



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044



Interim Results 2009 Corporate Presentation

September 2009

Agenda

- ② Financial Highlights
- ② Business Review
- ② Outlook
- ② Open Forum



Financial Highlights



恒安國際集團有限公司

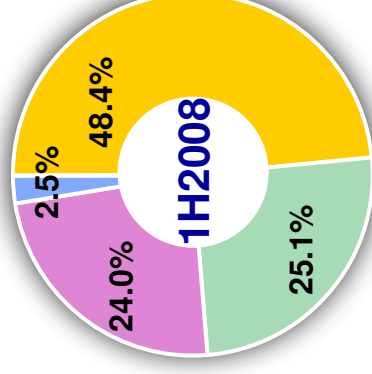
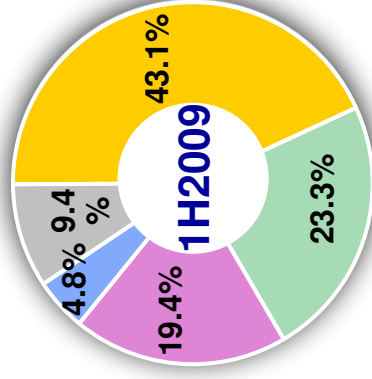
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Financial Highlights



(HK\$ '000)	1H2009	1H2008	Change (%)
Revenue	5,112,692	3,755,917	▲ 36.1%
Cost of sales	(2,810,743)	(2,284,115)	▲ 23.1%
Gross profit	2,301,949	1,471,802	▲ 56.4%
Operating profit	1,211,868	735,441	▲ 64.8%
Net profit	966,744	627,572	▲ 54.0%
Earnings per share			
– Basic	HK82.4 cents	HK54.9 cents	▲ 50.1%
– Diluted	HK82.3 cents	HK54.9 cents	▲ 49.9%
Dividend per share	HK50 cents	HK32 cents	▲ 56.3%

Solid Revenue Base



(HK\$ '000)	1H2009	1H2008	Change(%)
● Tissue papers	2,203,564	1,816,776	▲ 21.3%
● Sanitary napkins (including pantliners)	1,190,582	943,008	▲ 26.3%
● Disposable diapers	990,067	900,391	▲ 10.0%
● Food and snacks	482,440	-	N/A
● Others	246,039	95,742	▲ 157.0%

Gross Profit Margin Overview

– By Business Segment



	Gross profit margins	
	1H2009	1H2008
Tissue papers	41.4%	29.6%
Sanitary napkins (including pantliners)	59.3%	58.7%
Disposable diapers	37.0%	35.7%
Food and snacks	38.2%	-
Overall	45.0%	39.2%

Major factors affecting overall gross profit margin

Overall

- ④ Significant drop in price of wood pulp and petrochemical raw materials
- ④ Improvement in production efficiency and shorten work flow
- ④ Economies of scale
- ④ Increase in proportion of higher margin products

Major Expenses



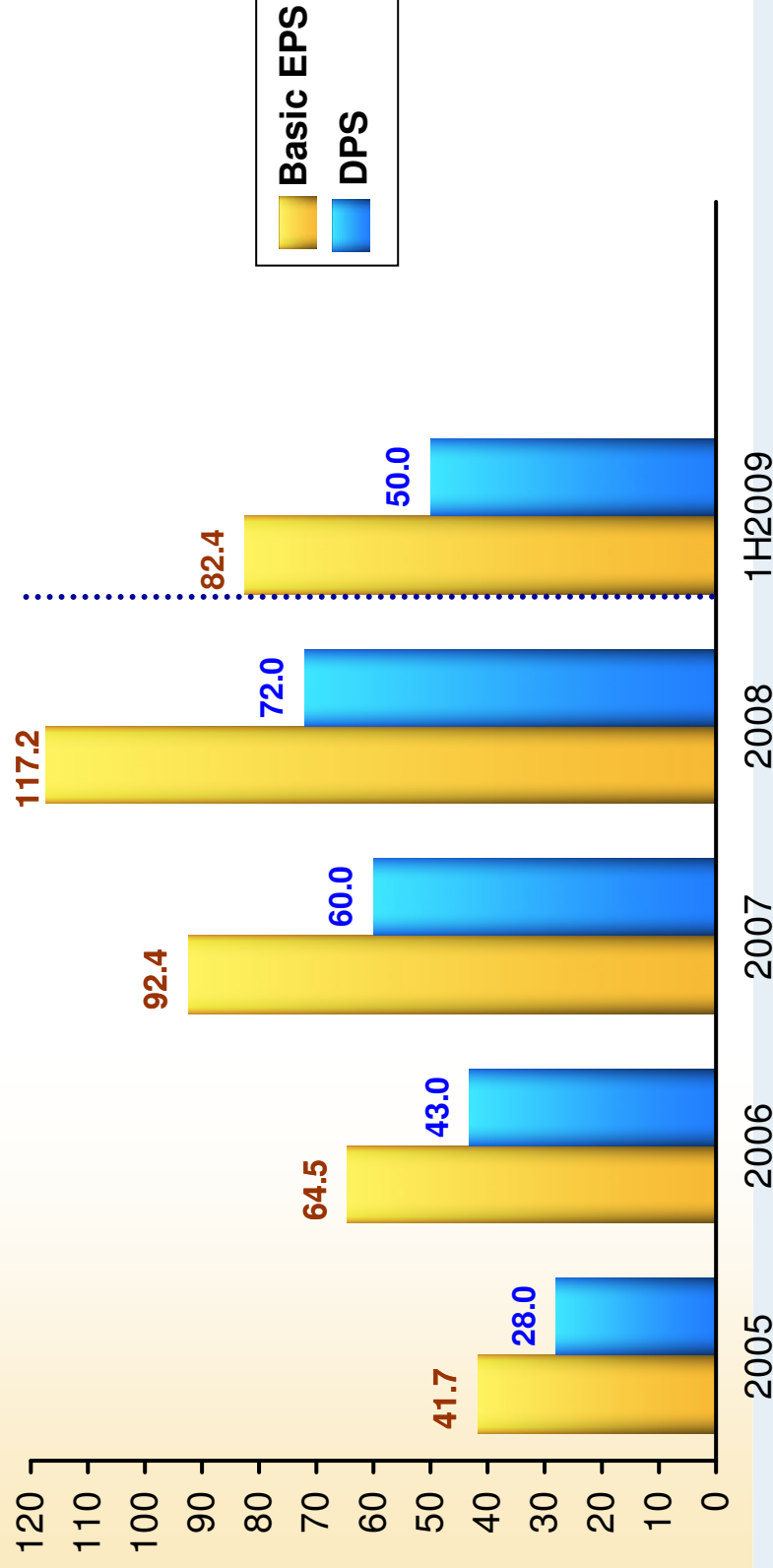
- ④ **Distribution costs and administrative expenses increased to approximately 22.0% of total revenue (1H2008: 20.8%). Major expenses are as follows:**
 - ④ Marketing, advertising & promotion expenses: approximately 8.9% of revenue (1H2008: 8.9%)
 - ④ Transportation expenses: approximately 4.5% of revenue (1H2008: 4.6%)
 - ④ Staff costs (excluding labour costs) : approximately 3.5% of turnover (1H 2008: 3.0%). The increase was mainly due to annual increment in salaries of sales people, more overtime payment (increase in operation size with similar number of staff), increase in social welfare insurance expenses, and recruitment of more senior/mid-level officers during the period, etc
 - ④ Exchange loss: approximately 0.1% of revenue (1H2008: exchange gain:0.8%)

Basic EPS & DPS



1H2009 Dividend payout ratio: 63.1% (1H2008: 58.3%)

(HK cents)



Key Financial Indicators



	1H2009	1H2008	FY2008
Cash on hand (HK\$ '000)	4,519,831	2,182,634	1,627,592
Finished goods turnover	50 days	58 days	61 days
Accounts receivable turnover	28 days	31 days	31 days
Current ratio	1.8 times	3.3 times	2.7 times
Gross gearing ratio	19.7 %	30.9%	27.9%
Net gearing ratio	-	-	2.8%
Effective tax rate	16.1%	12.3%	11.0%

Other Financial Information



- ④ Government grants of approximately HK\$32 million (1H2008: HK\$60 million) were received from various local governments as encouragement of the Group's investments in these areas
- ④ Capital expenditure incurred: around HK\$381million
- ④ Discounted bills around HK\$1.3 billion (31 December 2008: nil) : intra-group bills discounted and the fund raised was deposited in banks to earn interest income which was larger than the related bank charges
- ④ Convertible bonds:
 - Face value of HK\$1,449,500,000: already converted into shares before 30 June 2009
 - Face value of HK\$500,000: classified as other payables on 30 June 2009 since there was no conversion right and redeemed in July 2009
 - Interest expenses: HK\$24 million in 1H2009, no such expense in 2H2009

Other Financial Information - QinQin



HK\$ '000	1H2009	FY2008
Revenue	482,440	843,635
Net profit in QinQin accounts	50,885	53,307
Consolidation adjustments	7,148	-
Net profit of QinQin in Hengan accounts before minority interest	43,737	53,307
Net profit of QinQin in Hengan accounts after minority interest	22,306	Last year: one month profit only
Gross gearing ratio	2.5%	5.0%
Net gearing ratio	-	-

Note: (1) 1H2008 figures have never been audited / reviewed and are therefore not disclosed.

(2) Consolidation adjustments represent additional depreciation/amortisation on the valuation surplus of fixed assets and intangible assets (e.g. trademarks, customer relationship) arising from the acquisition of QinQin Foodstuffs.

Business Review



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Tissue Papers



Market overview

- ① Demand for quality tissue paper products increased due mainly to the continuous rising per capita income and stronger awareness of personal hygiene
- ① Consumption per capita in the PRC is far below than that of developed countries

Business performance in 1H2009

- ① Sales jumped by approximately 21.3% to approximately HK\$2.2 billion
- ① Gross profit margin rose to approximately 41.4% (1H 2008:29.6%) mainly due to significant drop in costs of wood pulp
- ① Increased inventory of wood pulp at a relatively lower cost in an attempt to immune from the impact of price fluctuations in 2H2009. As at 30 June 2009, the Group had approximately 190,000 tons of wood pulp (sufficient for use until January 2010).
- ① Continued to focus on higher gross margin profit products (including wet tissue, pocket handkerchief and box tissue): approximately 65.9% of tissue sales
- ① Fujian production base phase II and Hunan production base Phase II commenced operation at the end of April and December 2008 respectively, raising annual production capacity to approximately 360,000 tons

Sanitary Napkins



Market overview

- ① Rising living standard and increasing awareness for personal hygiene lead to huge growth potential of quality sanitary napkin products in the future



Business performance in 1H2009

- ① Sales increased by approximately 26.3% to HK\$1.2 billion
- ① Sales of mid-to-high-end products - “Space 7 Series” continued to grow and contributed approximately 57.0% (1H 2008: 46%) of segment revenue
- ① Gross profit margin improved to approximately 59.3% (1H 2008: 58.7%), mainly due to
 - ① Decline in prices of petrochemical raw materials and fluff pulp
 - ① Higher proportion of sales of mid-to-high end products

Disposable Diapers



Market overview

- ① The growth rate of revenue of disposable diapers was below expectation as:
 - Slowdown in the growth rate of disposable diapers in 2nd and 3rd tier cities as per capita income of customers there is relatively lower
 - The Group has not launched new products in the last 12 months
- ② Low market penetration rate of disposable diapers highlights the huge growth potential in the market

Business performance in 1H2009

- ① Sales increased by approximately 10.0% to approximately HK\$990 million
- ① Gross profit margin increased to about 37.0% (2008 first half: 35.7%) mainly due to
 - Decline in prices of major raw materials, petrochemical raw materials and fluff pulp
 - Tightened internal cost controls
 - Product mix enhancement
- ① Launched “Super Absorbent” series in selected regions in April 2009 with positive response. Fully launched nationwide in July 2009.

Food and Snacks



Market overview

- ① Consumers are putting more emphasis on quality snack food products amid accelerating economic development and urbanisation in the PRC
- ① Acquired 51% equity interest in QinQin Foodstuffs in November 2008, marking the Group's first step to establish a presence in the food and snacks industry

Business performance in 1H2009

- ① Focused on integrating the logistics and transportation management of QinQin Foodstuffs to enjoy the synergy effect
- ① QinQin Foodstuffs' performance was in line with expectation despite the financial tsunami
- ① Sales amounted to HK\$482 million, accounting for about 9.4% of the Group total revenue.
- ① Gross profit margin reached approximately 38.2%, thanks to the fall in raw material costs and the synergy effect mentioned above

Distribution and Marketing Channels



- ② Stepped up efforts in advertising and promotion activities
- ② Strengthened collaboration with major supermarket chains and distributors
- ② Expanded nationwide sales networks 2nd and 3rd tier cities, villages, towns and agricultural areas to enhance leading market position and brand equity.
- ② Distribution costs amounted to about 17.4% of revenue (1H2008: 17.6%), similar to that of last corresponding period.

Outlook



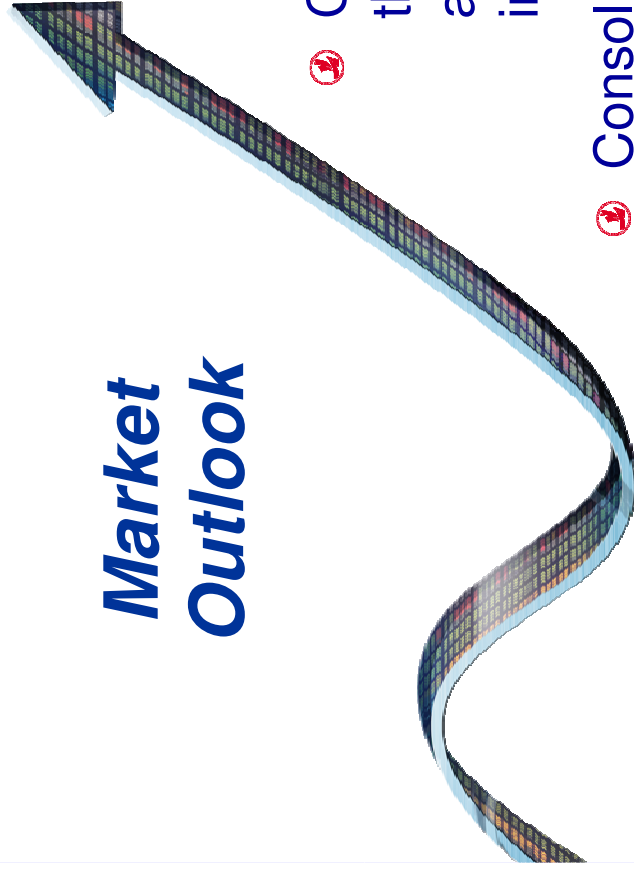
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Future Outlook



Market Outlook

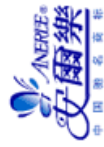


- ① Continuous economic growth in China set the stage for rapid development of China's consumer product industry
- ② Cautiously optimistic about the prospect of personal care and hygiene product market in China
- ③ Consolidating the Group's leading position in the personal hygiene product market, maintaining steady growth

Outlook



Plans and strategies

Tissue papers  	① Continue to develop and launch high quality tissue paper products ② Annualised production capacity will reach 420,000 tons and 540,000 tons by the end of 2009 and 2010 respectively.
Diapers  	① drive business growth by product mix optimization and production technology advancement. ② boost production capacity ③ increase investments in research and development for new products.
Sanitary napkins  	① Continue to optimize product mix and boost sales of mid-to-high end brands such as “Anerle” and “Space 7” ② strengthen promotion efforts to boost its market share ③ expand the production capacity to fulfill market demand
Food and snacks  	① Integrate logistics, supply chain and distribution network as well as brand management of QinQin Foodstuffs with the Group's existing business

Open Forum



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