



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044



Interim Results 2012 Corporate Presentation

August 2012

Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum



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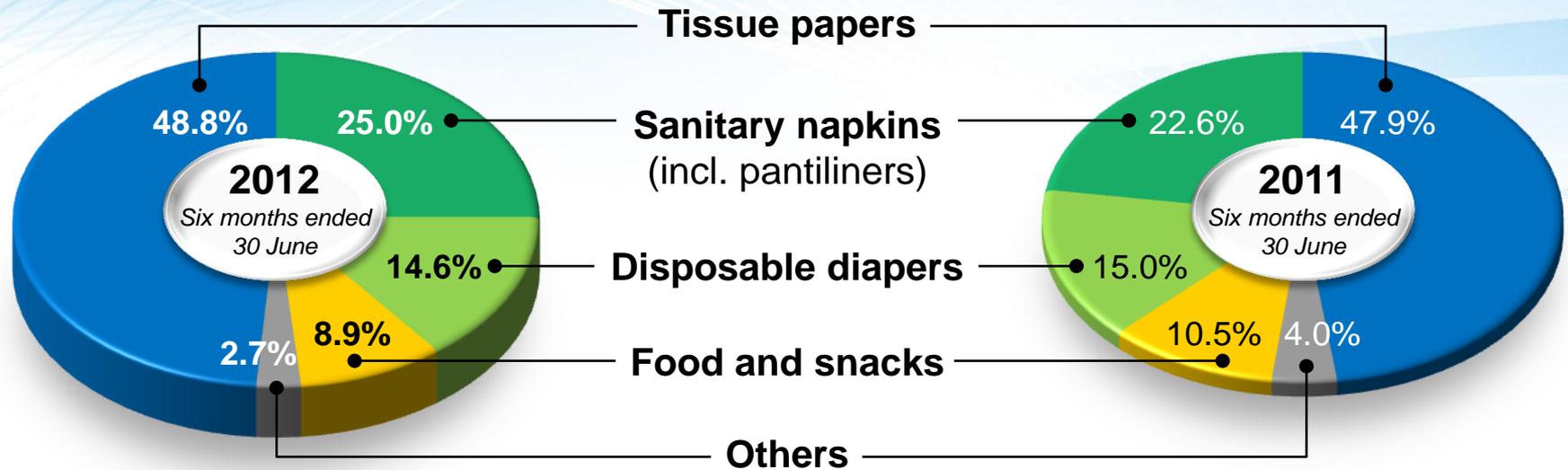
Financial Highlights

Financial Highlights



	2012 (HK\$ '000)	2011 (HK\$ '000)	Change (%)
<i>Six months ended 30 June</i>			
Revenue	9,041,725	8,188,704	↑ 10.4%
Cost of sales	(5,043,018)	(5,028,811)	↑ 0.3%
Gross profit	3,998,707	3,159,893	↑ 26.5%
Operating profit	2,137,647	1,349,093	↑ 58.5%
Profit attributable to shareholders	1,626,288	1,181,997	↑ 37.6%
Earnings per share			
– Basic	HK\$1.323	HK0.966	↑ 37.0%
– Diluted	HK\$1.322	HK0.963	↑ 37.3%
Dividend per share			
– Interim	HK\$0.75	HK\$0.60	↑ 25.0%

Solid Revenue Base



	2012 (HK\$ '000)	2011 (HK\$ '000)	Change (%)
<i>Six months ended 30 June</i>			
Tissue papers	4,410,804	3,919,676	↑ 12.5%
Sanitary napkins (incl. pantliners)	2,264,892	1,848,497	↑ 22.5%
Disposable diapers	1,321,243	1,231,719	↑ 7.3%
Food and snacks	809,055	859,152	↓ 5.8%
Others	235,731	329,660	↓ 28.5%

Gross Profit Margin Overview

– By Business Segment



	2012 (%)	2011 (%)
<i>Six months ended 30 June</i>		
Tissue papers	36.1%	31.4%
Sanitary napkins (incl. pantliners)	64.1%	59.6%
Disposable diapers	41.6%	35.3%
Food and snacks	37.9%	32.0%
Overall	44.2%	38.6%

Major factors affecting overall gross profit margin

- Margin improvement across business segments in 1H 2012 due to:
 - Lower raw material prices
 - Enhanced product mix
 - Better economies of scale
 - Tighter cost control

Major Expenses



- Distribution costs and administrative expenses accounted for approximately 22.6% of total revenue (1H 2011: 23.1%). Major expenses are as follows:

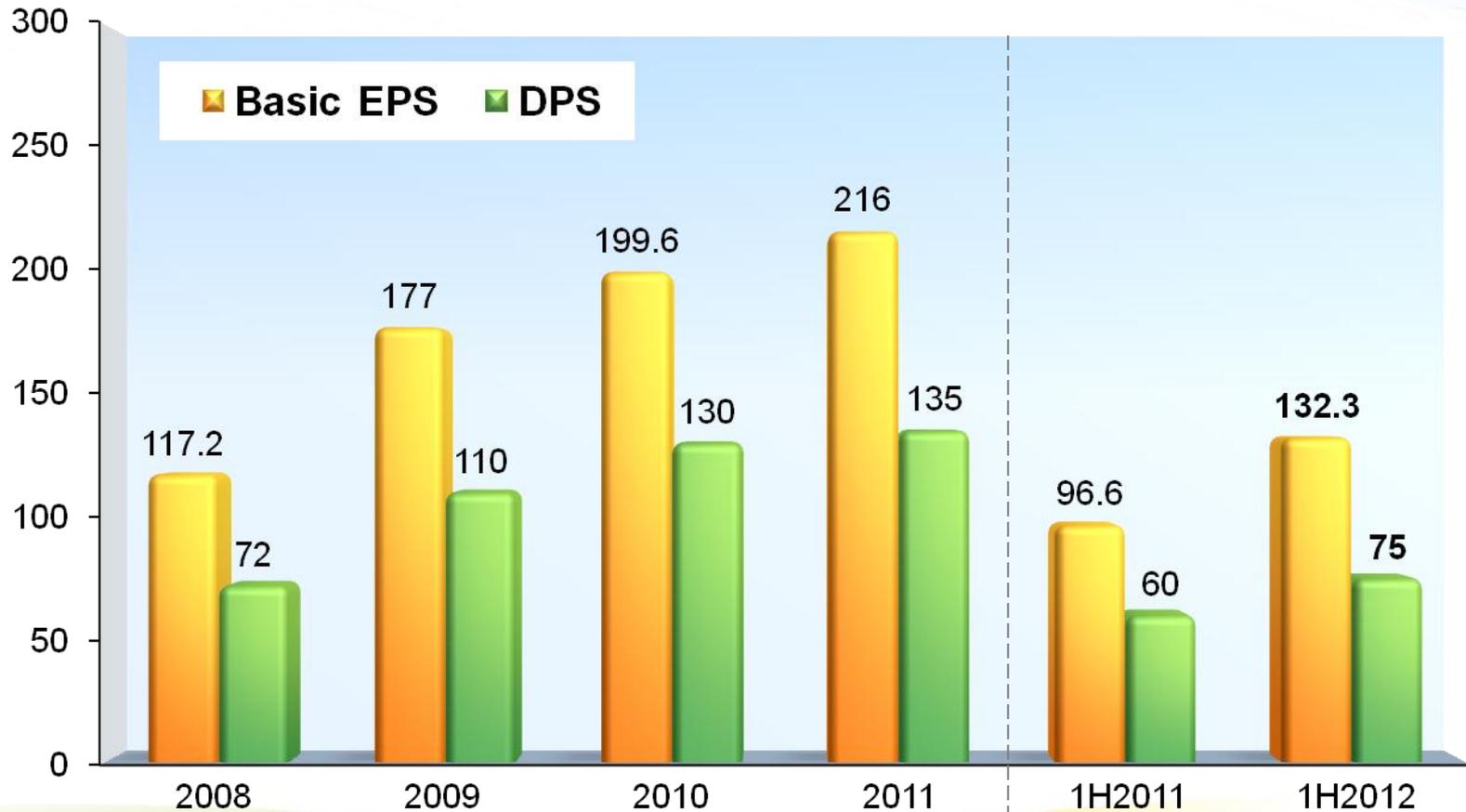
Marketing, advertising & promotion expenses	8.6% of revenue (1H2011: 9.9%)
Transportation expenses	3.9% of revenue (1H2011: 4.0%)
Staff costs (<i>excluding labour costs</i>)	3.5% of revenue (1H2011: 3.4%)
Donation	0.3% of revenue (1H2011: -)

Basic EPS & DPS



1H2012 Dividend payout ratio: 56.7% (1H2011: 62.4%)

(HK cents)



Key Financial Indicators



	1H2012	1H2011	FY2011
Cash on hand (<i>HK\$ million</i>)	9,322.9	8,917.5	8,622.9
Finished goods turnover	50 days	45 days	44 days
Accounts receivable turnover	35 days	33 days	35 days
Accounts payable turnover	65 days	45 days	57 days
Current ratio	1.4 times	1.5 times	1.4 times
Gross gearing ratio	69.8%	67.9%	58.5%
Net gearing ratio (net cash)	(1.6%)	(11.6%)	(10.8%)

Other Financial Information



- Accounts payable turnover period: 65 days (1H2011: 45 days)
 - The increase was mainly because a larger volume of wood pulp was purchased from overseas suppliers (with 90-day credit term) during the period instead of from domestic suppliers (with no credit term)

- Finished goods turnover period: 50 days (1H2011: 45 days)
 - The increase was mainly because more diaper products with cost of around HK\$330 million (1H 2011: HK\$50 million) were manufactured during the slack season to prepare for sales to be made in the peak season, which can relieve capacity constraint and lack of diaper products during the peak season.
 - The extra diapers manufactured will be sold in the peak season and the finished goods turnover period will return to normal level at year end.

Other Financial Information (Cont'd)



- Other gains about HK\$185 million (1H2011: HK\$82 million)
Finance Income about HK\$23 million (1H2011: HK\$128 million)
 - Bank deposits over 3 months: regarded as short-term investments
 - Interest income on short-term investments HK\$107 million: classified as other gains instead of finance income
- Government grants: approximately HK\$90 million (1H2011: HK\$61 million) as encouragement of the Group's investments in these areas
- Effective tax rate: 20.0% (1H2011: 14.6%)
 - PRC subsidiaries: tax preferential treatment expiring
- Capital expenditure incurred (excluding prepayments): around HK\$1.7 billion (1H2011: around HK\$940 million) – mainly for the new tissue production lines.



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Business Review

Tissue Papers



Market overview

- The demand for quality tissue papers in China continued to grow rapidly
- China's annual tissue paper consumption per capita is still much lower than that of other developed countries
- Market competition intensified as major competitors stepped up promotion to boost sales





Business performance in 1H2012

- Revenue increased only by about 12.5% to approximately HK\$4.4 billion. The slower growth was mainly due to the insufficient production capacity of the Group, which resulted from the delay of the commencement of the new production lines in Chongqing and Wuhu.
- The Group adjusted its product mix hence reducing the revenue contribution of lower margin products - the sales of toilet roll products accounted for approximately 29.3% of total tissue paper products revenue (1H2011: 30.7%).
- The Chongqing production lines had been completed – 60,000 tons in 1st quarter and 60,000 tons in 2nd quarter.
- New production line in Jinjiang – 60,000 tons in mid July.
- With more production capacity available, more extensive promotion campaign was launched in mid-June to boost sales. Sales growth rate had resumed to a satisfactory level from July onwards.
- Gross profit margin rose to approximately 36.1% (1H2011: 31.4%), which reflected the significant drop in production costs as a result of lower price of tissue wood pulp in 1H 2012.

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 1H2012

- Revenue increased by about 22.5% to approximately HK\$2.3 billion
- Gross profit margin expanded to 64.1% (1H2011: 59.6%)
- Cost pressure of the Group eased amid falling prices of major raw materials.
- The Group spared no efforts in 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



Business performance in 1H2012

- Continued to focus on mid-to-high-end products, the sale of which increased by approximately 16.5%
- Competition intensified as mid and small market players launched extensive promotional campaign to boost sales when raw material costs were low so that the sales of low-end market diaper (“simplified diapers”) dropped by around 13.5%
- Overall revenue grew only by about 7.3% to approximately HK\$1.3 billion
- Gross profit margin rose to approximately 41.6% (1H2011: 35.3%), as prices of major raw materials, namely fluff pulp and petrochemical products, decreased



Food and Snacks



Market overview

- The poison capsule incident in April this year brought negative impact on the snack food industry, especially for fruit jelly industry, in mainland China.



Business performance in 1H2012

- Although the Group has never used raw materials with problems in its products, the sales of the Group's fruit jelly product had dropped by around 12.1% accordingly.
- Revenue fell by 5.8% to approximately HK\$809 million despite the increase in sales of other snack food products.
- The Group expects that the revenue of this segment will gradually improve in the second half of the year.
- Lower prices of major raw materials, such as sugar, flavorings, flour, and packaging materials have led to an increased gross profit margin to around 37.9% (1H 2011: 32.0%).



Other Business Updates



Corporate

"2012 China Enterprise Reputation and Credibility Award"

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



Other Recognition

"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 steady economic growth will provide favorable foundation for development of personal hygiene products
 - Consumers' increasing awareness of personal hygiene will spur consumption of high-quality hygiene products
 - The Group will continue to invest in production capacity across its key business lines as planned, improve product quality, expand sales network and enhance management efficiency



Plans and strategies

Tissue papers



- Production lines in Jinjiang and Wuhu with annualized production capacity of 60,000 tons and 120,000 tons respectively are expected to be completed in three months
- Total annualized production capacity is expected to reach 900,000 tons by the end of 2012

Sanitary napkins



- “Space Seven Princess” series was launched nationwide by the end of June
- Introduce more mid-to-high-end products and enhance existing products

Diapers



- Continue to invest in product development and promotion in order to capture the growing market demand

Food and snacks



- Exert greater efforts to develop new products to consolidate profit base



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Open Forum