



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Interim Results 2006

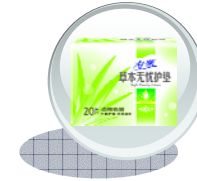


***China's Leading Domestic Corporation in
Personal Hygiene Products***

September 2006

Agenda

- Financial Highlights
- Business Review
- Future Outlook
- Open Forum



1

Financial Highlights



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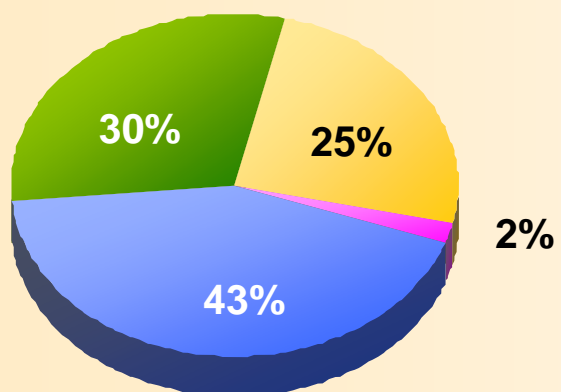
Financial Highlights

(HK\$ '000)	1H 2006	1H 2005	Change (%)
Turnover	2,038,262	1,443,719	↑ 41.2
Cost of sales	(1,192,072)	(858,145)	↑ 38.9
Gross profit	846,190	585,574	↑ 44.5
Operating profit	458,383	252,991	↑ 81.2
Net profit	330,482	204,073	↑ 61.9
Earnings per share	30.58 HK cents	18.88 HK cents	↑ 61.9
Interim dividend per share	18.00 HK cents	12 HK cents	↑ 50.0



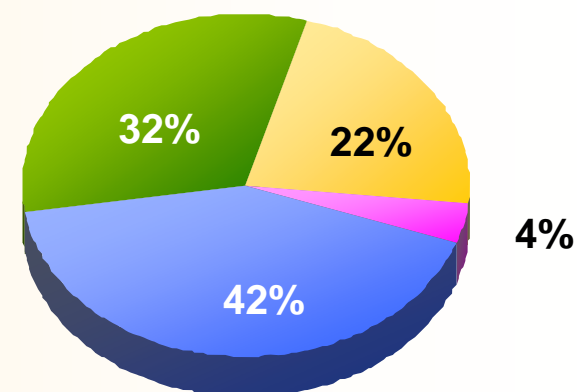
Solid Revenue Base

1H 2006



■ Tissue papers
■ Sanitary napkins
■ Disposable diapers
■ Others

1H 2005



(HK\$ '000)

	1H 2006	1H 2005	Change (%)
Tissue papers	887,603	608,588	↑ 45.8
Sanitary napkins (including pantliners)	614,539	458,362	↑ 34.1
Disposable diapers	500,516	323,373	↑ 54.8
Others	35,604	53,396	↓ 33.3



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Profit Margin Overview

– By Business Segment

	1H 2006	1H 2005
Tissue papers	37.2%	38.4%
Sanitary napkins (including pantliners)	54.7%	50.4%
Disposable diapers	31.3%	32.6%
Overall	41.5%	40.6%

Factors affecting gross profit margin:


Overall

-  Increase in costs of some major raw materials
-  Economies of scale
-  Improvement in production and management efficiencies
-  RMB appreciation

Tissue business

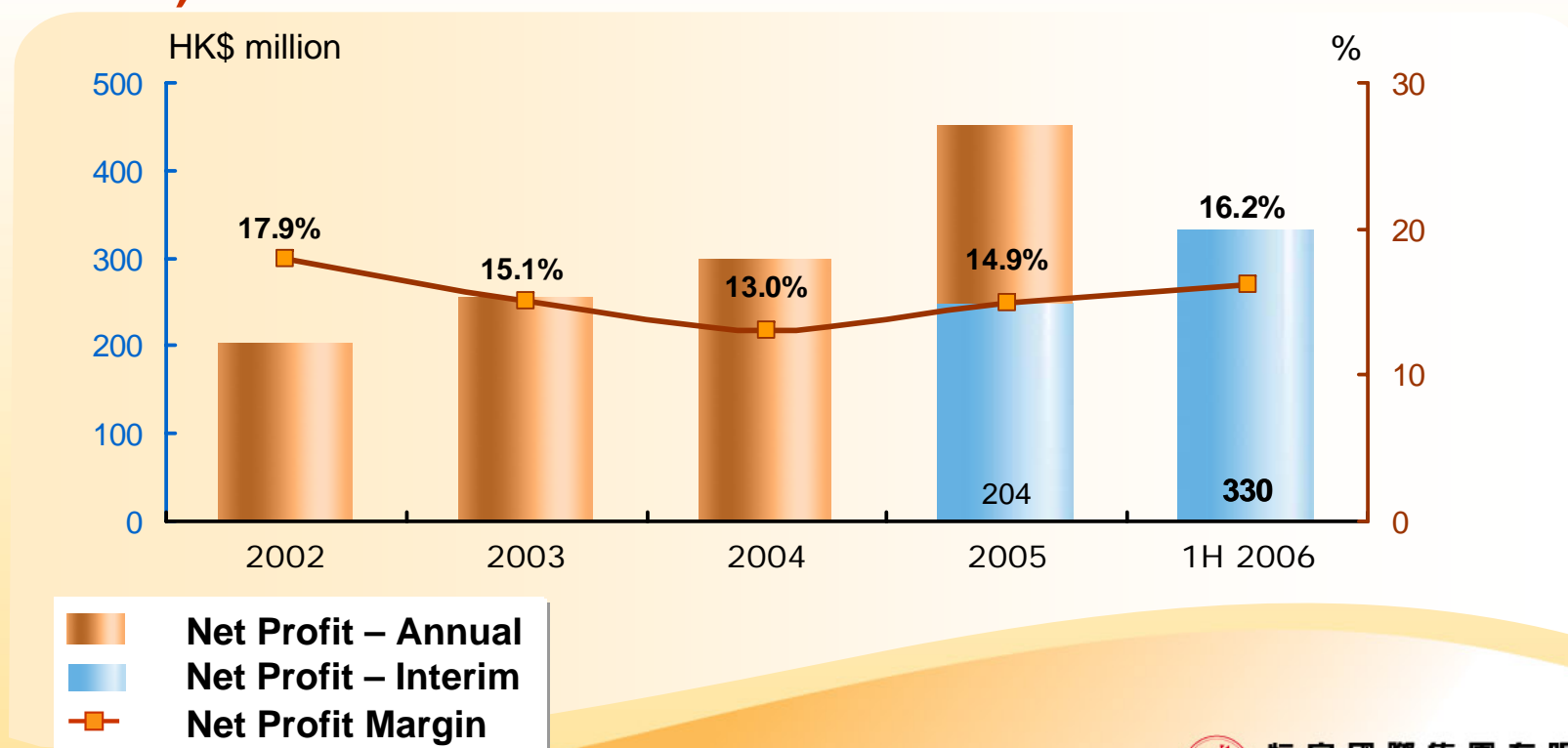
-  Rise in the proportion of sales of toilet rolls

Sanitary napkins

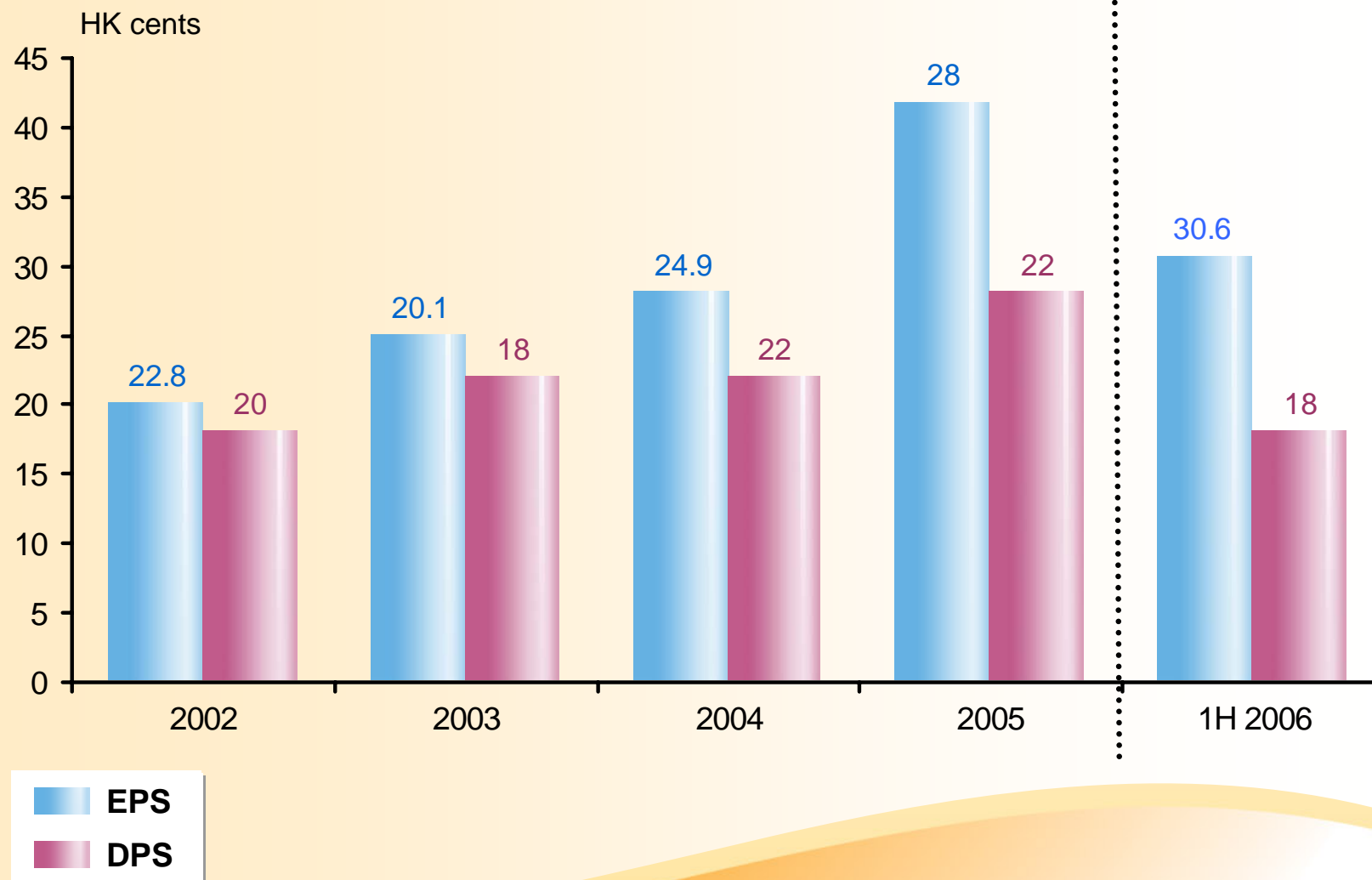
-  Increase in sales of mid-to-high-end “Anerle” products which accounted for 79.8% of segmental sales (1H 2005: 75.7%, FY2005: 76.3%)

Improvement in Net Profit Margin

- Effective cost controls and economies of scale lowered the percentage of distribution costs and administrative expenses to 21% of turnover (1H2005: 23.2%)
- RMB appreciation
- Gain on disposal of investment in Shanghai Jahwa – HK\$22 million (net of tax)



EPS & DPS



Key Financial Indicators

	1H 2006	1H 2005	FY2005
Cash on hand (HK\$ '000)	1,147,414	396,918	499,937
Finished goods turnover	63 days	66 days	76 days
Accounts receivable turnover	26 days	29 days	28 days
Accounts payable turnover	57 days	51 days	58 days
Current ratio	3.4 times	1.7 times	1.3 times
Gross gearing ratio	64.6%	35.6%	41.0%
Net gearing ratio	19.3%	17.3%	19.6%



Other Relevant Financial Information

- ❶ Issuance of five-year-zero-coupon convertible bonds in May 2006: HK\$1.5 billion, with a yield of 4.7% semi-annually
- ❷ Capital expenditure: HK\$189,770,000
Prepayment for capital expenditure: HK\$145,838,000
- ❸ Effective tax rate: 23.4% (1H 2005: 16.8%)
 - ➔ Increase as more PRC companies are losing tax preferential treatment
 - ➔ Appropriate action will be taken to monitor this area
- ❹ Connected transactions – purchase of heat/electricity energy from connected parties at lower-than-market price
 - ➔ Estimated savings in FY2007 is around HK\$7.5 million

2 Business Review



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Tissue Papers – A Growth Driver

Market condition:

- Low consumption in tissue per capita and increase in income per capita led to strong market demand for quality tissue products in the first half of 2006

Business performance:

- Shandong production base commenced production in August 2005, with a production capacity of approximately 26,000 tons of products in first half of 2006
 - Sales increased 45.8% to HK\$888 million
 - Gross profit margin dropped from 38.4% to 37.2% due to:
 - Increase in the costs of some of the major raw materials
 - Rise in the proportion of sales of toilet rolls, which has a relatively lower gross profit margin



Sanitary Napkins – A Leading Giant

Market condition:

- ❶ Consumers demanded for branded quality feminine hygiene products as their income increased
- ❷ Many small and medium-sized manufacturers ceased production, or closed down their companies due to high raw material costs, and the Group had taken up part of their market share

Business performance:

- ❶ Focus on promoting mid-to-high-end products with higher gross profit margin: “Space 7” and “Anerle” were popular in the market
 - Sales revenue rose by 34.1% to HK\$615 million, representing approximately 30% of the total revenue
 - Gross profit margin rose from approximately 50.4% to 54.7% as sales of higher margin products increased

Disposable Diapers – Shining Business

Market condition:

- ❶ Low penetration rate leading to strong market demand in the first half of 2006
- ❷ People living in 3rd and 4th tier cities, towns and villages: increase in income and demand for more quality disposable diapers

Business performance:

- ❶ Established distribution network to capture the high demand in 3rd and 4th tier markets
 - Sales revenue surged by 54.8% to HK\$501 million, representing approximately 25% of the total revenue
 - Cost control measures, economies of scale and appreciation of RMB partly offset the impact of escalating raw material costs → gross profit margin dropped slightly from 32.6% to 31.3%

Nationwide Sales and Marketing Channels

- Strengthened collaboration with various large chain supermarkets
- Increased the number of sales and marketing professionals to promote products to small-sized shops or convenient stores



3 Future Outlook



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Future Outlook

Market outlook:

- ❁ Optimistic towards the prospects of mainland China personal hygiene and care products market
- ❁ Expect the growth of three major businesses will continue in the second half of 2006



Future Outlook

Plans and strategies

Tissue papers



- ① Develop more new product series to meet the growing market demand
- ① Fujian production base phase I started operation in July 2006 and is expected to contribute profit in the second half of 2006
- ① Shandong production base phase II and Fujian production base phase II are planned to commence production in June 2007 and early February 2008 respectively

Diapers



- ① Technical upgrading on existing production lines and increase new production lines for baby and adult diapers

Sanitary napkins



- ① Continue to focus on mid-to-high-end products with higher profit margin
- ① Enhance the product quality, brand awareness and popularity



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Open Forum



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