



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號: 1044

Interim Results 2016 Corporate Presentation

August 2016



Agenda



Financial Highlights



Business Review



Outlook



Open Forum





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Financial Highlights



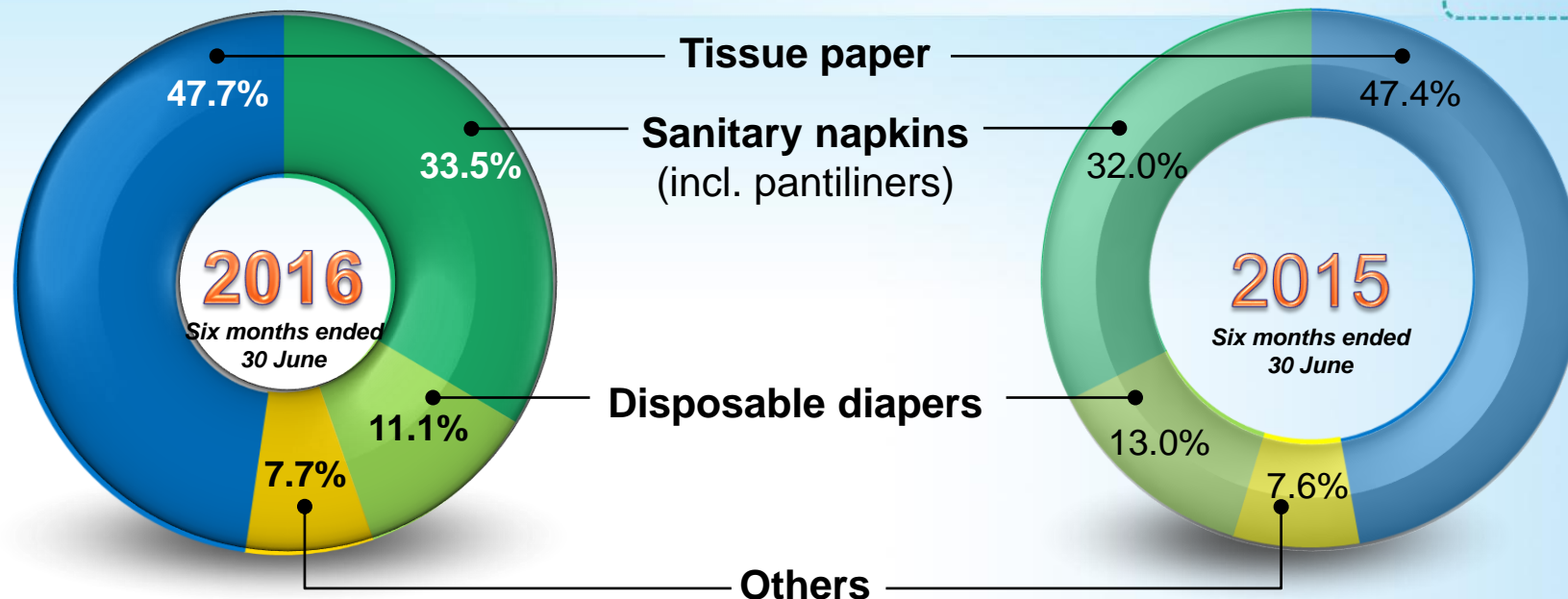
Financial Highlights



Continuing operations (RMB '000)	For the six months ended 30 June		
	2016	2015	Change
Revenue	9,577,341	9,196,090	↑ 4.1%
Gross profit	4,608,892	4,295,144	↑ 7.3%
Operating profit	2,301,451	2,243,918	↑ 2.6%
Profit attributable to shareholders			
— Continuing operations	1,627,500	1,538,882	↑ 5.8%
— Discontinued operations	7,540	15,893	↓ 52.6%
— Overall	1,635,040	1,554,775	↑ 5.2%
Earnings per share - basic			
— Continuing operations	RMB1.340	RMB1.257	↑ 6.6%
— Discontinued operations	RMB0.62 cents	RMB1.30 cents	↓ 52.3%
— Overall	RMB1.346	RMB1.270	↑ 6.0%



Solid Revenue Base



Continuing operations	2016	2015	Change
(RMB '000)	For the six months ended 30 June		
Tissue paper	4,567,635	4,360,635	▲ 4.7%
Sanitary napkins (incl. pantliners)	3,208,213	2,941,056	▲ 9.1%
Disposable diapers	1,067,384	1,193,189	▼ 10.5%
Others	734,109	701,210	▲ 4.7%



Gross Profit Margin Overview

– By Business Segment



Continuing operations (%)	For the six months ended 30 June	
	2016	2015
Tissue paper	37.7%	36.2%
Sanitary napkins (incl. pantliners)	71.8%	71.4%
Disposable diapers	49.8%	47.3%
Overall	48.1%	46.7%

Major factors affecting overall gross profit margin

Margin increased in 2016
due to:

- Decrease in raw material prices
- Optimized product portfolio
- Enhanced economies of scale

OFFSET

- Intensified market competition



Major Expenses



○ **Distribution costs and administrative expenses**

- Distribution costs and administrative expenses for continuing operations accounted for approximately 26.8% of total revenue for continuing operations (1H2015: 25.9%)
- Major expenses for continuing operations are as follows:

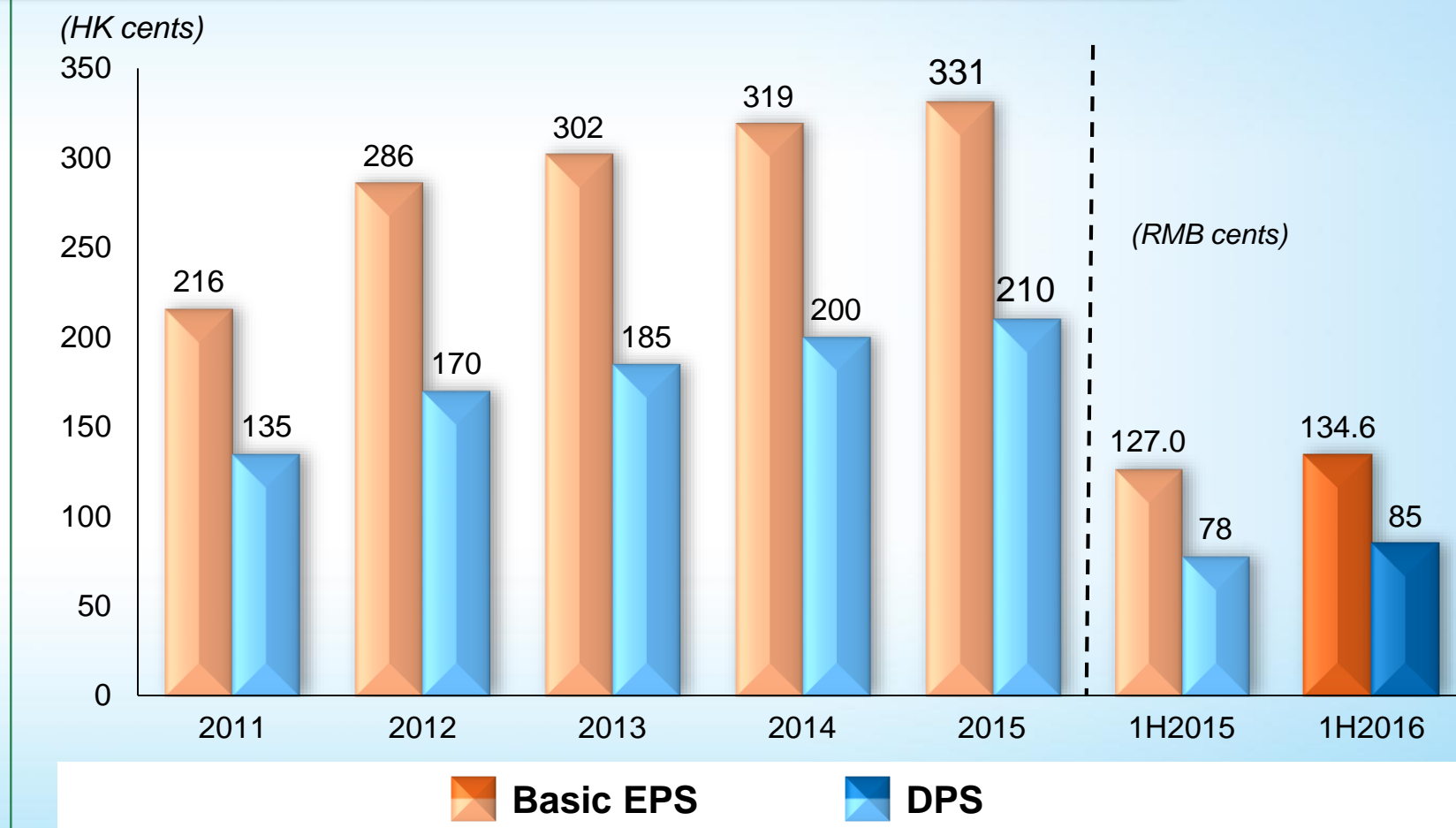
<i>Continuing operations</i> (As % of revenue)	<i>For the six months ended 30 June</i>	
	2016	2015
Marketing, advertising & promotion expenses	11.4%	10.3%
Transportation expenses	3.3%	3.3%
Staff costs (<i>excluding labour costs</i>)	3.9%	3.8%
Research and development	1.6%	1.8%



Basic EPS & DPS



1H2016 Dividend payout ratio: 63.1% (1H2015: 61.3%)



Key Financial Indicators



<i>Continuing operations</i>	2016	2015
<i>As at 30 Jun 2016 / 31 Dec 2015:</i>		
Cash on hand (RMB '000)	12,524,016	15,737,217
Convertible bonds liability portion (RMB '000)	444,798	4,656,907
Bank borrowings (RMB '000)	11,228,070	9,696,293
Current ratio	1.2 times	1.2 times
Gross gearing ratio	81.9%	97.6%
Net gearing ratio (net cash)	(5.9%)	(9.3%)
<i>For the six months ended 30 June:</i>		
Finished goods turnover	44 days	44 days
Accounts receivable turnover	43 days	39 days
Accounts payable turnover	74 days	67 days



Other Financial Information



Continuing operations

Interest income: around RMB190.0 million (1H2015: RMB244.0 million)

- Partly included in other gains:
about RMB137.6 million (1H2015: RMB157.0 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB52.4 million (1H2015: RMB87.0 million)

Interest expense:

- About RMB224.5 million (1H2015: RMB205.9 million)



Other Financial Information *(Cont'd)*



Continuing operations

Exchange loss due to the depreciation of Renminbi against US\$: around RMB41.1 million (1H2015: RMB110.3 million)

- Included in other losses: about RMB 42.6 million (1H2015: RMB42.7 million)
- Included in finance costs: a gain of about RMB 1.5 million (1H2015: a loss of RMB 67.6 million)
- Arising mainly from purchase of raw materials from overseas suppliers
- 2H2016 exchange losses are expected to be much smaller than that of 2H2015 (i.e. RMB 235.2 million)



Other Financial Information (Cont'd)



Continuing operations

Government grants:

- About RMB195.8 million (1H2015: RMB187.0 million), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate: 23.0% (1H2015: 25.2%):

- Decreased as the Group has provided for a large amount of dividend withholding tax in 2H2015 and hence less provision is required in 1H2016

Capital expenditure incurred

- Around RMB550.4 million (1H2015: RMB517.6 million), mainly incurred for the new production lines

Loss on early redemption of convertible bonds:

- Around RMB18.5 million (1H 2015: -)





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Business Review



Sanitary Napkins



Market overview

- Accelerating urbanization and rising living standards continued to drive the development of sanitary napkin market
- Distributors' overstocking issue has been mitigated
- Keen competition, and cash crunch faced by distributors limited growth rate



Business performance in 1H2016 and 2H2016 outlook

- Revenue increased by about 9.1% to approximately RMB3,208 million
- Gross profit margin increased to about 71.8 % (1H2015: 71.4%) as a result of decline in the prices of major raw materials, petrochemical products, and optimized product portfolio
- Expect mild improvement in sales in 2H2016 as result of increasing investment in emerging sales channels, optimizing product mix, launching new and upgraded products and collaborating with distributors on stock management



Tissue Paper



Market overview

- China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential
- Overall overcapacity in the industry and stiff competition continued to impact the Group's tissue paper business



Business performance in 1H2016 and 2H2016 outlook

- Revenue increased by about 4.7% to approximately RMB4,568 million
- Gross profit margin increased to about 37.7% (1H2015: 36.2%) due to the drop in price of tissue wood pulp used in tissue paper production
- Expect mild improvement in sales in 2H2016 as new and upgraded products will be launched and more investment will be made in developing emerging sales channel
- Current annualized production capacity is around 1,020,000 tons. It is expected to increase to approximately 1,140,000 tons by 4Q2016



Disposable Diapers



Market overview

- Low penetration rate, accelerating urbanization, people's increasing awareness of personal hygiene continue to fuel the growing demand for diaper products



Business performance in 1H2016 and 2H2016 outlook

- Revenue decreased by about 10.5% to approximately RMB1,067 million
- Market competition became more intensified due to:
 - Expansion of foreign competitors into China market through cross-border e-commerce platform affecting sales of mid-to-high end products;
 - Price competition from small players and sluggish China economy affecting the sales of mid and low end products
- Gross profit margin increased to about 49.8% (1H2015: 47.3%), due to decrease in price of major raw materials, petrochemical products and optimized product portfolio
- Continue to develop emerging sales network, step up advertising and promotion efforts for mid-to-high end products, and strengthen brand competitiveness
- China government has imposed tax on cross border ecommerce transactions, which would increase our products' competitiveness





Latest development

- On 8 July 2016, the snack food business (QinQin) was spun off from the group and listed on the HK Stock Exchange. The Group will focus on the production, distribution and sales of personal hygiene products in the future
- Snack food business is regarded as discontinued operations in the financial information
- Profit attributable to shareholders arising from discontinued operations: RMB7,540,000 (1H2015: RMB15,893,000)
- Decline in profit was mainly due to:
 - China economic slowdown and intensified market competition
 - One-off listing expenses of around RMB21,500,000 in 1H2016



Appointment of Professional Consultants



To further optimize the operation process of supply chain, logistics networks, inventory management and information technology planning, the Group appointed **IBM (China) Co., Ltd.** to give professional advice on the above aspects

Signed a contract with **SAP** to use its software in order to support the evolving business in the future

The above projects are expected to be completed in 2017

Hired PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. for:

- Providing advisory services regarding the preparation of "Environmental, Social and Governance Report". A detail report will be presented in the 2016 annual report
- Setting up a "Services Sharing Centre" to handle financial, administrative, human resource and logistics work of subsidiaries, branches and sales representatives' offices, in order to improve efficiency and optimize cost structure





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Outlook



Market Outlook



▶ China's rising per capita income, accelerating urbanization and consumers' increasing awareness of personal hygiene will continue to boost the development of the personal hygiene market

▶ The Group will continue to optimize product portfolio in light of market changes, launch new and upgraded products to cater the needs of consumers and closely monitor the trends in raw material prices

2016





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