



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

Annual Results 2016 Corporate Presentation

March 2017



Agenda



**Financial
Highlights**



**Business
Review**



Outlook



Open Forum





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Financial Highlights



Financial Highlights

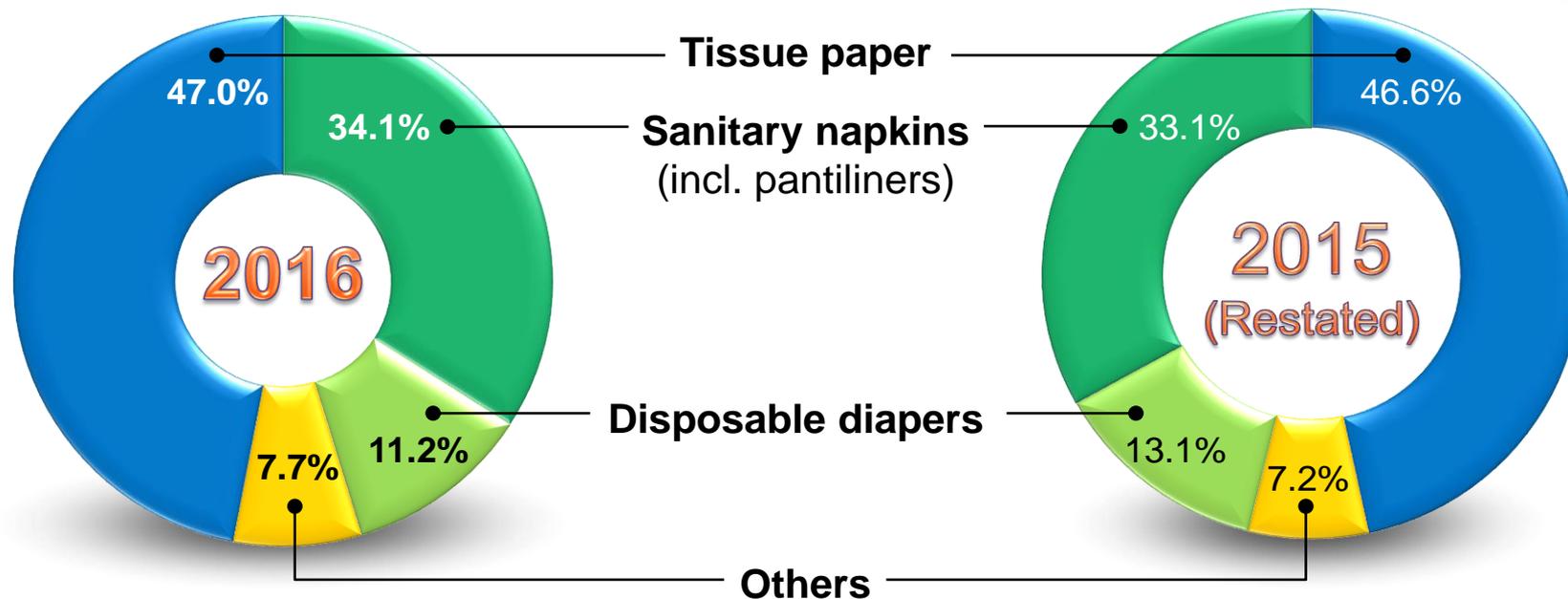


Continuing operations

For the year ended 31 December

| (RMB '000) | 2016 | 2015 (Restated) | Change |
|--|-------------------|--------------------|---|
| Revenue | 19,277,397 | 18,662,576 |  3.3% |
| Gross profit | 9,403,952 | 8,939,593 |  5.2% |
| Profit attributable to shareholders | | | |
| — Continuing operations | 3,471,746 | 3,233,204 |  7.4% |
| — Discontinued operations | 125,075 | 26,659 |  369.1% |
| — Overall | 3,596,821 | 3,259,863 |  10.3% |
| Earnings per share — basic | | | |
| — Continuing operations | RMB2.864 | RMB2.645 |  8.3% |
| — Discontinued operations | RMB0.103 | RMB0.022 |  368.2% |
| — Overall | RMB2.967 | RMB2.667 |  11.2% |

Solid Revenue Base



Continuing operations

For the year ended 31 December

| (RMB '000) | 2016 | 2015 (Restated) | Change |
|-------------------------------------|-----------|--------------------|---------|
| Tissue paper | 9,066,499 | 8,694,154 | ▲ 4.3% |
| Sanitary napkins (incl. pantliners) | 6,568,885 | 6,185,130 | ▲ 6.2% |
| Disposable diapers | 2,150,252 | 2,451,014 | ▼ 12.3% |
| Others | 1,491,761 | 1,332,278 | ▲ 12.0% |

Gross Profit Margin Overview

– By Business Segment



Continuing operations

For the year ended 31 December

| | 2016 | 2015 (Restated) |
|-------------------------------------|-------|--------------------|
| Tissue paper | 37.9% | 35.6% |
| Sanitary napkins (incl. pantliners) | 72.6% | 72.6% |
| Disposable diapers | 50.8% | 49.3% |
| Others | 7.4% | 11.3% |

Major factors affecting overall gross profit margin

Margin increased in 2016
due to:

- Raw material prices maintained at a low level
- Optimized product portfolio
- Enhanced economies of scale

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- Intensified market competition

Major Expenses



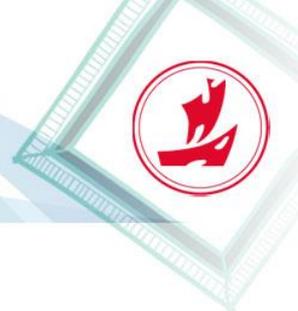
Distribution costs and administrative expenses

- ☑ Distribution costs and administrative expenses for continuing operations accounted for approximately 27.0% of total revenue for continuing operations (2015 (Restated): 24.6%)
- ☑ Major expenses for continuing operations are as follows:

Continuing operations

| <i>(As % of revenue)</i> | <i>For the year ended 31 December</i> | |
|--|---------------------------------------|----------------------------------|
| | 2016 | 2015 <i>(Restated)</i> |
| Marketing, advertising & promotion expenses | 10.8% | 9.8% |
| Transportation expenses | 3.6% | 3.0% |
| Staff costs <i>(excluding labour costs)</i> | 3.7% | 3.6% |
| Research and development | 2.1% | 2.0% |

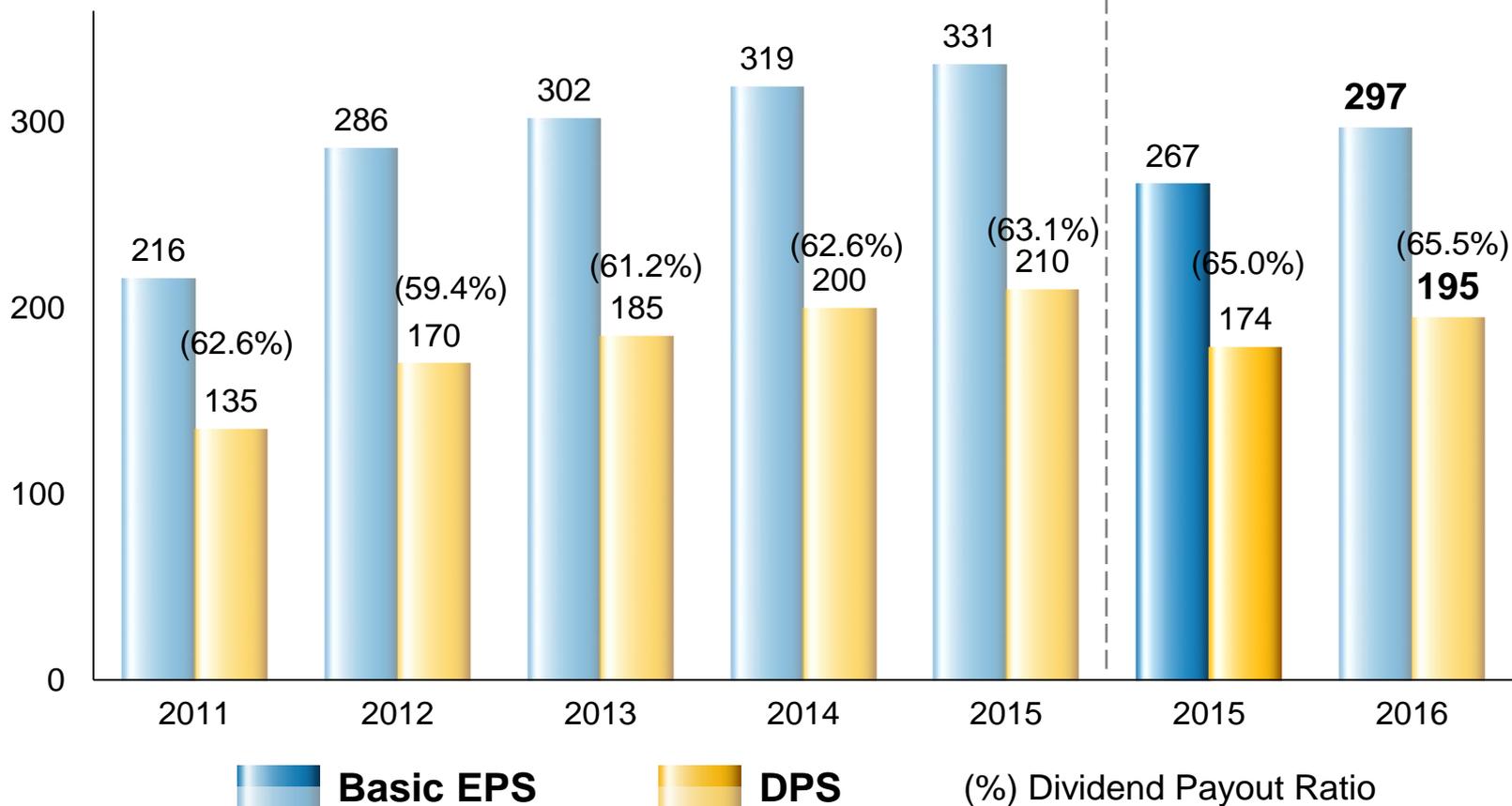
Basic EPS & DPS



2016 Dividend payout ratio: 65.5% (2015 (Restated): 65.0%)

(HK cents)

(RMB cents)



Key Financial Indicators



Continuing operations

As at 31 December

| | 2016 | 2015 (Restated) |
|---|-------------------|--------------------|
| Cash on hand (RMB '000) | 16,649,499 | 15,737,217 |
| Convertible bonds liability portion (RMB '000) | 472,719 | 4,656,907 |
| Bonds payable (RMB '000) | 2,987,987 | - |
| Bank borrowings (RMB '000) | 12,455,274 | 9,696,293 |
| Current ratio | 1.4 times | 1.2 times |
| Gross gearing ratio | 108.1% | 98.8% |
| Net gearing ratio (net cash) | (4.9%) | (7.9%) |
| Finished goods turnover | 46 days | 43 days |
| Accounts receivable turnover | 47 days | 40 days |
| Accounts payable turnover | 79 days | 76 days |
| Rate of return | 23.6% | 22.0% |

Other Financial Information



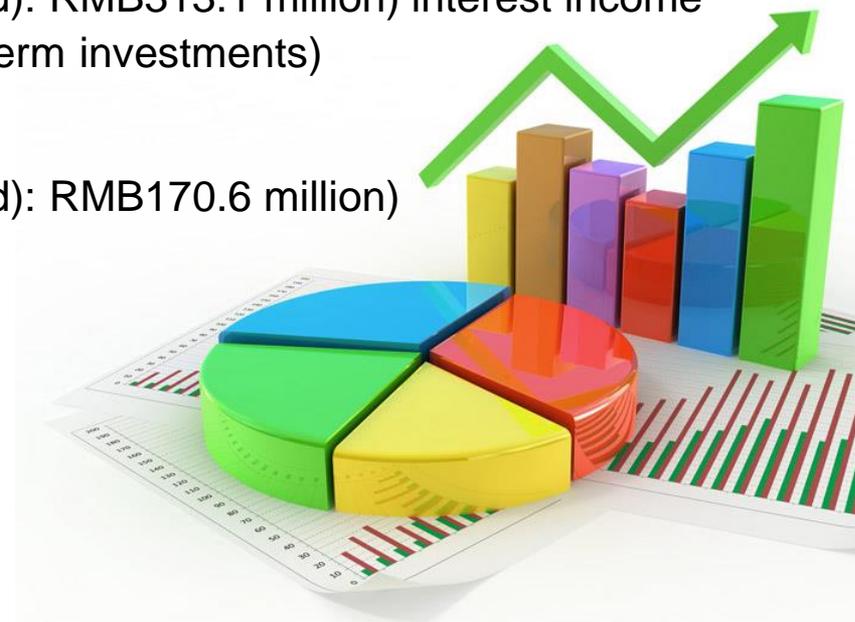
Continuing operations

Interest income: around RMB363.7 million (2015 (Restated): RMB483.7 million)

- Partly included in other gains:
about RMB242.4 million (2015 (Restated): RMB313.1 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB121.3 million (2015 (Restated): RMB170.6 million)

Interest expense:

- About RMB359.0 million
(2015 (Restated): RMB398.1 million)



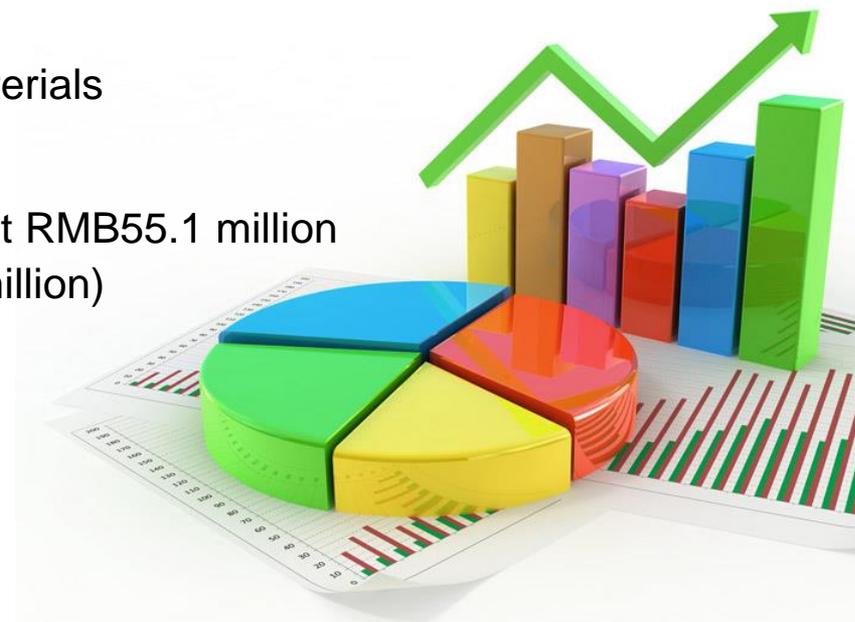
Other Financial Information *(Cont'd)*



Continuing operations

Exchange loss due to the depreciation of Renminbi against US\$: around RMB141.6million (2015 (Restated): RMB339.6 million)

- ☑ Included in other losses: about RMB196.7 million (2015 (Restated): RMB217.6 million)
- ☑ Arising mainly from purchase of raw materials from overseas suppliers
- ☑ Included in finance costs: a gain of about RMB55.1 million (2015 (Restated): a loss of RMB122.0 million)



Other Financial Information (Cont'd)



Continuing operations

Government grants:

- ☑ About RMB492.0million (2015 (Restated): RMB481.8 million), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate: 23.7% (2015 (Restated): 28.6%):

- ☑ Decreased as the Group has provided for a large amount of dividend withholding tax in 2H2015 and hence less provision is required in 2016

Capital expenditure incurred

- ☑ Around RMB933.3 million (2015 (Restated): RMB1,094.9 million), mainly incurred for the new production lines

Loss on early redemption of convertible bonds:

- ☑ Around RMB18.9 million (2015 (Restated): Nil)





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Business Review



Sanitary Napkins



Market overview

- Accelerating urbanization and rising national income have raised overall living standards and spurred consumption, thereby supporting the development of the sanitary napkins market
- High market penetration and intense competition limited sales growth



Business performance in 2016 and 2017 outlook

- Revenue increased by about 6.2% to approximately RMB6,568.9 million
- Gross profit margin increased to about 72.6% (2015 (Restated): 72.6%) as a result of the relatively low raw material prices, petrochemical products, and optimized product portfolio
- Expect steady growth in sales in 2017 as result of product portfolio optimization, launch of new and upgraded products and online sales channels development

Tissue Paper



Market overview

- ❑ The addressable market of high-quality tissue paper has extended from first- and second-tier cities to third- and fourth-tier cities due to increasing hygiene awareness in China
- ❑ China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential
- ❑ the Chinese government's implementation of environmentally friendly manufacturing regulations will help eliminate small and medium enterprises that fail to meet the standard



Business performance in 2016 and 2017 outlook

- ❑ Revenue increased by about 4.3% to approximately RMB9,066.5 million
- ❑ Gross profit margin increased to about 37.9% (2015 (Restated): 35.6%) due to the drop in price of tissue wood pulp used in tissue paper production and an optimized product portfolio
- ❑ Expect steady growth in sales in 2017 as the Group will step up efforts in marketing and brand promotions, strengthen its online sales channels and introduce online exclusive products to cater for different types of consumer groups
- ❑ Current annualized production capacity is around 1,140,000 tons. It is expected to increase to approximately 1,430,000 tons by 4Q2017 or 1H2018

Disposable Diapers



Market overview

- Low penetration rate, accelerating urbanization, increasing personal hygiene awareness and pursuit of higher living standards continue to fuel the growing demand for diaper products



Business performance in 2016 and 2017 outlook

- Revenue decreased by about 12.3% to approximately RMB2,150.3 million
- Market competition became more intensified due to:
 - Entrance of a large number of small and medium manufacturers into the market further intensified the price competition of low- and mid-end products;
 - Rise of cross-border e-commerce in recent years, foreign brands hit the Chinese market and affected the sales of the Group's mid-to-high-end diapers
- Gross profit margin increased to about 50.8% (2015 (Restated): 49.3%), due to prices of major raw materials, petrochemical products, remained low and optimized product portfolio
- China government imposed tax on cross border e-commerce transactions, which would enhance our products' competitiveness
- Continue to upgrade existing products, develop high-end products and further expand in maternity stores and online sales channels



Latest development

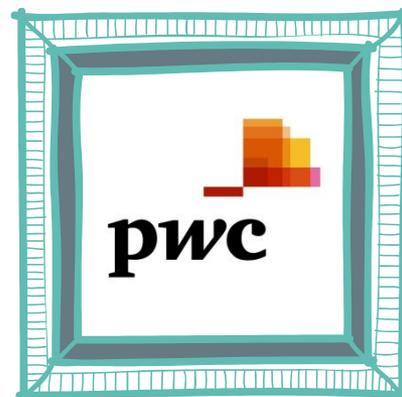
- On 8 July 2016, the snack food business (QinQin) was spun off from the group and listed on the HK Stock Exchange. The Group will focus on the production, distribution and sales of personal hygiene products in the future
- Snack food business is regarded as discontinued operations in the financial information
- Profit attributable to shareholders arising from discontinued operations: RMB125,075,000 (2015 (Restated): RMB26,659,000), includes one off gain of RMB117.5 million from the spin-off of QinQin in 2016



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 provide 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 entire projects is expected to be completed in 1H2017
- ☑ **Hired PricewaterhouseCoopers Consulting for:**
 - PricewaterhouseCoopers Business Consulting (Shanghai) Co., Ltd
 - providing advisory services regarding the preparation of "Environmental, Social and Governance Report". The detail report is disclosed to the public.
 - PricewaterhouseCoopers Management Consulting (Shanghai) Co., Ltd
 - 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 optimize cost structure



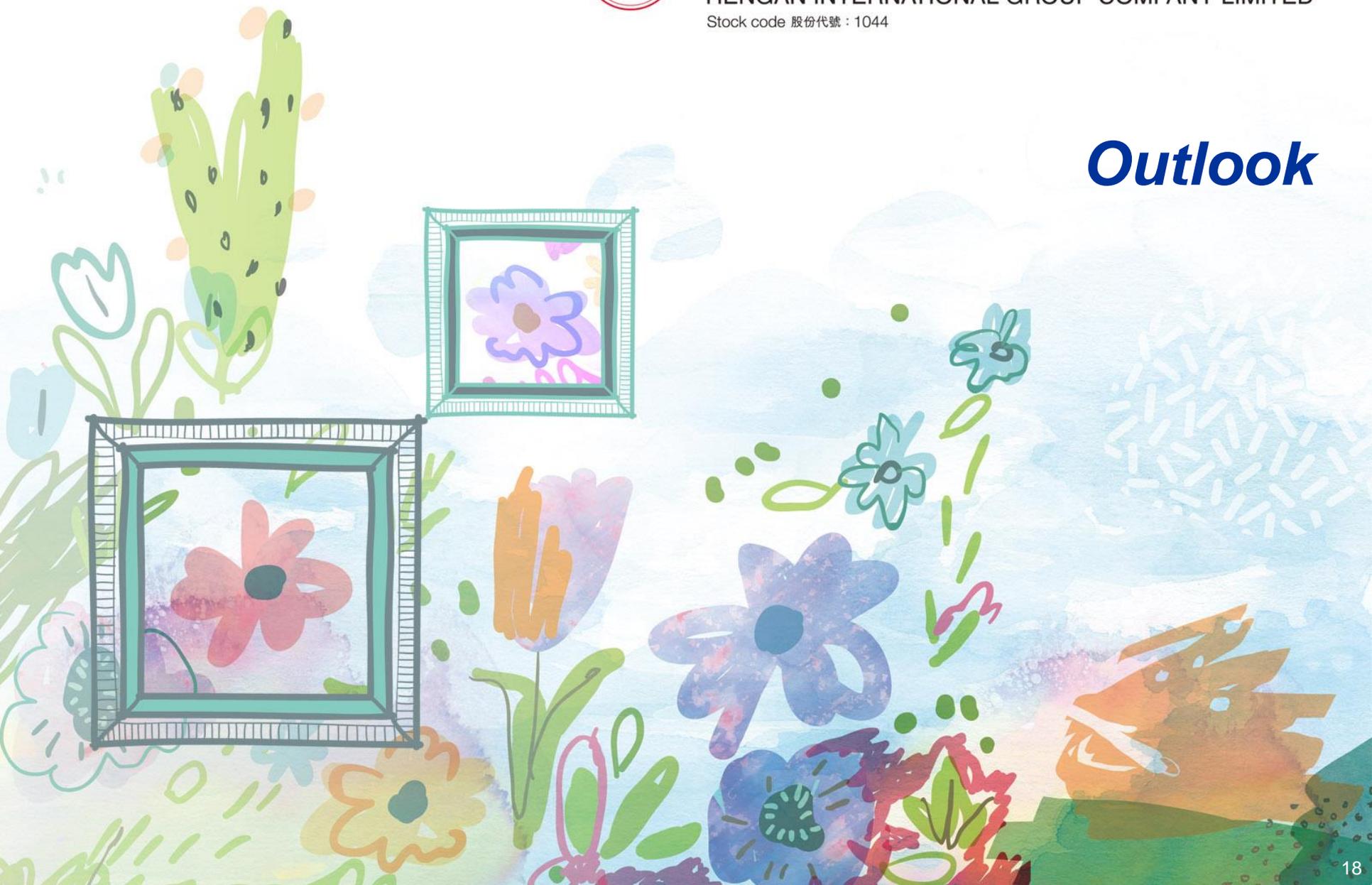


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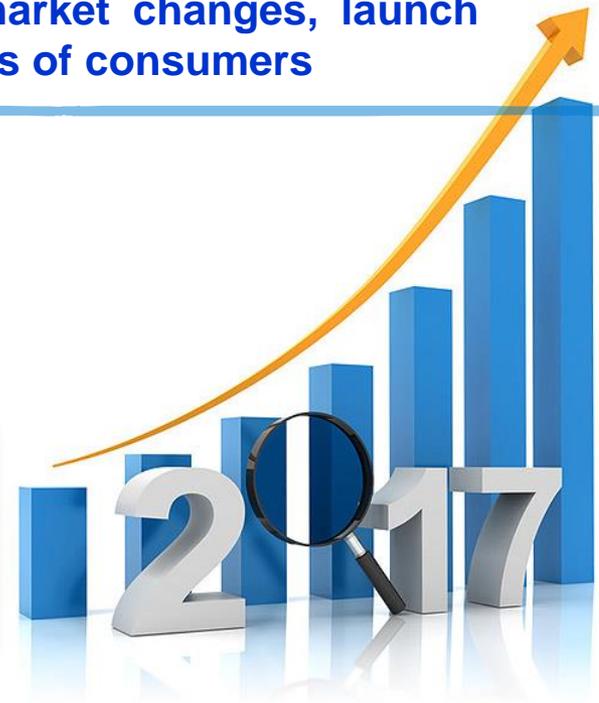


Market Outlook



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

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



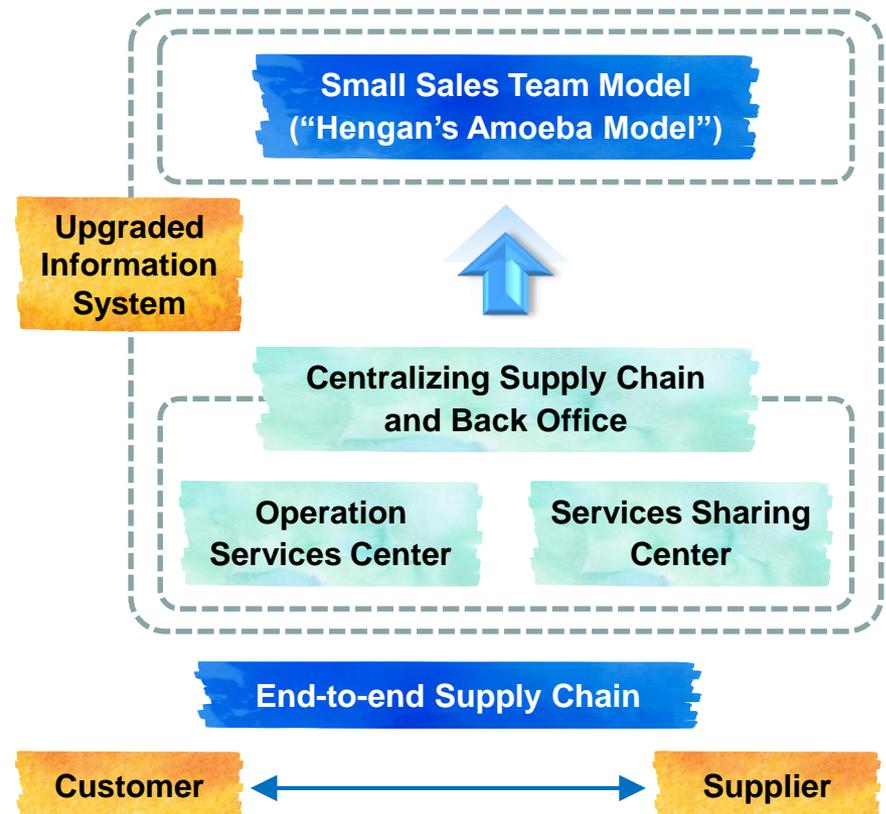
Third Management Reform



The Group began its third management reform with end-to-end supply chain informatization and visualization since the end of 2013

With the use of big data, establishment of end-to-end supply chain information system, the Group established an Operation Services Headquarters, and nine Regional Operation Services Centres, integrated various local warehouses nationwide, set up Regional Distribution Centres ("RDC") and built a Services Sharing Centre.

The Group flattened the structure of sales team and established the "small sales team" model (also known as "Hengan's Amoeba model").



Streamlined Sales Team Structure – Hengan Amoeba Model



Advantages:

- Flatten the hierarchy of sales team
- Give sales team sufficient autonomy to respond to the needs of consumers rapidly
- Boost overall sales efficiency and enhance cost savings



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