.2%	32.4%
Overall	44.9%	39.9%

Major factors affecting overall gross profit margin

- Margin improvement across major business segments in 2012 due to:
 - Decrease in raw material prices
 - Optimisation of product portfolio
 - Better economies of scale
 - Stringent cost control

Major Expenses



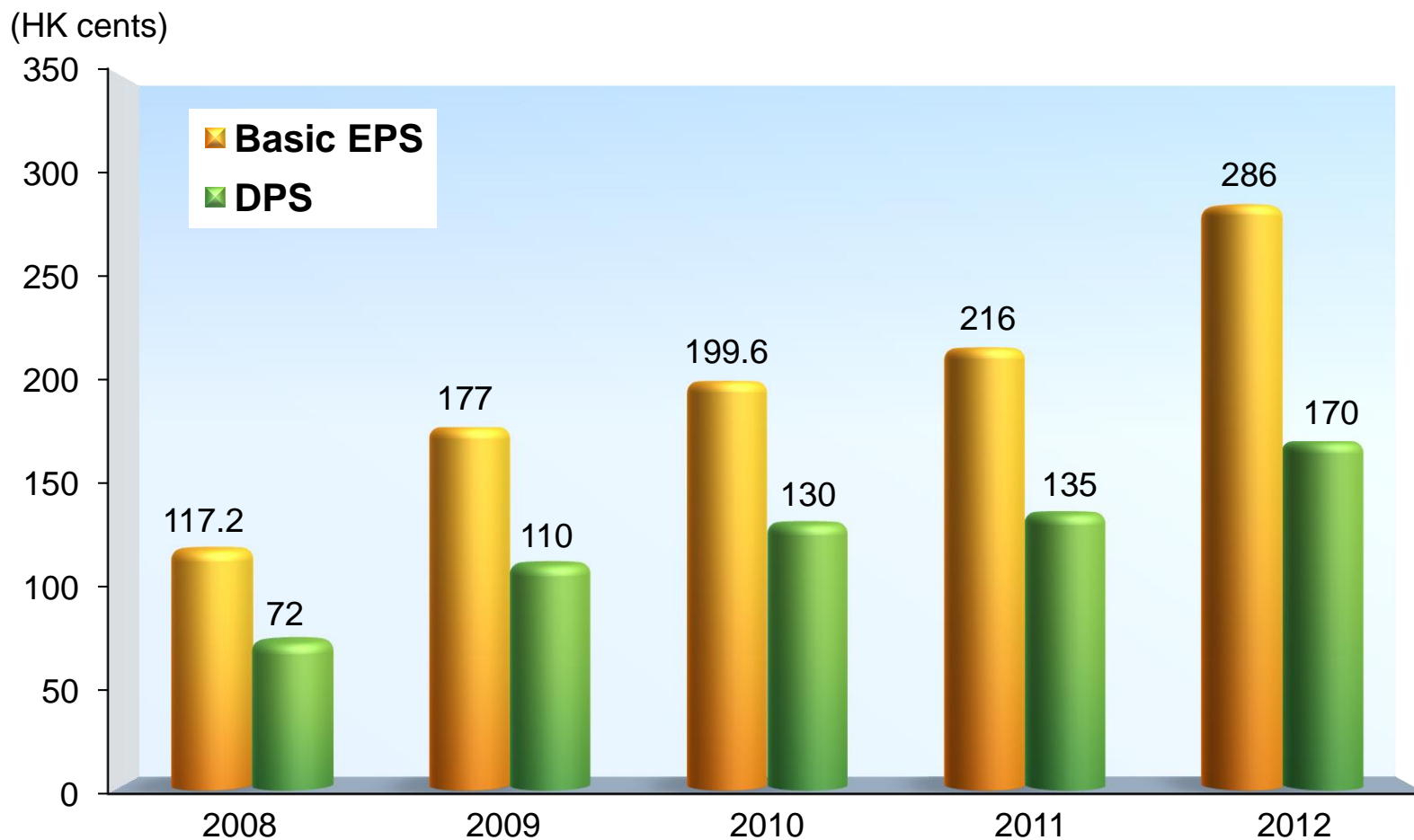
Distribution costs and administrative expenses accounted for approximately 22.3% of total revenue (2011: 23.2%). Major expenses are as follows:

	approximately
Marketing, advertising & promotion expenses	8.2% of revenue (2011: 10.0%)
Transportation expenses	4.2% of revenue (2011: 4.0%)
Staff costs <i>(excluding labour costs)</i>	3.6% of revenue (2011: 3.4%)

Basic EPS & DPS



2012 Dividend payout ratio: 59.4%



Key Financial Indicators



As at 31 December

	2012	2011
Cash on hand (HK\$ '000)	11,452,149	8,622,882
Finished goods turnover	47 days	44 days
Accounts receivable turnover	37 days	35 days
Accounts payable turnover	66 days	57 days
Current ratio	1.5 times	1.4 times
Gross gearing ratio	79.8%	58.5%
Net gearing ratio (net cash)	(1.1%)	(10.8%)



Accounts payable turnover period: 66 days (2011: 57 days)

- ⊙ The increase was mainly because a larger volume of wood pulp was purchased from overseas suppliers (with 90-day credit term) during the year instead of from domestic suppliers (with no credit term)

Interest income:

- ⊙ Partly included in other gains: about HK\$238 million (2011: HK\$143 million)
- ⊙ Partly included in finance income: about HK\$38 million (2011: HK\$40 million)

Interest expense: HK\$225 million (2011: HK\$142 million)

Other Financial Information (Cont'd)



Government grants: approximately HK\$339 million (2011: HK\$277 million) as encouragement of the Group's investments in these areas

Donation: HK\$27 million (2011: HK\$26 million)

Effective tax rate: 22.1% (2011: 17.5%)

● PRC subsidiaries: tax preferential treatment expiring

Capital expenditure incurred (excluding prepayments): around HK\$2.6 billion (2011: around HK\$2.4 billion) – mainly for the new tissue production lines.



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Business Review

Tissue Paper



Market overview

- The demand for quality tissue paper in China continued to grow rapidly
- China's annual tissue paper consumption per capita is still much lower than that of other developed countries
- Competition has intensified as a result of increase in overall supply and major competitors' stronger marketing efforts



Business performance in 2012 and 2013 outlook

- 1H 2012: insufficient production capacity due to delay of completion of new production lines
- 2H 2012: 120,000 tonnes were added in Jinjiang and Wuhu
- Revenue increased by about 14.1% to approximately HK\$9,147 million
- Gross profit margin rebounded to about 35.4% (2011: 31.4%), factoring in the decrease in production costs resulted from the drop in prices of wood pulp
- In 2013, the Group plans to launch a number of upgraded versions of existing products, strengthen distribution network management and increase marketing and brand promotion efforts. The growth of revenue in 2013 is expected to be better than that for 2012

Sanitary Napkins



Market overview

- Improving living standard and accelerating urbanization have been driving the demand and market penetration rate of sanitary napkins products



Business performance in 2012 and 2013 outlook

- Revenue increased by about 19.5% to approximately HK\$4,915 million
- The decrease in prices of major raw materials, including petrochemical products and fluff pulp, eased the pressure on the Group's production costs
- Stringent cost-control measures and efforts to increase sales contribution of high-end products, together with the eased cost pressure, have led to the increase in gross profit margin for the sanitary napkin business to approximately 65.8% during the year (2011: 60.4%)

Disposable Diapers



Market overview

- Penetration rate of diapers is still very low in China. Urbanization and the increasing per capita disposable income boost the demand for disposable diapers in China



Business performance in 2012 and 2013 outlook

- Revenue slightly declined by about 1.4% to approximately HK\$2,685 million. Sluggish sales was mainly due to
 - Mid- to high-end diapers revenue increased only by 8.0% as global brands venturing into second and third tier cities
 - Low-end diapers significantly dropped by 20.0% as small and medium players launched aggressive promotions
- Benefited from the decline in prices of major raw materials including fluff pulp and petrochemical products, as well as the enhancement of product portfolio, gross profit margin increased to approximately 42.9% (2011: 35.2%).
- 2013 plan – increase marketing and promotion efforts mainly for the relatively new product series; and expand sales network in maternal stores, hospitals and online sales channel. Management expects sales revenue to grow in 2013.



Market overview

- Industrial gelatine issue unfolded in April had a significant impact on the snack industry, especially the fruit jelly industry



Business performance in 2012 and 2013 outlook

- Although the Group had never used raw materials with problems in its products, revenue of jelly products fell by about 18.6%. Despite the revenue increase of other snack food products, overall revenue declined by around 10.1% to approximately HK\$1,387 million
- Due to the decline in costs of major raw materials and flour and increase in selling price for some products, the gross profit margin of the Group's snacks business increased to approximately 38.2% (2011: 32.4%)
- With the adverse effect of the gelatin incident gradually easing, and the investment of resources to enrich product portfolio, management expects revenue to recover in 2013



Other Business Updates



Corporate

Regional Recognition and Awards

Other Recognition

"Forbes Asia's Fabulous 50"

***"2012 China Enterprise Reputation
and Credibility Award"***

***"Asia's Best Employer Brand Award
2012 – China region"***

***"Redbud Outstanding Entrepreneur
Award"***

***"2012 RISI Best CEO for
Tissue Manufacturing Enterprise
– Asia region"***

"One of the Forbes China Best CEOs"



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Outlook

Future Outlook



The country's accelerating urbanization and economic growth will continue to drive the growth of the personal hygiene market

Consumers' increasing awareness of personal hygiene will also promote the demand for high quality hygiene products

Continue to invest in production capacity, improve product quality and enhance management efficiency





Plans and strategies

Tissue paper



- Total annualised production capacity at the end of 2012 was 900,000 tonnes which are sufficient for production in 2013
- To increase its production capacity by 360,000 tonnes and 120,000 tonnes respectively in 2014 and 2015
- The additional capacity involves a total of eight production lines located in Chongqing, Hunan, Shandong and Wuhu. New facilities will bring the total capacity to 1,380,000 tonnes by the end of 2015

Sanitary napkins



- Officially rolled out the high-end “Space Seven Princess series” across the country by the end of June 2012
- Continue to focus on production innovation, optimise existing products and increase the sales of high-end products to meet consumer demand



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