
恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044
Interim Results 2008
Corporate Presentation
September 2008
1

Agenda

- Financial Highlights
- Business Review
- Outlook
- Acquisition Activity
- Open Forum

恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044

Financial Highlights

恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044

Financial Highlights

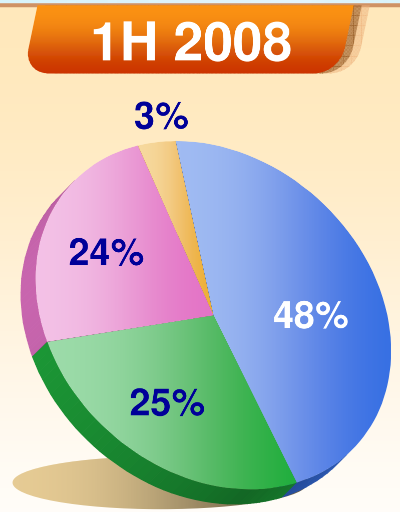
- Interim financial information: reviewed by audit committee and PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410
- Change of accounting policy : in previous years, properties were stated at fair value while other fixed assets were stated at cost less accumulated depreciation.
- From 2008 onwards, properties are also stated at cost less accumulated depreciation to provide comparable information - this accounting treatment is commonly used in manufacturing industry (i.e. the Group is not a property developer and has no investment properties)
- Effect of the change to profit and loss account is not significant to the profit and loss account.

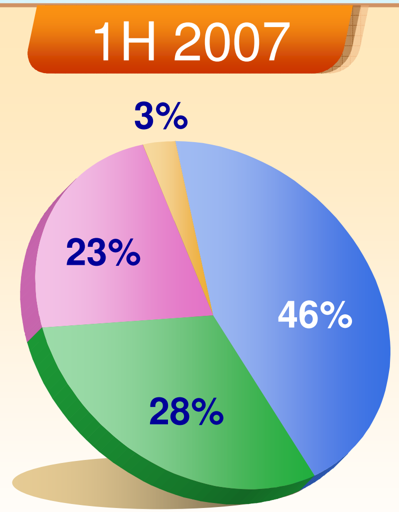
Financial Highlights

(HK$ '000)	1H 2008	1H 2007	Change (%)
Turnover	3,755,917	2,743,931	36.9%
Cost of sales	(2,284,115)	(1,670,567)	36.7%
Gross profit	1,471,802	1,073,364	37.1%
Operating profit	735,441	620,848	18.5%
Net profit	627,572	470,518	33.4%
Earnings per share	HK54.9 cents	HK 43.5 cents	26.2%
Dividend per share	HK32.0 cents	HK 28.0 cents	14.3%

恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044

Solid Revenue Base





(HK$ '000)	1H 2008	1H 2007	Change (%)
Tissue papers	1,816,776	1,249,703	45.4%
Sanitary napkins (including pantiliners)	943,008	767,139	22.9%
Disposable diapers	900,391	627,609	43.5%
Others	95,742	99,480	-3.8%

Gross Profit Margin Overview – By Business Segment

Gross profit margin	1H 2008	1H 2007
Tissue papers	29.6%	31.4%
Sanitary napkins (including pantiliners)	58.7%	54.2%
Disposable diapers	35.7%	31.6%
Overall	39.2%	39.1%

- Major factors affecting gross profit margin:

Overall	- Increase in price of petrochemical raw materials and wood pulp - Increase in proportion of higher margin products - Raise selling prices - Increase production efficiency - Economies of scale - Appreciation of Renminbi

Major Expenses

- Distribution costs and administrative expenses increased to approximately 20.8% of total turnover (1H 2007: 17.4%)

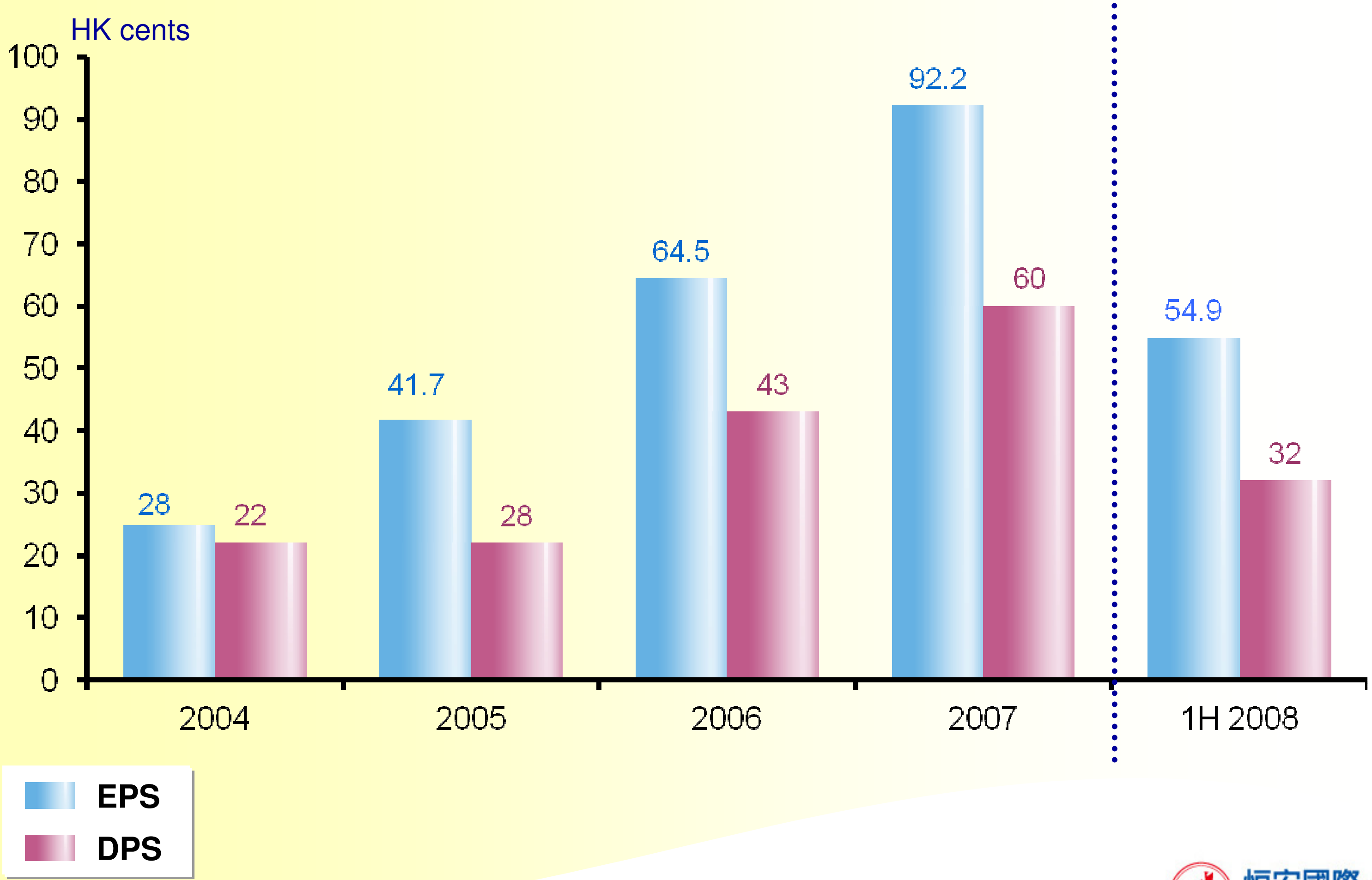
- Increase in transportation and packaging expenses: approximately 4.6% of turnover (1H 2007: 4.1%)
  - due to surge of petroleum price in the PRC

- Increase in marketing and advertising expenses: approximately 9.0% of turnover (1H 2007: 6.1%)
  - increased strategically to consolidate the leading position and brand equity of the Group in the market

- Increase in salaries (excluding labor cost): 2.7% of turnover (1H 2007: 2.4%)
  - due to the increase in number of staff, high inflation in the PRC and effect of the new Labor Law

EPS & DPS

1H 2008 dividend payout ratio: 58.3%



Key Financial Indicators

	1H 2008	1H 2007	FY 2007
Cash on hand (HK$ '000)	2,182,634	1,109,611	2,304,920
Finished goods turnover	58 days	54 days	64 days
Accounts receivable turnover	31 days	29 days	32 days
Accounts payable turnover	59 days	52 days	60 days
Current ratio	3.3 times	2.6 times	3.4 times
Gross gearing ratio	30.9%	62.0%	35.5%
Net gearing ratio	-%	26.4%	-

Other Financial Information

- Effective tax rate: 12.3% (1H 2007: 18.9%): dropped as new PRC companies were enjoying tax preferential treatment
- Government grants of approximately HK$60 million (1H 2007: HK$26 million) from various local governments as encouragement of the Group's investments in these areas
- Capital expenditure incurred: HK$541million
- Grant of 11 million share options to over 500 employees in 2H 2007: charged approximately HK$11 million to profit and loss account in 1H 2008 (1H 2007: nil)


Business Review
恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044

Tissue Papers

Market overview:

- Demand for quality tissue paper products increased as a result of rising income per capita, stronger consumption power and higher living standard
- Consumption volume in the PRC is far below than that of developed countries
- Strict enforcement of environment laws and increase in raw material costs accelerated market consolidation

Business performance

- Sales revenue increased approximately by 45.4% to approximately HK$1,817 million
- Gross profit margin decreased to approximately 29.6% (1H 2007: 31.4%) mainly due to surge of wood pulp price which was partly offset by RMB appreciation
- Sales prices were increased by 5% to 10% on 1 March 2008 (its positive effect will be fully reflected in 2H 2008)
- Continued to focus on higher gross profit margin products (including wet tissue, pocket handkerchief and box tissue): approximately 70.4% of total tissue sales
- Fujian production base Phase II commenced operation in April 2008. Annual production capacity increased to approximately 300,000 tonnes

Sanitary Napkins

Market overview:

- Demand for branded quality feminine hygiene products increased due to growth of PRC economy and escalating consumption level

Business performance

- Sales revenue increased by approximately 22.9% to HK$943 million
- Focused on mid-to-high-end products to offset impact of rising petrochemical raw material costs
- Sales of “Space 7 Series” accounted for approximately 46.0% (1H 2007: 38.7%) of total sales revenue in sanitary napkins
- Gross profit margin therefore improved to approximately 58.7% (1H 2007: 54.2%), mainly due to increased proportion of high profit margin products and effective cost controls

Disposable Diapers

Market overview:

- Low penetration rate together with increasing income per capita led to strong growth in demand for disposable diapers products in the PRC
- Penetration rate in 2007 based on the estimation of China Paper Association was only 17.3% which was far below than that of developed countries

Business performance

- Sales revenue surged by approximately 43.5% to approximately HK$900 million
- Despite the increase in price of petrochemical raw materials, enhancement in product portfolios, strengthened cost controls and economies of scale helped to increase the gross profit margin to approximately 35.7% (1H 2007: 31.6%)

Distribution and Marketing Channels

- Strategically increased investment in marketing, promotion and advertising efforts
- Strengthened cooperation and communication with large supermarkets and distributors
- Expanded the distribution network to 2nd and 3rd tier cities, towns, villages and agricultural areas to enhance product coverage
- Staff cost increased as a result of business expansion, inflation in the PRC and new Labour Law
- Increase in transportation expenses due to increase in PRC petroleum price
- Distribution costs as a percentage of turnover increased to around 17.6% (1H 2007: 14.1%) as a result of above factors
- When marketing and promotion activities have started to take effect, the related expenses may be reduced in 2H 2008

Outlook


恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044

Future Outlook

Market outlook:

- Optimistic towards the prospects of mainland China personal hygiene and care products market
- Expect the good growth momentum of three major businesses will continue in 2H 2008

Outlook

Plans and strategies

Tissue papers

- Continue to develop and launch high margin products
- The annual production capacity will reach 360,000 tonnes via enhancement in the production efficiency of Fujian production base phase II and commencement of operation of Hunan production base phase II in December

Diapers

- Revamp existing production lines and increase new production lines

Sanitary napkins

- Enhance product mix by increasing the proportion of mid-to-high-end products, in order to increase market share and reduce cost pressure

Acquisition Activity

Acquisition Activity

- Discloseable and connected transaction: proposed acquisition of 51% equity interest in Qin Qin group at a consideration of approximately HK$260 million (to be paid by cash)
- Qin Qin group： principally engaged in the manufacturing and distribution of snack in the PRC since 1985
- Fruit jelly under brand name “Qin Qin”： “China Top Brand”
- Prawn chips, potato chips and fruit jelly under brand name “Qin Qin” band and seasoning products under brand name “Xianggeli”： “Famous Chinese Food”
- Fruit jelly： ranked second in the PRC (China National Food Industry Association report)
- Deep-fried products：ranked fourth in the PRC (AC Nelson report)

Acquisition Activity

- Approximately 30,000 sales outlets in 28 provinces

- Pricing - PE 11 times based on 2007 unaudited combined profit figure
  - PE 9.97 times based on 2008 guaranteed profit figure

- Reasons for acquisition
  - Expand product range in fast-moving consumer product industry
  - Synergy effect on brand, distribution and logistics management
  - Good growth in sales value for snack food : (National Bureau of Statistics average growth rate in 2002-2006) – fruit jelly：20%, deep-fried products：12%
  - Reasonable valuation

Acquisition Activity

- Hengan had a connected transaction in 2003 (i.e. purchased tissue business from directors) - good performance from 2003 onwards
- The proposed transaction is supported by other board members
- The amount of consideration (around HK$ 260 million) is small to Hengan's cash position (around HK$ 2.18 billion)
- Is snack business new to Hengan? Also in fast-moving consumer product industry and Mr. Hui's family has relevant experience
- Guaranteed profit： a different concept from forecast profit


Open Forum
恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED
STOCK CODE: 1044