



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號 : 1044



# Interim Results 2011 Corporate Presentation

*August 2011*

# Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum





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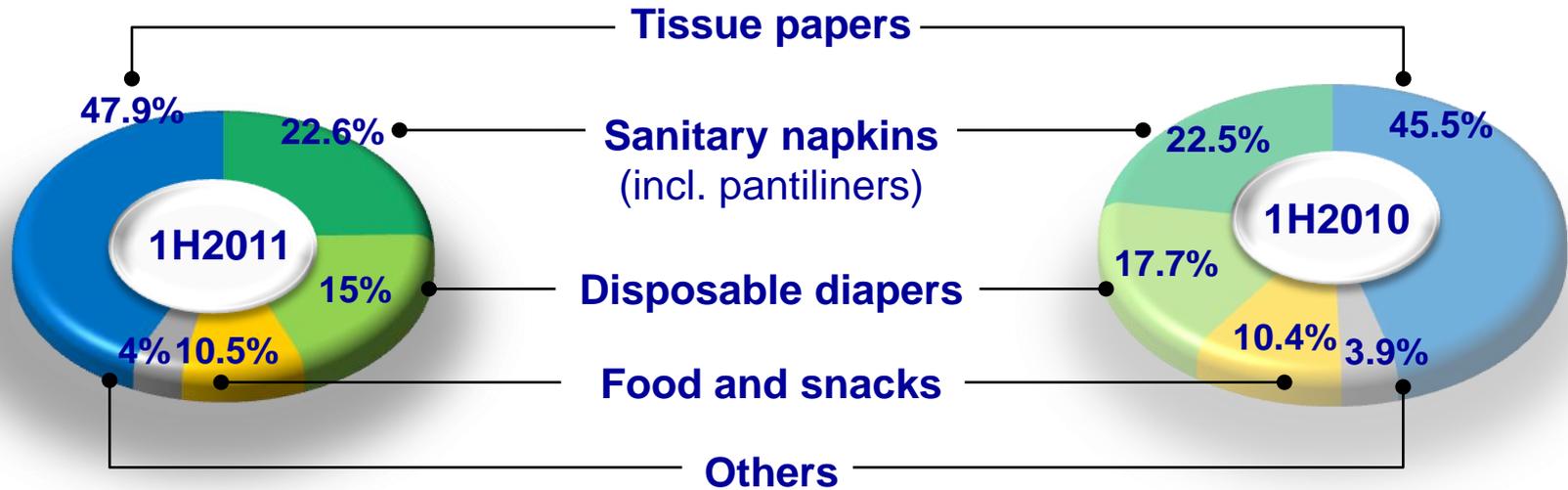
## ***Financial Highlights***

# Financial Highlights



(HK\$ '000)	Six months ended 30 June		
	2011	2010	Change (%)
Revenue	<b>8,188,704</b>	6,426,325	<b>27.4%</b>
Cost of sales	<b>(5,028,811)</b>	(3,500,301)	<b>43.7%</b>
Gross profit	<b>3,159,893</b>	2,926,024	<b>8.0%</b>
Operating profit	<b>1,349,093</b>	1,490,343	<b>9.5%</b>
Net profit	<b>1,181,997</b>	1,202,789	<b>1.7%</b>
Earnings per share			
– Basic	HK96.6 cents	HK98.6 cents	<b>2.0%</b>
– Diluted	HK96.3 cents	HK98.2 cents	<b>1.9%</b>
Interim dividend per share	<b>HK 60 cents</b>	HK60 cents	-

# Solid Revenue Base



(HK\$ '000)	Six months ended 30 June		
	2011	2010	Change (%)
Tissue papers	3,919,676	2,926,017	↑ 34.0%
Sanitary napkins (incl. pantliners)	1,848,497	1,443,095	↑ 28.1%
Disposable diapers	1,231,719	1,138,225	↑ 8.2%
Food and snacks	859,152	670,105	↑ 28.2%
Others	329,660	248,883	↑ 32.5%

# Gross Profit Margin Overview

## – By Business Segment



	Six months ended 30 June	
	2011	2010
Tissue papers	31.4%	40.4%
Sanitary napkins (including pantliners)	59.6%	61.7%
Disposable diapers	35.3%	45.7%
Food and snacks	32.0%	37.6%
Overall	38.6%	45.5%

### Major factors affecting overall gross profit margin

- Drastic increase in production costs resulted from rising raw material prices
- Measures to mitigate impact of raw material price 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 23.1% of total revenue (1H 2010:23.8%). Major expenses are as follows:

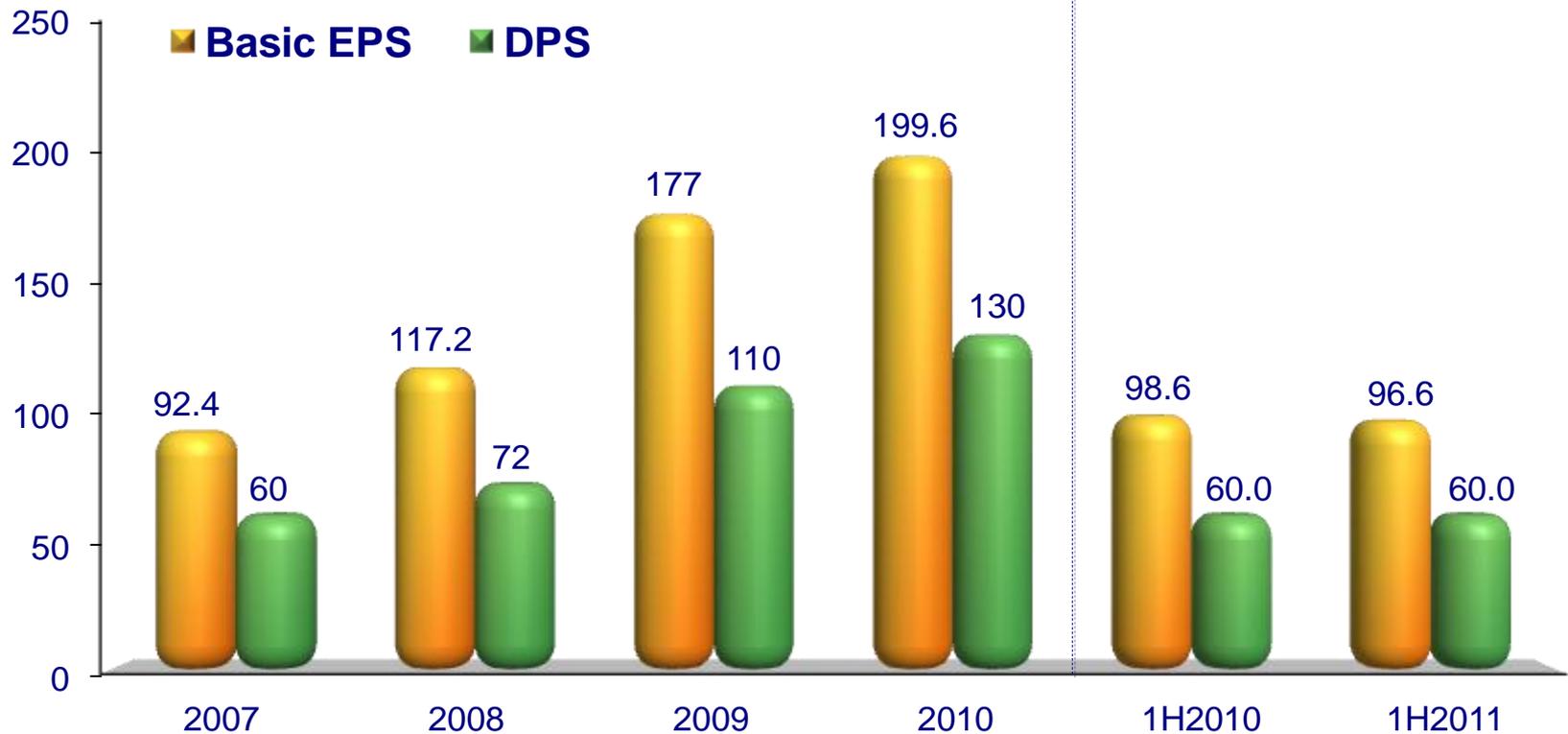
	<b>approximately</b>
<b>Marketing, advertising &amp; promotion expenses</b>	<b>9.9% of revenue (1H2010: 10.8%)</b>
<b>Transportation expenses</b>	<b>4.0% of revenue (1H2010: 4.1%)</b>
<b>Staff costs (excluding labour costs)</b>	<b>3.4% of turnover (1H2010: 3.6%)</b>
<b>City construction tax and education surcharge</b>	<b>0.7% of turnover (1H2010: nil)</b>

# Basic EPS & DPS



1H2011 Dividend payout ratio: 62.4% (1H2010 : 61.1%)

(HK cents)



# Key Financial Indicators



	1H2011	1H2010	FY2010
Cash on hand ( <i>HK\$ million</i> )	8,917.5	5,261.7	6,834.5
Finished goods turnover	45 days	46 days	54 days
Accounts receivable turnover	33 days	27 days	31 days
Accounts payable turnover	45 days	50 days	53 days
Gross gearing ratio	67.9%	35.5%	50.6%
Net gearing ratio	Nil	Nil	Nil

# Other Financial Information (Cont'd)



- Net exchange gain: due to appreciation of RMB during the period
  - HK\$21 million (1H2010:HK\$12 million) included in other gains – net
  - HK\$39 million (1H2010: nil) included in finance income
  
- Large amount of cash on hand HK\$8.917 billion mainly in RMB and large amount of bank borrowings HK\$7.557 billion mainly in HK dollar
  - RMB deposit interest income rate > HK\$ borrowing interest expense rate;
  - Net interest income: around HK\$25million; and
  - Potential RMB appreciation in the future – exchange gain as mentioned previously
  
- Capital expenditure incurred excluding prepayment: around HK\$940 million (1H2010: HK\$735 million)



- Government grants: approximately HK\$61 million (1H2010: HK\$67 million) as encouragement of the Group's investments in these areas
- Effective tax rate : 14.6% (1H2010 : 17.8%)
  - Write back of deferred dividend withholding tax overprovided in previous year
  - PRC subsidiaries : losing tax preferential treatment
  - New tax scheme from 4Q2011 – full year effect in 2012



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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 lower than that of other developed countries

## Business performance in 1H2011

- Revenue increased by about 34% to approximately HK\$3,920 million
- Gross profit margin dropped 9% to approximately 31.4% (1H2010: 40.4%) mainly because the price of the major raw material, tissue wood pulp, surged significantly during the period
- Continued to actively enhance product mix - toilet roll products, with relatively lower gross profit margin, accounted for 30.7% of tissue paper revenue (1H2010: 38.1%)



## Market overview

- Accelerating urbanization has been driving the market penetration rate of sanitary napkins products

## Business performance in 1H2011

- Revenue increased by about 28.1% to approximately HK\$1,848 million
- Drastic increase in the prices of major raw materials, fluff pulp and petrochemicals, caused pressure on the Group's production cost and drop in gross profit margin to 59.6% (1H2010: 61.7%)
- Mitigated the impact by strengthening cost controls and increasing sales of mid- to high-end products

# Disposable Diapers



## Market overview

- The demand for disposable diapers in China grows stronger in recent years alongside urbanization and the increasing per capita disposable income
- Increased market competition due to
  - Small and medium enterprises launched lower-priced products
  - Global brands venturing into second and third tier areas



## Business performance in 1H2011

- Revenue grew by about 8.2% to approximately HK\$1,232 million
- Gross profit margin of disposable diapers was approximately 35.3% (1H2010: 45.7%). The significant drop was mainly because the prices of major raw materials, fluff pulp and petrochemical products, surged significantly during the period





## 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 1H2011

- Revenue increased by 28.2% to approximately HK\$859 million
- Raw materials such as sugar, flavorings and flour increased significantly during the period
- Gross profit margin of food and snacks business dropped to around 32.0% (1H2010: 37.6)



- There were less promotion activities during the period – the related expenses decreased and accounted for about 9.9% revenue in 1H2011 (1H2010 : 10.8%)
- New taxes, city construction tax and education surcharge, totally accounted for 0.7% of revenue (1H2010 : nil)
- Sales and distribution costs to revenue ratio decreased to approximately 18.8% accordingly (1H2010: 19.0%).





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**Outlook**



- **The country's accelerating urbanization and steady and rapid 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 around the end of 2Q2011; and cost pressure will be alleviated in 2H 2011**
    - **Continue to optimize product mix to improve gross profit margin**





## Plans and strategies

### Tissue papers



- New tissue paper production base in Chongqing with 60,000 tons production capacity will commence production by the end of 2011
- 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
- Introduce the high end "Princess" series in 2H 2011 to meet market demand
- Retail price of the new series is expected to be higher than existing products



## Plans and strategies

### Diapers



- Already launched some upgraded versions of old products since March 2011
- Continue to launch more upgraded versions of old products in 2H 2011
- Plan to launch high end products including “Day and Night” series (動睡裝) and “Pull Up” series (拉拉褲) in 2H2011. ASP and gross profit margin of these new series are expected to be higher than those of the current product lines
- The sales performance in 2H 2011 : expected to improve

### Food and snacks



- Continue to integrate distribution network
- Launch new high-end products to consolidate profit base



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***Open Forum***