



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

Annual Results 2014 Corporate Presentation

March 2015



Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum





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Financial Highlights

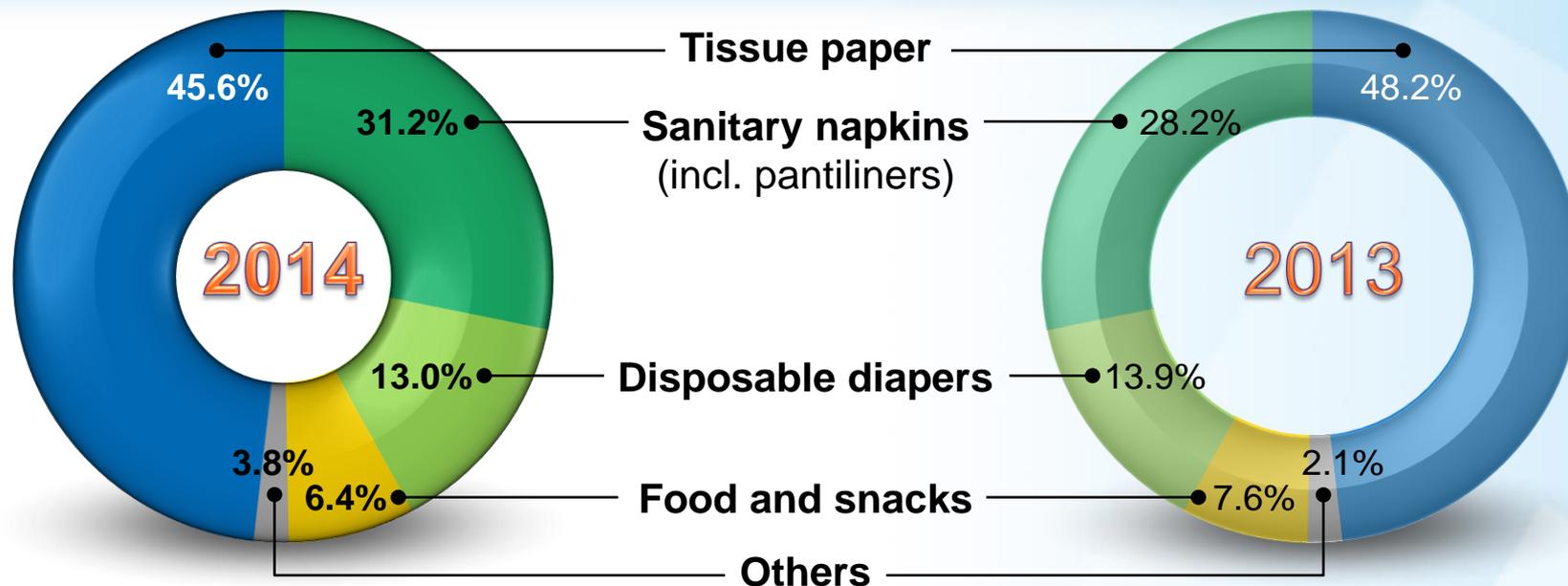


Financial Highlights



	2014	2013	Change
<i>(HK\$ '000)</i>	<i>For the year ended 31 December</i>		
Revenue	23,830,778	21,186,368	12.5%
Cost of sales	(12,842,802)	(11,626,908)	10.5%
Gross profit	10,987,976	9,559,460	14.9%
Operating profit	5,750,058	5,087,848	13.0%
Net profit	3,915,818	3,721,031	5.2%
Earnings per share			
– Basic	HK\$3.188	HK\$3.024	5.4%
– Diluted	HK\$3.184	HK\$3.021	5.4%
Dividend per share			
– Interim	HK\$0.85	HK\$0.85	
– Final	HK\$1.15	HK\$1.00	
– Total	HK\$2.00	HK\$1.85	8.1%

Solid Revenue Base



	2014	2013	Change
(HK\$ '000)	For the year ended 31 December		
Tissue paper	10,857,293	10,204,020	▲ 6.4%
Sanitary napkins (incl. pantliners)	7,427,740	5,972,695	▲ 24.4%
Disposable diapers	3,094,573	2,938,186	▲ 5.3%
Food and snacks	1,534,749	1,604,655	▼ 4.4%
Others	916,423	466,812	▲ 96.3%

Gross Profit Margin Overview – By Business Segment



	2014	2013
(%)	<i>For the year ended 31 December</i>	
Tissue paper	34.5%	34.1%
Sanitary napkins (incl. pantliners)	68.5%	66.3%
Disposable diapers	45.3%	44.5%
Food and snacks	42.4%	42.3%
Overall	46.1%	45.1%

Major factors affecting overall gross profit margin

Margin increased in 2014 due to:

- Optimized product portfolio
- Enhanced economies of scale
- Decrease in raw material prices since 2H 2014



- Intensified market competition

Major Expenses



Distribution costs and administrative expenses

- Distribution costs and administrative expenses accounted for approximately 26.9% of total revenue (2013: 24.8%)
- Major expenses are as follows:

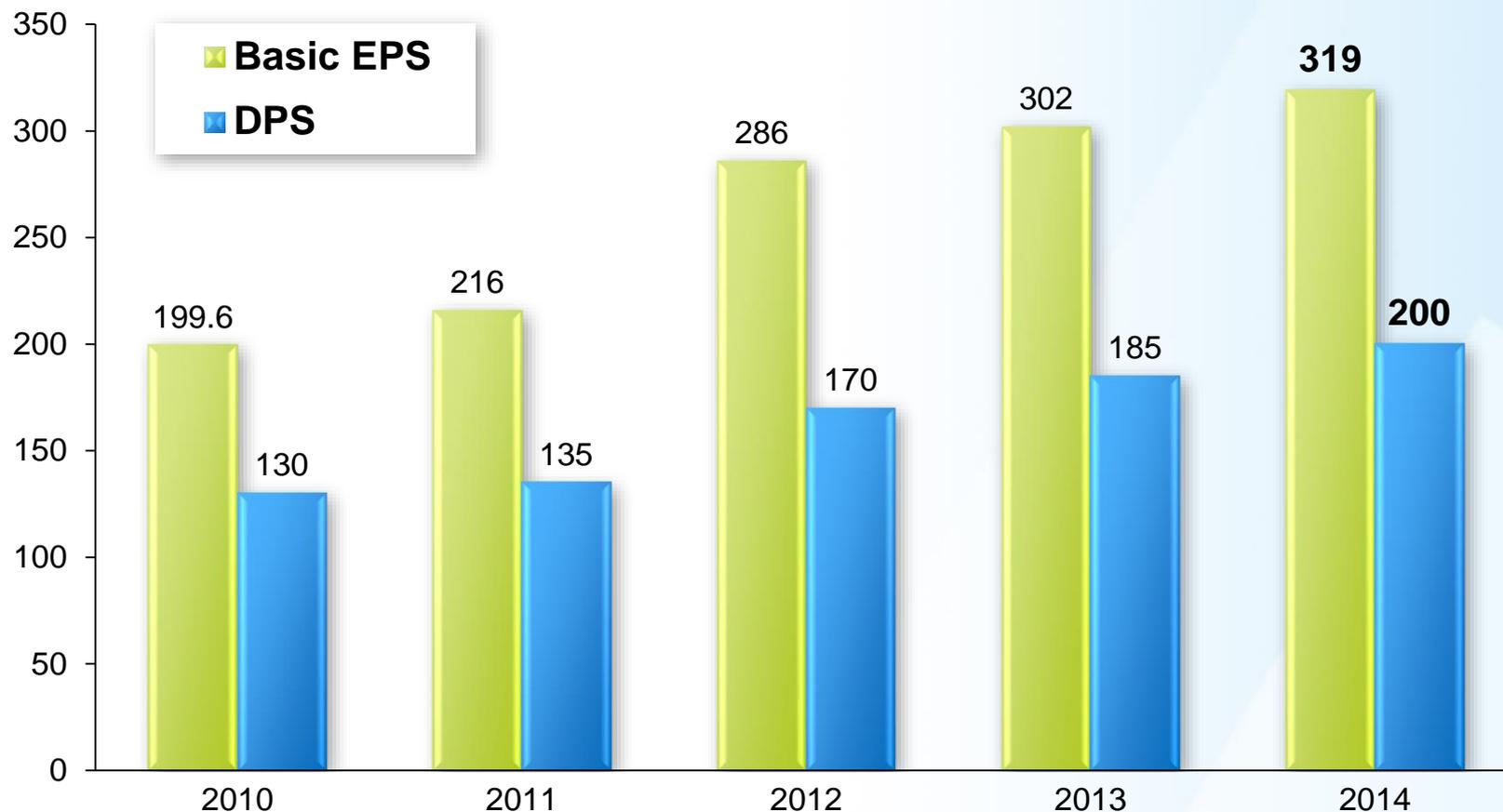
	2014	2013
<i>(As % of revenue)</i>	<i>For the year ended 31 December</i>	
Marketing, advertising & promotion expenses	10.9%	8.8%
Transportation expenses	4.2%	4.2%
Staff costs <i>(excluding labour costs)</i>	3.9%	4.0%
Research and development	1.8%	1.3%

Basic EPS & DPS



2014 Dividend payout ratio: 62.6% (2013: 61.2%)

(HK cents)



Key Financial Indicators



	2014	2013
	<i>For the year ended 31 December</i>	
Cash on hand (HK\$ '000)	22,432,839	20,438,069
Convertible bonds liability portion (HK\$ '000)	5,390,267	5,227,130
Finished goods turnover	49 days	55 days
Accounts receivable turnover	36 days	35 days
Accounts payable turnover	62 days	61 days
Current ratio	1.5 times	1.6 times
Gross gearing ratio	116.5%	117.5%
Net gearing ratio (net cash)	(10.4%)	(5.8%)
Rate of return	22.2%	22.5%

Other Financial Information



Interest income: around HK\$707 million (2013: HK\$440 million)

- Partly included in other gains:
about HK\$474 million (2013: HK\$334 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about HK\$233million (2013: HK\$106 million)

Interest expense:

- About HK\$511million (2013: HK\$356 million)

Exchange loss due to the depreciation of Renminbi against US\$ and HK\$: around HK\$132 million (2013: gain of about HK\$279 million)

- Partly included in other losses: a loss of about HK\$2 million (2013: a gain of about HK\$94 million)
- Partly included in finance income and finance costs:
a loss of about HK\$130 million (2013: a gain of about HK\$185 million)

Other Financial Information *(Cont'd)*



Government grants:

- About HK\$666 million (2013: HK\$404 million)
- As encouragement of the Group's contributions to the development of the local economy

Effective tax rate: 25.6% (2013: 24.8%):

- Remains fairly stable
- New tax arrangement will be implemented in 2015 to control the effective tax rate to be around or lower than 25%

Capital expenditure incurred:

- Around HK\$1.8 billion (2013: around HK\$1.2 billion)
- Capex is mainly incurred for the new production lines



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Business Review



Sanitary Napkins



Market overview

- Market growth driven by accelerating urbanization and rising living standard, which continue to boost demand for high-grade sanitary napkins
- Industry landscape remains competitive, triggering market consolidation



Business performance in 2014 and 2015 outlook

- Revenue increased by about 24.4% to approximately HK\$7,428 million
- Continued to optimize product portfolio and increase the proportion of mid-to-high-end products in sales
- Launched various new products which were well accepted by the market and successfully expanded the Group's market share
- Gross profit margin increased to approximately 68.5% (2013: 66.3%), thanks to optimized product portfolio and decrease in the price of major raw materials such as petrochemical products since Q4 2014
- Will continue to focus on product innovation, optimize the product mix and increase the sales of mid-to-high-end products

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 fierce competition continued to affect the growth rate of the Group's tissue paper business



Business performance in 2014 and 2015 outlook

- Revenue increased by about 6.4% to approximately HK\$10.9 billion
- Gross profit margin remained fairly stable at approximately 34.5% (2013: 34.1%) because the decrease in price of tissue wood pulp, a major raw material, offset the impact of intense market competition and overcapacity which led to a decrease in average selling price
- No step up efforts in marketing and brand promotion in 2H 2014 to maintain a reasonable profit margin
- Current annualized production capacity is around 1,020,000 tons
- Will increase production capacity according to market conditions and sales performance in the future

Disposable Diapers



Market overview

- Long-term growth driven by low penetration rate, accelerating urbanization and people's increasing awareness of personal hygiene
- Challenging outlook: economic slowdown and intense competition caused by the entry of a large number of manufacturers into the market affected the sales growth of the Group



Business performance in 2014 and 2015 outlook

- Revenue increased by about 5.3% to approximately HK\$3,095 million
- Stepped up marketing and brand promotion
- Focus on and launched new mid-end and mid-to-high-end diaper products
- Mid-end and mid-to-high-end diapers: sales increased by about 11.9%
Low end diapers: sales dropped by about 15.4% due to keen competition
- Gross profit margin increased to about 45.3% (2013: 44.5%), due to optimized product portfolio and decrease in price of major raw materials, petrochemical products, since Q4 2014
- Will continue to enhance the promotion of brand and products, expand business presence in maternity stores and e-commerce sales network in 2015



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 2014 and 2015 outlook

- Revenue dropped slightly by about 4.4% to approximately HK\$1,535 million
- Gross profit margin remained fairly stable at about 42.4% (2013: 42.3%), as the decline in the costs of major raw materials, such as sugar and palm oil, offset the negative impact of intense market competition
- Will continue to commit resources to enriching its product portfolio so as to cater to the different tastes of consumers in 2015

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.** in March 2014 to give professional advice on the above aspects

Signed a contract with **SAP** in November 2014 to use its software, and engaged **IBM (China) Co., Ltd.** to update its software in order to support the evolving business in the future



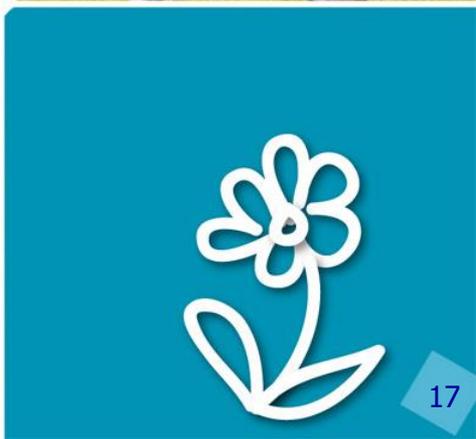


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Outlook



Market Outlook



China's rising per capita income, accelerating urbanization and consumers' increasing awareness of health and hygiene will continue to provide support for the development of the market for personal hygiene products

The benefits from the decline in the cost of raw materials since 2H 2014 are expected to persist well into 2015, and will help improve the Group's income and gross profit margins

The Group committed to improving product quality in order to strengthen its brand values, overall competitiveness and profit margins, and will monitor closely the price trends of raw materials



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Open Forum

