



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

Interim Results 2015 Corporate Presentation

August 2015



Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum





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Financial Highlights

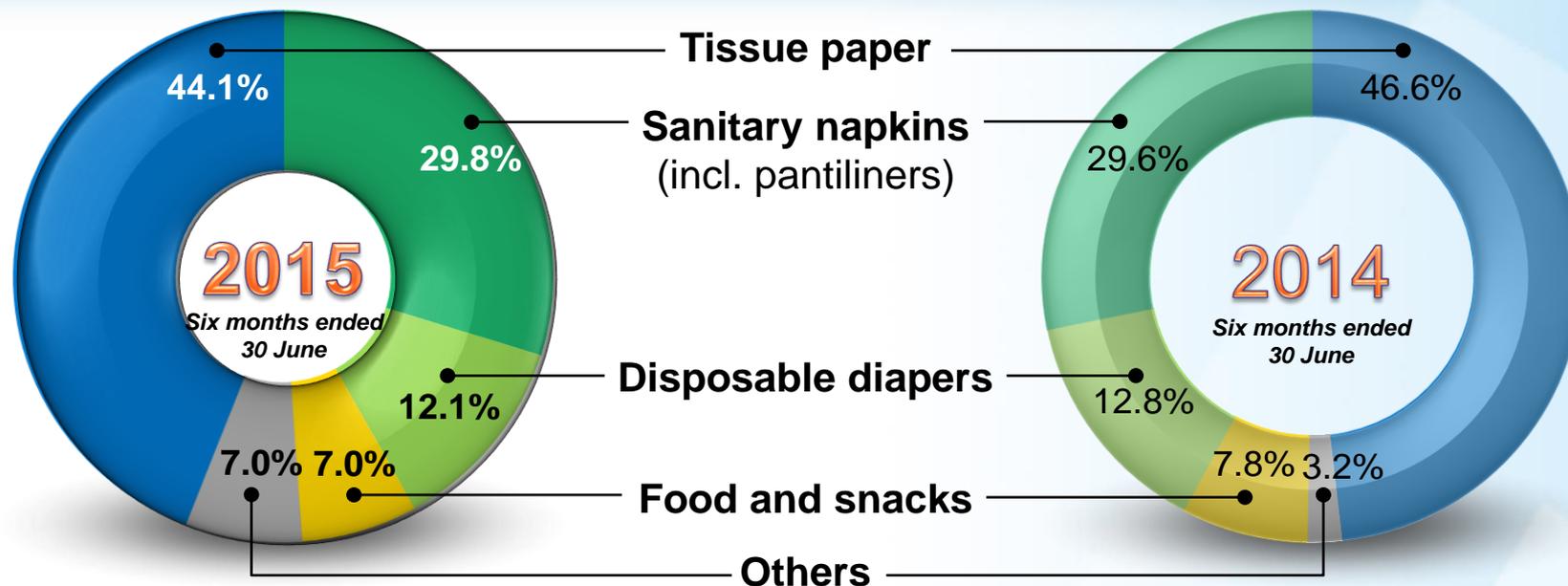


Financial Highlights



	2015	2014	Change
<i>(HK\$ '000)</i>	<i>For the six months ended 30 June</i>		
Revenue	12,503,223	12,098,064	3.3%
Cost of sales	(6,685,821)	(6,664,224)	0.3%
Gross profit	5,817,402	5,433,840	7.1%
Operating profit	2,884,543	2,650,479	8.8%
Net profit	1,967,832	1,775,303	10.8%
Earnings per share			
– Basic	HK\$1.607	HK\$1.443	11.4%
– Diluted	HK\$1.603	HK\$1.441	11.2%
Dividend per share			
– Interim	HK\$0.95	HK\$0.85	11.8%

Solid Revenue Base



	2015	2014	Change
(HK\$ '000)	For the six months ended 30 June		
Tissue paper	5,516,294	5,637,708	▼ 2.2%
Sanitary napkins (incl. pantliners)	3,720,502	3,586,092	▲ 3.7%
Disposable diapers	1,509,412	1,546,057	▼ 2.4%
Food and snacks	869,967	946,735	▼ 8.1%
Others	887,048	381,472	▲ 132.5%

Gross Profit Margin Overview – By Business Segment



	2015	2014
(%)	<i>For the six months ended 30 June</i>	
Tissue paper	36.2%	33.2%
Sanitary napkins (incl. pantliners)	71.4%	66.9%
Disposable diapers	47.3%	44.2%
Food and snacks	44.1%	43.6%
Overall	46.5%	44.9%

Major factors affecting overall gross profit margin

Margin increased in 1H2015 due to:

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



- Intensified market competition

Major Expenses



Distribution costs and administrative expenses

- Distribution costs and administrative expenses accounted for approximately 26.9% of total revenue (1H2014: 27.0%, FY2014: 26.9%)
- Major expenses are as follows:

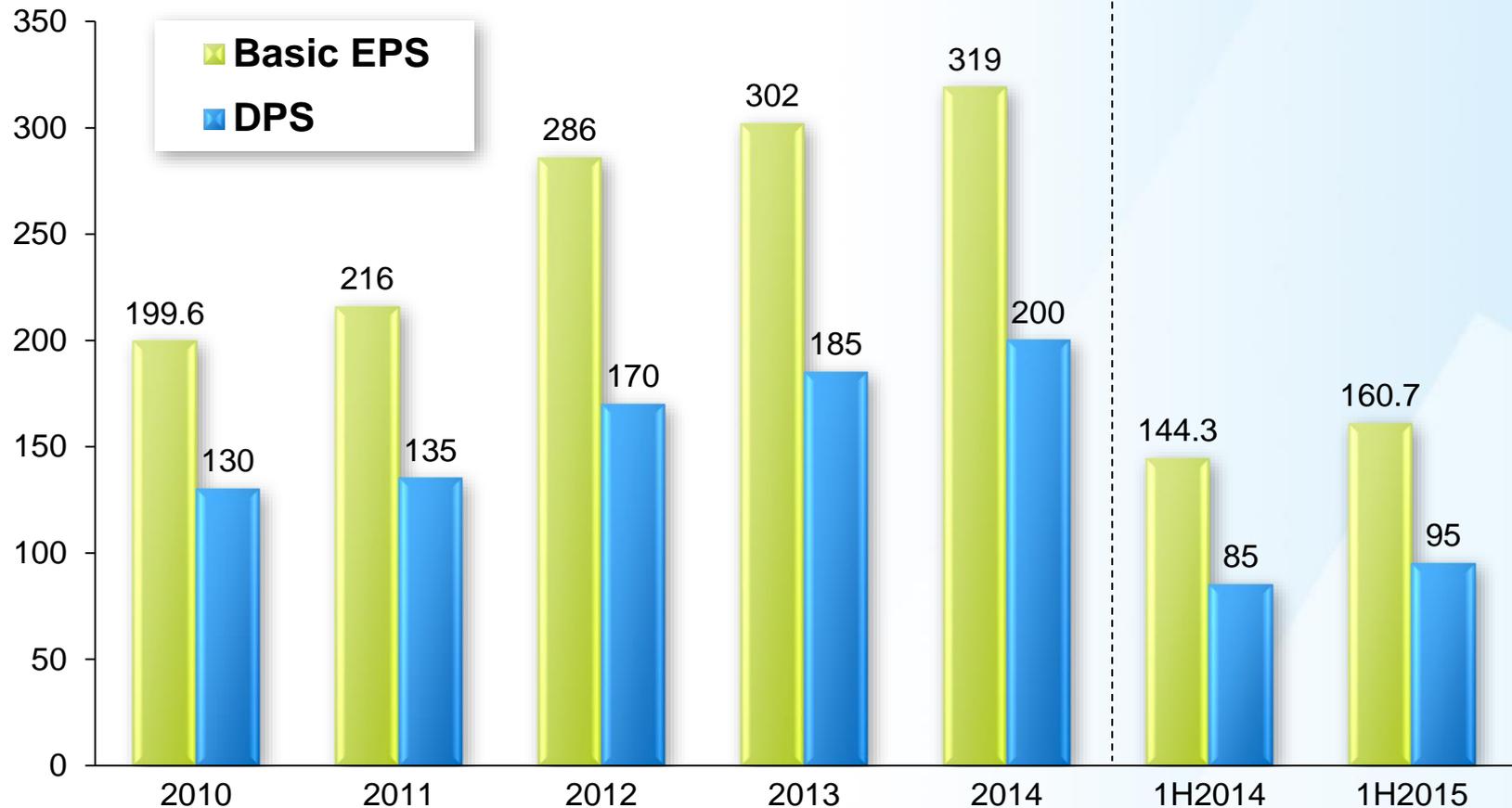
	2015	2014	2014
<i>(As % of revenue)</i>	<i>For the six months ended 30 June</i>		<i>Full year</i>
Marketing, advertising & promotion expenses	11.3%	11.9%	10.9%
Transportation expenses	3.4%	4.2%	4.2%
Staff costs <i>(excluding labour costs)</i>	3.8%	3.7%	4.0%
Research and development	1.7%	1.1%	1.8%
Donations	0.4%	—	—

Basic EPS & DPS



1H2015 Dividend payout ratio: 59.1% (1H2014: 58.7%)

(HK cents)



Key Financial Indicators



	2015	2014	2014
	<i>For the six months ended 30 June</i>		<i>Full year</i>
Cash on hand (HK\$ '000)	22,892,864	23,736,466	22,432,839
Convertible bonds liability portion (HK\$ '000)	5,473,735	5,308,072	5,390,267
Finished goods turnover	42 days	49 days	49 days
Accounts receivable turnover	37 days	34 days	36 days
Accounts payable turnover	65 days	55 days	62 days
Current ratio	1.6 times	1.4 times	1.5 times
Gross gearing ratio	111.8%	135.2%	116.5%
Net gearing ratio (net cash)	(13.4%)	(7.9%)	(10.4%)
Rate of return (annualised)	21.6%	21.4%	22.2%

Other Financial Information



Interest income: around HK\$317 million (1H2014: HK\$334 million)

- Partly included in other gains:
about HK\$199 million (1H2014: HK\$273 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about HK\$118 million (1H2014: HK\$61 million)

Interest expense:

- About HK\$260 million (1H2014: HK\$238 million)

Exchange loss : around HK\$139 million (1H2014: HK\$178 million)

- Partly included in other losses: about HK\$54 million (1H2014: about HK\$54 million)
- Partly included in finance costs:
of about HK\$85 million (1H2014: HK\$124 million)

Other Financial Information *(Cont'd)*



Government grants:

- About HK\$247 million (1H2014: HK\$249 million)
- As encouragement of the Group's contributions to the development of the local economy

Effective tax rate: 25.1% (1H2014: 23.4%, FY2014: 25.6%):

- Remains fairly stable

Capital expenditure incurred:

- Around HK\$662 million (1H2014: around HK\$729 million)
- 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
- Slower economic growth hurt demand for pantliners, which are not regarded as daily necessities
- Tight cashflow and overstocking issues of distributors also limited revenue growth



Business performance in 1H2015 and 2H2015 outlook

- Revenue increased by about 3.7% to approximately HK\$3.7 billion
- Gross profit margin rose to approximately 71.4% (1H2014: 66.9%), supported by the optimized product portfolio and a decline in the prices of major raw materials, petrochemical products, since 2014
- The Group expects to see improvement in sales performance in 2H2015 as :
 - A number of new and upgraded products launched nationwide
 - Stepped up marketing and brand promotion for certain products appropriately
 - Distributors' inventory level gradually returns to a reasonable level

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 growth rate of the Group's tissue paper business



Business performance in 1H2015 and 2H2015 outlook

- Revenue decreased slightly by about 2.2% to approximately HK\$5.5 billion
- Gross profit margin increased to approximately 36.2% (1H2014: 33.2%) as the decrease in price of tissue wood pulp, a major raw material, offset the impact of such unfavourable factors as intense market competition and overcapacity
- In 2H2015, the Group changed sales strategy by stepping up marketing and brand promotion on certain products appropriately and launched various new packaging quality products nationwide such that sales performance is expected to improve
- Current annualized production capacity is around 1,020,000 tons. The Group will increase production capacity according to market conditions and sales performance in the future

Disposable Diapers



Market overview

- Demand driven by low penetration rate, accelerating urbanization and people's increasing awareness of personal hygiene
- Outlook challenging as China economic slowdown and intense competition caused by the entry of a large number of manufacturers into market affected sales growth of the Group



Business performance in 1H2015 and 2H2015 outlook

- During 1H2015, the Group continued to expand its business presence by gaining footholds in e-commerce and maternity store sales channels and focus on mid-to-high-end diaper products
- Sales of mid- to-high-end disposable diapers increased by about 31.1%, reflecting increase in market demand for these products. However, sales of low-end diapers (i.e. simplified diapers) and mid-end diapers decreased by about 20.5% and 20.1% respectively due to China's economic slowdown and persistent market competition
- Overall, revenue from sales of disposable diapers for the period dropped slightly by about 2.4% to approximately HK\$1.5 billion
- Gross profit margin increased to about 47.3% (1H2014: 44.2%), due to optimized product portfolio and drop in prices of major raw materials petrochemical products since 2014
- The Group will enhance marketing and brand promotion on certain products appropriately and continue to expand business presence in e-commerce and maternity store sales channels with the aim of improving sales performance in 2H2015



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 1H2015 and 2H2015 outlook

- Revenue dropped by about 8.1% to approximately HK\$870 million
- Gross profit margin remained fairly stable at about 44.1% (1H2014: 43.6%), as decline in costs of major raw materials, such as palm oil and packaging materials, offset negative impact of intense market competition
- Will continue to commit resources to enriching product portfolio so as to cater to different tastes of consumers in 2H2015

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 (Beijing) Software Systems Co., Ltd.** to use its software to support the evolving business in the future

The Group is currently conducting a trial run of the system in certain provinces and the whole enhancement programme is expected to be completed by the second half of 2016.



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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 Group is looking to enhance product portfolio and launch new and upgraded products

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



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Open Forum

