



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Annual Results 2009 Corporate Presentation

March 2010



Agenda



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





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Financial Highlights

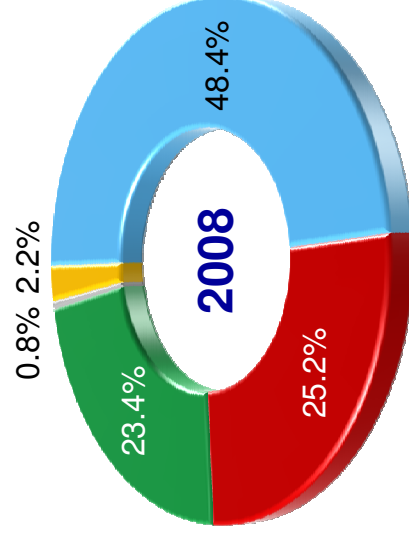
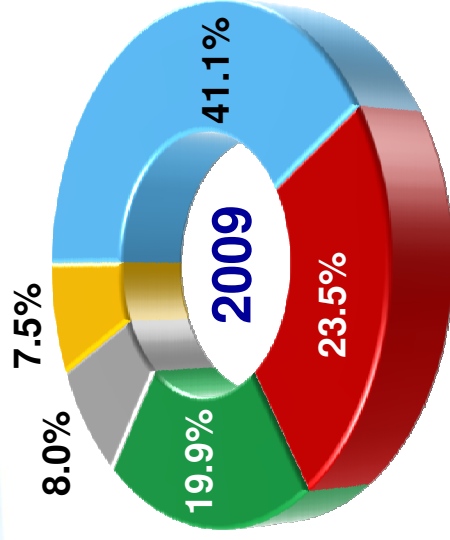


Financial Highlights



	Year ended 31 December		
	2009	2008	Change (%)
<i>(HK\$ '000)</i>			
Revenue	10,833,839	8,001,545	↑ 35.4%
Cost of sales	(5,853,348)	(4,798,999)	↑ 22.0%
Gross profit	4,980,491	3,202,546	↑ 55.5%
Operating profit	2,600,551	1,531,072	↑ 69.9%
Net profit	2,117,509	1,340,914	↑ 57.9%
Earnings per share			
– Basic	HK\$1.770	HK\$1.172	↑ 51.0%
– Diluted	HK\$1.765	HK\$1.152	↑ 53.2%
Dividend per share			
– Interim	HK\$0.5	HK\$0.32	
– Final	HK\$0.6	HK\$0.40	
– Total	HK\$1.1	HK\$0.72	↑ 52.8%

Solid Revenue Base



	Year ended 31 December		Change (%)
	2009	2008	
(HK\$ '000)			
Tissue papers	4,455,841	3,874,924	↑ 15.0%
Sanitary napkins (including pantliners)	2,546,369	2,015,580	↑ 26.3%
Disposable diapers	2,160,251	1,873,526	↑ 15.3%
Food and snacks	863,283	63,084	↑ N / A
Others	808,095	174,431	↑ 363.3%

Gross Profit Margin Overview

– By Business Segment



	Year ended 31 December	
	2009	2008
Tissue papers	42.1%	31.6%
Sanitary napkins <i>(including pantliners)</i>	61.1%	57.9%
Disposable diapers	41.1%	35.3%
Food and snacks	36.5%	30.1%
Overall	46.0%	40.0%

Major factors affecting overall gross profit margin



- ① Decrease in production cost resulted from the decline in raw material prices since the third quarter of 2008
- ① Improvement in production efficiency and shorten work flow
- ① Economies of scale
- ① Increase in proportion of higher margin products

Major Expenses



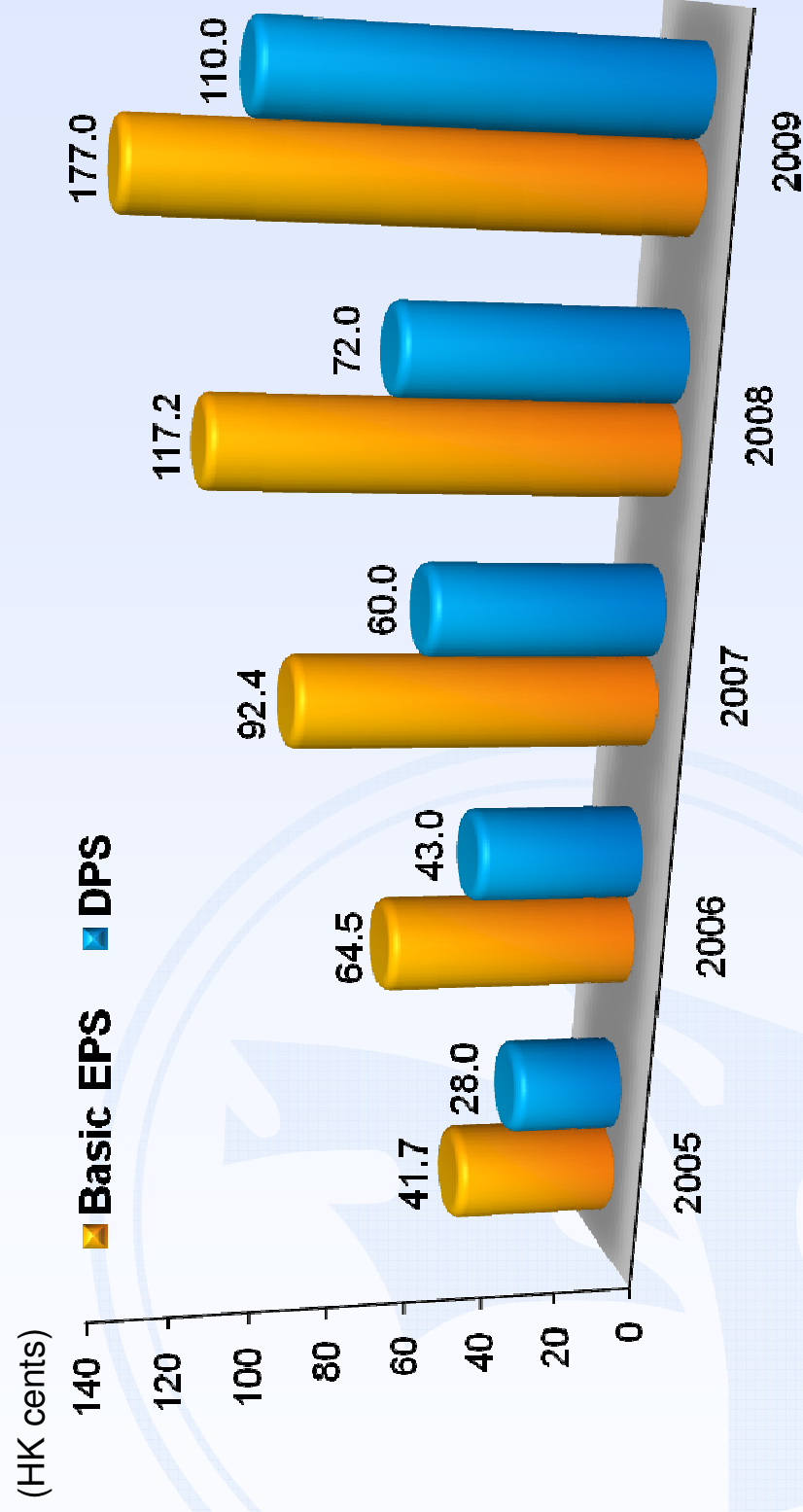
- ① Distribution costs and administrative expenses remained fairly stable at approximately 23.0% of total revenue (2008: 22.1%). Major expenses are as follows:

	approximately
Marketing, advertising & promotion expenses	9.8% of revenue (2008: 9.4%)
Transportation expenses	4.4% of revenue (2008: 4.7%)
Staff costs (excluding labour costs)	3.0% of turnover (2008: 2.8%)
Exchange loss	0.1% of revenue (2008: exchange gain 0.7%)

Basic EPS & DPS



2009 Dividend payout ratio: 63.3% (2008: 61.6%)



Key Financial Indicators



	Year ended 31 December	
	2009	2008
Cash on hand (HK\$ '000)	4,929,635	1,627,592
Finished goods turnover	58 days	61 days
Accounts receivable turnover	28 days	31 days
Accounts payable turnover	55 days	60 days
Current ratio	1.9 times	2.7 times
Gross gearing ratio	30.3%	27.9%
Net gearing ratio	—	2.8%

Other Financial Information



- ① Government grants: approximately HK\$81 million (2008: HK\$102 million) as encouragement of the Group's investments in these areas
- ① Effective tax rate: 16.1% (2008: 11.0%). The rate increased as:
 - Certain PRC companies were losing tax preferential treatment gradually
 - Provision of about HK\$62.1 million (2008: nil) was made on the amount of dividend to be remitted by PRC subsidiaries to HK holding company in the foreseeable future. No actual payment was required as the Group has no plan to remit dividend from the PRC subsidiaries to Hong Kong at this stage
- ① Donation: around HK\$37.0 million (2008: HK\$16.7 million)
- ① Capital expenditure incurred excluding prepayment: around HK\$950.8 million
- ① Convertible bonds were fully converted or redeemed during 2009 (2008: HK\$1,465 million)

Other Financial Information (Cont'd)



- ④ Discounted bills (bills payable) HK\$397.5 million (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 Derivative financial instruments
 - RMB non-deliverable forward foreign exchange contracts (“NDF”) entered into with listed banks
 - Profit locked up at transaction days – held to maturity: around HK\$44.0 million
 - Profit reorganised in 2009 – around HK\$13.9 million
- Discounted bills and NDF increased both bank balances / borrowings by around HK\$1.25 billion and affect certain financial ratios. Excluding these items, gearing ratio and current ratio would have been 16.4% and 2.1 times respectively.
- ④ Large amount of cash on hand HK\$4.9 billion mainly in RMB and large amount of bank borrowings HK\$2.7 billion mainly in HK dollar
 - The impact of discounted bills and NDF;
 - RMB deposit interest income rate > HK\$ borrowing interest expense rate; and
 - Potential RMB appreciation in the future

Other Financial Information – QinQin



	Year ended 31 December	
	2009	2008
(HK\$ '000)		
Revenue	863,283	843,635
Net profit in QinQin accounts	96,846	53,307
Consolidation adjustments	(10,677)	—
Net profit of QinQin in Hengan accounts before minority interests	86,169	53,307
Net profit of QinQin in Hengan accounts after minority interests	43,946	Last year: one month profit only
Gross gearing ratio	3.4%	5.0%
Net gearing ratio	—	—

Note: 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.



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Business Review



Tissue Papers



Market overview

- ③ Demand for quality tissue paper products increased due mainly to the continuous rising per capita income and stronger awareness of personal hygiene
- ③ Consumption per capita in the PRC is still lower than that of developed countries

Business performance in 2009

- ③ Sales increased by approximately 15.0% to approximately HK\$4.5 billion
- ③ Gross profit margin rose to approximately 42.1% (2008:31.6%) mainly due to significant drop in costs of tissue wood pulp
- ③ Increased inventory of tissue wood pulp at a relatively lower cost in an attempt to alleviate from the impact of price fluctuations in 2H2009 and 1H2010. As at 31 December 2009, the Group had over 200,000 tons of wood pulp in hand and in transit (sufficient for use until June 2010)
- ③ Continued to focus on higher gross margin profit products (including wet tissue, pocket handkerchief and box tissue): approximately 66.1% of tissue sales
- ③ Third phase of the Hunan plant commenced production by the end of 2009, bringing the Group's annualised production capacity to approximately 420,000 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 2009

- ① Sales increased by approximately 26.3% to HK\$2.5 billion
- ① Gross profit margin improved to approximately 61.1% (2008: 57.9%), mainly due to
 - Decline in prices of petrochemical raw materials and fluff pulp
 - Higher proportion of sales of mid-to-high end products

Disposable Diapers



Market overview

- ① Low market penetration rate of disposable diapers highlights the huge growth potential in the market
- ① Consumers spent more cautiously due to the sluggish global economy, affecting the growth of diapers business in 1H 2009
- ① Improved economic situation began in the second half of the year drove the demand for disposable diapers

Business performance in 2009

- ① Sales increased by approximately 15.3% to approximately HK\$2.2 billion
- ① Gross profit margin increased to about 41.1% (2008: 35.3%) mainly due to
 - Decline in prices of major raw materials, petrochemical raw materials and fluff pulp
 - Better cost control and product mix enhancement
- ① Fully launched “Super Absorbent” series nationwide in July 2009 and received positive market response
- ① Growth of sales in 1H2009 (verses 1H2008): only 10.0%
Growth of sales in 2H2009 (verses 2H2008): around 20.2%

Food and Snacks



Market overview

- 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 2009

- ① Sales amounted to HK\$863.3 million, accounting for about 8.0% of the Group total revenue
- ① Focused on integration of QinQin Foodstuffs' logistics and transportation management to realise gradually the synergy effect
- ① Gross profit margin reached approximately 36.5% (2008:30.1%), thanks to the fall in raw material costs and the synergy effect mentioned above

Distribution and Marketing Channels



- ➊ Maintained efforts on advertising and promotion activities
- ➋ Increased numbers of sales staff, sales offices and distributors to further expand sales network in 3rd and 4th tier cities, villages, towns and agricultural areas
- ➌ Improved product quality to boost sales in first tier cities and large supermarkets
- ➍ Distribution costs amounted to about 18.0% of revenue (2008: 18.1%), similar to that of last year.

Other Business Updates



- ① International consulting firm Booz & Company completed its consultancy task and made recommendations on strategic planning, management hierarchy, performance assessment mechanism and operation and budgeting management. Booz & Company also assisted the Group in formulating a new five-year plan.
- ② The Group was also awarded in 2009 the “China’s Outstanding Charity Contribution Award” by China Charity Federation, commending the Group’s contribution for all walks of life throughout the years
- ③ The Group was awarded again the “Credible Enterprise of China Accreditation”



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Outlook

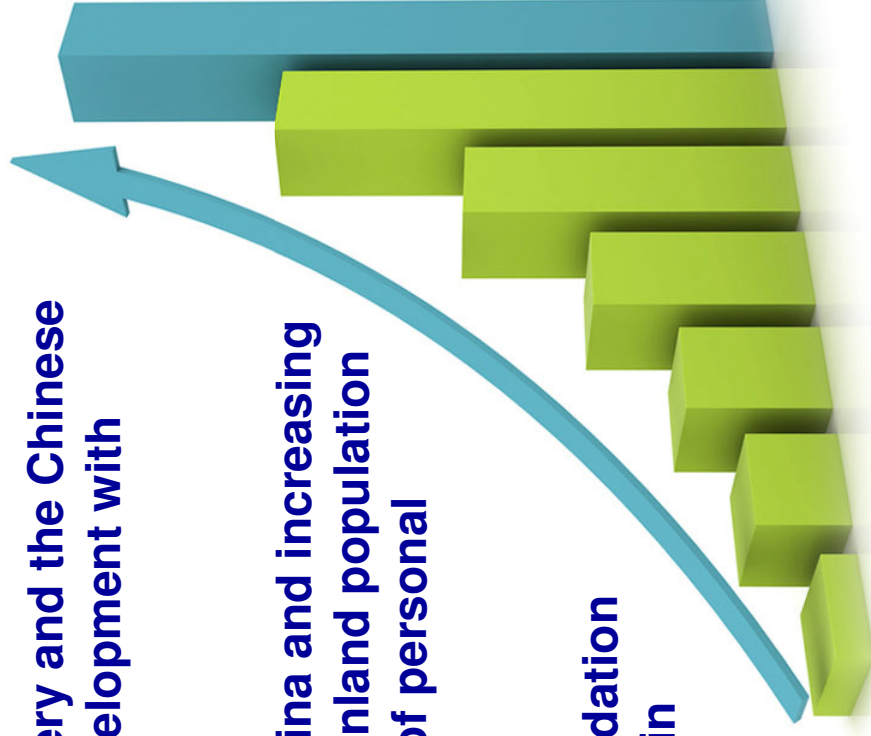


Future Outlook



Market Outlook

- ① Global economy shows signs of recovery and the Chinese economy continues with its steady development with strong domestic consumption
- ① Improving overall living standard in China and increasing personal hygiene awareness of the mainland population continue to facilitate the development of personal hygiene products industry in China
- ① Leveraging on the Group's strong foundation and its core competitiveness to maintain its leadership in the industry



Outlook



Plans and strategies

Tissue papers



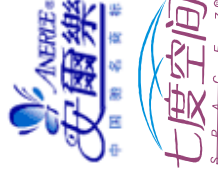
- Continue to develop and launch high quality tissue paper products
- Annualised production capacity will reach 540,000 tons by the end of 2010

Diapers



- Continue to develop and launch quality high-end disposable diapers
- Arranging a pre-sale of a new product in mid 2010

Sanitary napkins



- Continue to develop and launch quality high-end sanitary napkins
- Strengthen brand promotion in order to increase market share

Food and snacks



- Achieve greater synergy with personal hygiene business in respect of logistics, supply chain, distribution network and brand management
- Plan to develop and manufacture more varieties of snacks products

25th Anniversary



- ① 2010 is the 25th anniversary of Hengan International
- ② The Group will strive to take its business to new heights through utilising its valuable experience and resources accumulated throughout the years, and leveraging its competitive edges in brand, distribution network, research and development as well as production capabilities





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Open Forum

