



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044



Interim Results 2010
Corporate Presentation

August 2010

Agenda



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





恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Financial Highlights

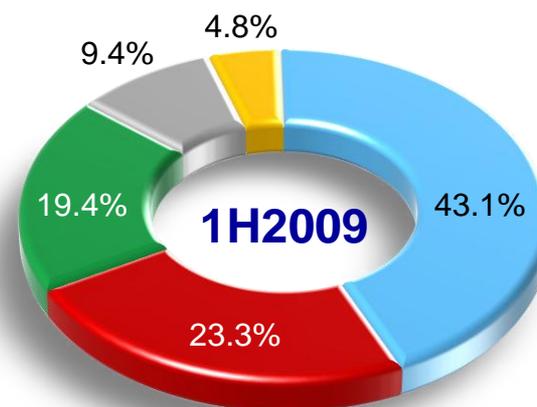
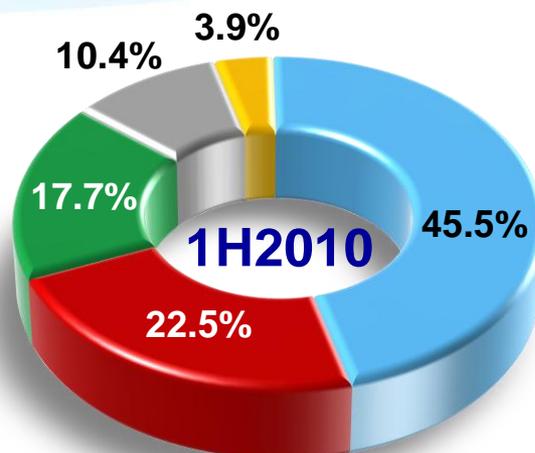


Financial Highlights



(HK\$ '000)	Six months ended 30 June		
	1H2010	1H2009	Change (%)
Revenue	6,426,325	5,112,692	↑ 25.7%
Cost of sales	(3,500,301)	(2,810,743)	↑ 24.5%
Gross profit	2,926,024	2,301,949	↑ 27.1%
Operating profit	1,490,343	1,211,868	↑ 23.0%
Net profit	1,202,789	966,744	↑ 24.4%
Earnings per share			
– Basic	HK98.6 cents	HK82.4 cents	↑ 19.7%
– Diluted	HK98.2 cents	HK82.3 cents	↑ 19.3%
Dividend per share	HK60 cents	HK50 cents	↑ 20.0%

Solid Revenue Base



Six months ended 30 June

(HK\$ '000)	1H2010	1H2009	Change(%)
 Tissue papers	2,926,017	2,203,564	↑ 32.8%
 Sanitary napkins (including pantliners)	1,443,095	1,190,582	↑ 21.2%
 Disposable diapers	1,138,225	990,067	↑ 15.0%
 Food and snacks	670,105	482,440	↑ 38.9%
 Others	248,883	246,039	↑ 1.2%

Gross Profit Margin Overview

– By Business Segment



	Six months ended 30 June	
	1H2010	1H2009
Tissue papers	40.4%	41.4%
Sanitary napkins <i>(including pantliners)</i>	61.7%	59.3%
Disposable diapers	45.7%	37.0%
Food and snacks	37.6%	38.2%
Overall	45.5%	45.0%

Major factors affecting overall gross profit margin

- Continuous effort to improve product portfolio
- Economies of scale
- Tighten cost controls and improvement of production efficiency to negate the impact of rising raw material costs



Major Expenses



- ① **Distribution costs and administrative expenses increased to approximately 23.8% of total revenue (1H2009: 22.0%) due to the escalating advertising and promotion expenses for the 25th anniversary of the Group**

- ① **Major expenses are as follows:**

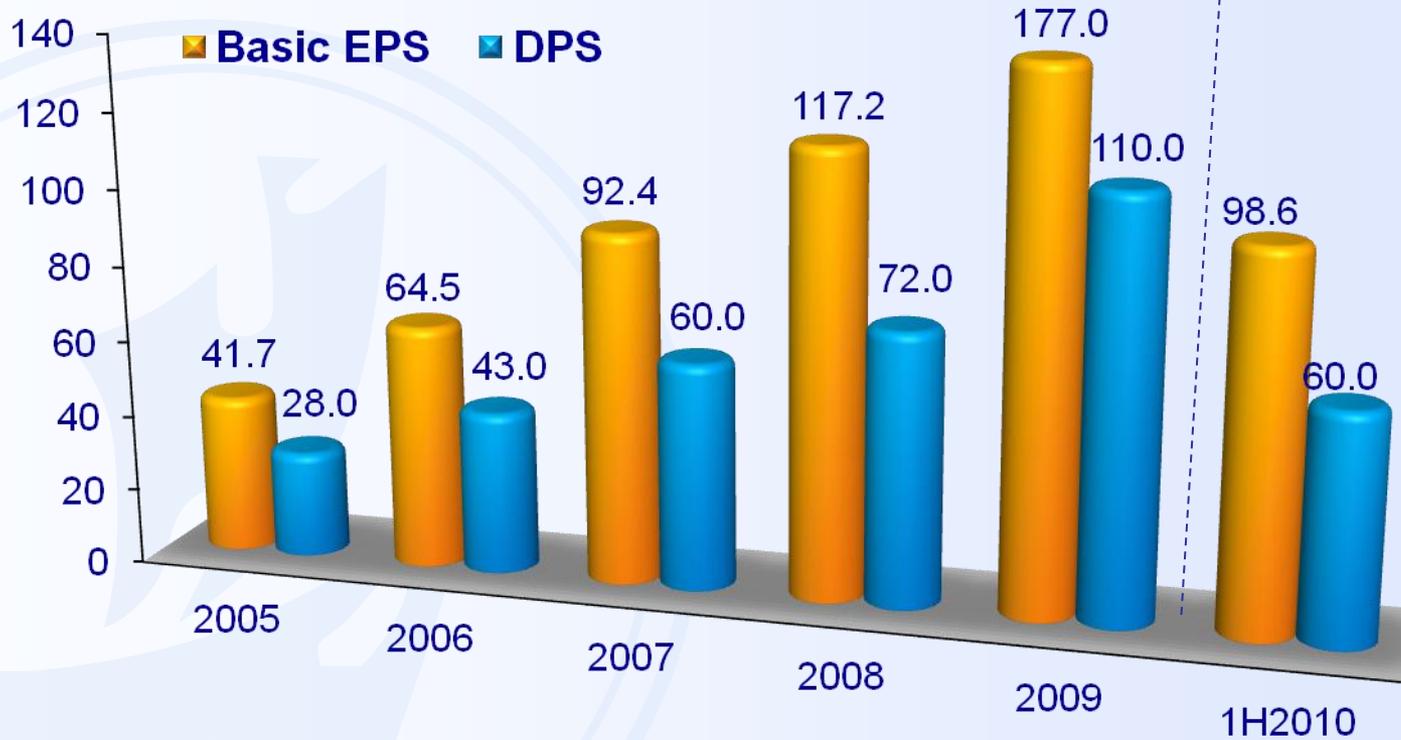
	approximately
Advertising, promotion and supermarket expenses	10.8% of revenue <i>(1H2009: 8.9%)</i>
Transportation expenses	4.0% of revenue <i>(1H2009: 4.4%)</i>
Staff costs <i>(excluding labour costs)</i>	3.5% of revenue <i>(1H2009: 3.5%)</i>
Charitable donations	0.4% of revenue <i>(1H2009: — FY2009: 0.3%)</i>

Basic EPS & DPS



1H2010 Dividend payout ratio: 61.1%

(HK cents)



Key Financial Indicators



	1H2010	1H2009	FY2009
Bank and Cash (HK\$ '000)	5,261,688	4,519,831	4,929,635
Finished goods turnover	46 days	50 days	58 days
Accounts receivable turnover	27 days	28 days	28 days
Accounts payable turnover	50 days	49 days	55 days
Current ratio	2.1 times	1.8 times	1.9 times
Gross gearing ratio	35.5%	19.7%	30.3%
Net gearing ratio	-	-	-

Other Financial Information



- ① **Government grants: approximately HK\$ 67million (1H2009: HK\$32 million) as encouragement of the Group's investments in these areas**
- ① **Effective tax rate: 17.8% (1H2009: 16.1%). The rate increased as:**
 - **Certain PRC companies were losing tax preferential treatment gradually**
 - **Provision of about HK\$30 million was made on the amount of dividend to be remitted by PRC subsidiaries to HK holding company in the foreseeable future (1H2009: nil, as full provision has been made at the end of 2009). No actual payment was anticipated for the current period as the Group has no plan to remit dividend from the PRC subsidiaries to Hong Kong at this stage**
- ① **New tax planning scheme – to be launched later. It is expected that the increase in effective tax rate can be mitigated in the future**
- ① **Capital expenditure incurred (excluding prepayment): around HK\$ 735 million**

Other Financial Information (Cont'd)



- ① **Discounted bills (bills payable) on the balance sheet – nil at 30 June 2010 (31 December 2009: HK\$ 398 million) : being intra-group bills discounted with the fund raised deposited in banks to earn interest income which was larger than the related bank charges**

- ① **Derivative financial instruments**
 - **RMB non-deliverable forward foreign exchange contracts (“NDF”) entered into with large banks**
 - **Profits on active NDF transactions locked up as at 30 June 2010 – held to maturity: around HK\$52 million**
 - **Net profit related to NDF transactions recognised in 1H2010 – around HK\$25 million (1H2009: nil)**

- ① **Large amount of cash on hand HK\$5.3 billion mainly in RMB and large amount of bank borrowings HK\$3.4 billion mainly in HK dollar**
 - **RMB deposit interest income rate > HK\$ borrowing interest expense rate; and**
 - **Potential RMB appreciation in the future**

Other Financial Information - QinQin



HK\$'000	1H2010	1H2009
Revenue	670,105	482,440
Net profit in QinQin accounts	55,790	50,885
Net profit of QinQin in Hengan accounts after consolidation adjustments but before minority interest	50,522	45,524
Net profit of QinQin in Hengan accounts after consolidation adjustments and minority interest	25,766	22,306
Gross gearing ratio	-	2.5%
Gross profit margin	37.6%	38.2%
Expense ratio	27.8%	24.2%
Effective tax rate	27.6%	36.1%

Note: (1) 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.

(2) The higher expense ratio in 1H2010 was mainly due to increase in A & D expenses.



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Business Review



Tissue Papers



Market overview

- Ⓜ Rising household income caused growing demand for quality tissue paper products in mainland China
- Ⓜ In addition, consumption per capita in the PRC is far below the standards of developed countries

Business performance in 1H2010

- Ⓜ Sales increased by approximately 32.8% to approximately HK\$2.9 billion.
- Ⓜ Increased inventory of tissue wood pulp at relatively lower costs in 2009 mitigated the adverse effect brought by the recent price hike.
- Ⓜ Together with various measures for cost controls and production efficiency, gross profit margin still reached approximately 40.4% (1H2009:41.4%)
- Ⓜ As at 30 June 2010, the Group had over 140,000 tons of wood pulp in hand and in transit (sufficient for use until the end of October 2010)
- Ⓜ Continued to focus on higher gross profit margin products (including wet tissue, pocket handkerchief and box tissue). Toilet rolls with lower margin accounted for about 38.1% of tissue sales (1H2009: 34.1%)
- Ⓜ Raised the price for toilet rolls from 1 July 2010 by 10% to mitigate the rising cost pressure in tissue wood pulp



Market overview

- Ⓢ Rising living standard and increasing awareness for personal hygiene underpinned the market expansion of better quality sanitary napkin products in the mainland China

Business performance in 1H2010

- Ⓢ Sales increased by approximately 21.2% to HK\$1.4billion
- Ⓢ Gross profit increased slightly to approximately 61.7% (1H2009: 59.3%):
 - Increase in prices of key raw materials, including petrochemical products and fluff pulp, was offset by improved product mix with higher proportion of sales of mid-to-high end products
 - Adoption of various measures in enhancing cost controls and production efficiency

Disposable Diapers



Market overview

- Increasing household income and urbanization continued to drive the long-term expansion for the disposable diapers market in mainland China

Business performance in 1H2010

- Sales increased by approximately 15.0% to approximately HK\$1.1 billion
- Gross profit margin increased to about 45.7% (1H2009: 37.0%) mainly due to better cost controls and product mix enhancement
- Successful enhancement of product mix:
 - Launch of the “Super Absorbent” series in July last year
 - Launch of upgraded version of existing product series in the second quarter of 2010
- Continual measures in strengthening cost controls and improving production efficiency have offset the increase in the prices of major raw materials



Market overview

- 🔴 Dedicated to developing food and snacks business into the Group's fourth largest business
- 🔴 Consumers are putting more emphasis on quality snack food products amid accelerating economic development and urbanisation in the PRC

Business performance in 1H 2010

- 🔴 Sales rose by approximately 38.9% to 670 million resulting from the optimization of distribution network and launch of high-end products
- 🔴 Gross profit margin dropped slightly to approximately 37.6% (1H2009:38.2%), due to increase in raw materials prices
- 🔴 Further streamlined the operation by enhancing the distribution network and applying the management methods on distribution network of personal hygiene products to the food and snacks business

Distribution and Marketing Strategies



- ① **This year is the 25th anniversary of Hengan Group**
- ① **Increasing investment in TV advertisements and various promotion activities to raise awareness of the Company and its brands (e.g. launched a massive new TV advertising campaign in China Central Television (“CCTV”))**
- ① **Advertising & promotion expenses as a percentage of revenue: 10.8% (1H 2009: 8.9%) – will become lower in 2H 2010**

Other Business Updates



- ① **Appointed Shenzhen Holographic Management Consulting & Training Limited (“HMCT”) as the Group’s consultancy firm to improve the operation flows of the Group’s supply chain management and optimise human resources management**
- ① **Fujian Hengan Holding Co., Ltd., a subsidiary of the Company, was one of the first batch of companies in mainland China and the only company in Fujian province awarded by State Administration for Industry and Commerce of the People’s Republic of China as Model Enterprise for National Implementation of Trademark Strategy**



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Outlook



Future Outlook



- ④ **China's economy is set for another robust economic growth this year as strong consumer demand propelled economic expansion in the territory. This sets the stage for the rapid development of China's fast-moving consumer product industry**
- ④ **Overall improvement of people's living standard, growing awareness of the importance of hygiene and the accelerating urbanization and marketization will continue to support the expansion of the personal care and hygiene product market**
- ④ **Leveraging on the Group's strong foundation and its core competitiveness to maintain its leadership in the industry**

Market Outlook





Plans and strategies

Tissue papers



- ④ Continue to develop and launch high quality tissue paper products
- ④ Annualized production capacity will be increased by 60,000 tons to approximately 540,000 tons by the end of 2010
- ④ To align with the Group's development in Eastern China region and Central government's policy in developing Western China, the Group plans to establish new tissue production plants in Wuhu and Chongqing respectively
- ④ The Group purchased 6 new sets of tissue production machinery and equipment in July and August 2010, each with an annualised production capacity of 60,000 tons – 2 sets will be installed in Chongqing, 2 sets in Wuhu and 2 sets in Jinjiang head office
- ④ It is estimated that the 6 new product lines will be installed in 2011 and 2012, and the total annualised capacity will become 900,000 tons by the end of 2012. Please refer to the announcement made on 23 August 2010 for details.



Plans and strategies

Disposable Diapers



- ④ Continue to develop and launch quality high-end disposable diapers
- ④ Plans to launch in the fourth quarter of 2010 and in 2011 the higher quality new “Day and Night” and “Pull Up” series respectively

Sanitary napkins



- ④ Continue to develop and launch quality high-end sanitary napkins
- ④ Continue to optimize product mix and boost sales of mid-to-high end brands such as “Anerle” and “Space 7”.
- ④ Plans to launch a premium new sanitary napkins line in 2011

Food and snacks



- ④ Continue to focus on integrating the distribution network as well as launching high end new products



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Open Forum

