



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044



Annual Results 2010 Corporate Presentation

March 2011

Agenda



- Financial Highlights
- Business Review
- Outlook
- Open Forum





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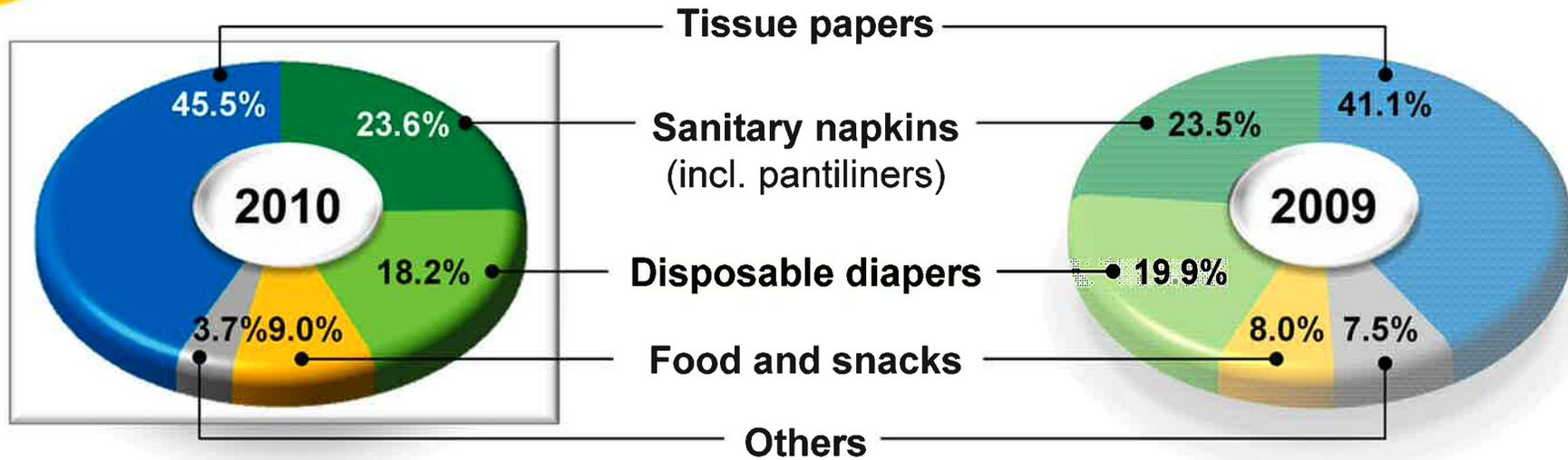
Financial Highlights

Financial Highlights



(HK\$ '000)	Year ended 31 December		
	2010	2009	Change (%)
Revenue	13,431,688	10,833,839	24.0%
Cost of sales	(7,486,900)	(5,853,348)	27.9%
Gross profit	5,944,788	4,980,491	19.4%
Operating profit	2,999,700	2,600,551	15.3%
Net profit	2,438,328	2,117,509	15.2%
Earnings per share			
– Basic	HK\$1.996	HK\$1.770	12.8%
– Diluted	HK\$1.988	HK\$1.765	12.6%
Dividend per share			
– Interim	HK\$0.6	HK\$0.5	
– Final	HK\$0.7	HK\$0.6	
– Total	HK\$1.3	HK\$1.1	18.2%

Solid Revenue Base



(HK\$ '000)	Year ended 31 December		
	2010	2009	Change (%)
Tissue papers	6,114,379	4,455,841	↑ 37.2%
Sanitary napkins (incl. pantliners)	3,169,544	2,546,369	↑ 24.5%
Disposable diapers	2,446,901	2,160,251	↑ 13.3%
Food and snacks	1,202,726	863,283	↑ 39.3%
Others	498,138	808,095	↓ 38.4%

Gross Profit Margin Overview

– By Business Segment



	Year ended 31 December	
	2010	2009
Tissue papers	37.3%	42.1%
Sanitary napkins (including pantliners)	62.5%	61.1%
Disposable diapers	42.4%	41.1%
Food and snacks	36.2%	36.5%
Overall	44.3%	46.0%

Major factors affecting overall gross profit margin

- Increase in production costs resulted from surge of raw material prices
- Optimize product mix, increase production capacity to expand the scale, implement strict cost controls, thus mitigate the impact of rising costs

Major Expenses



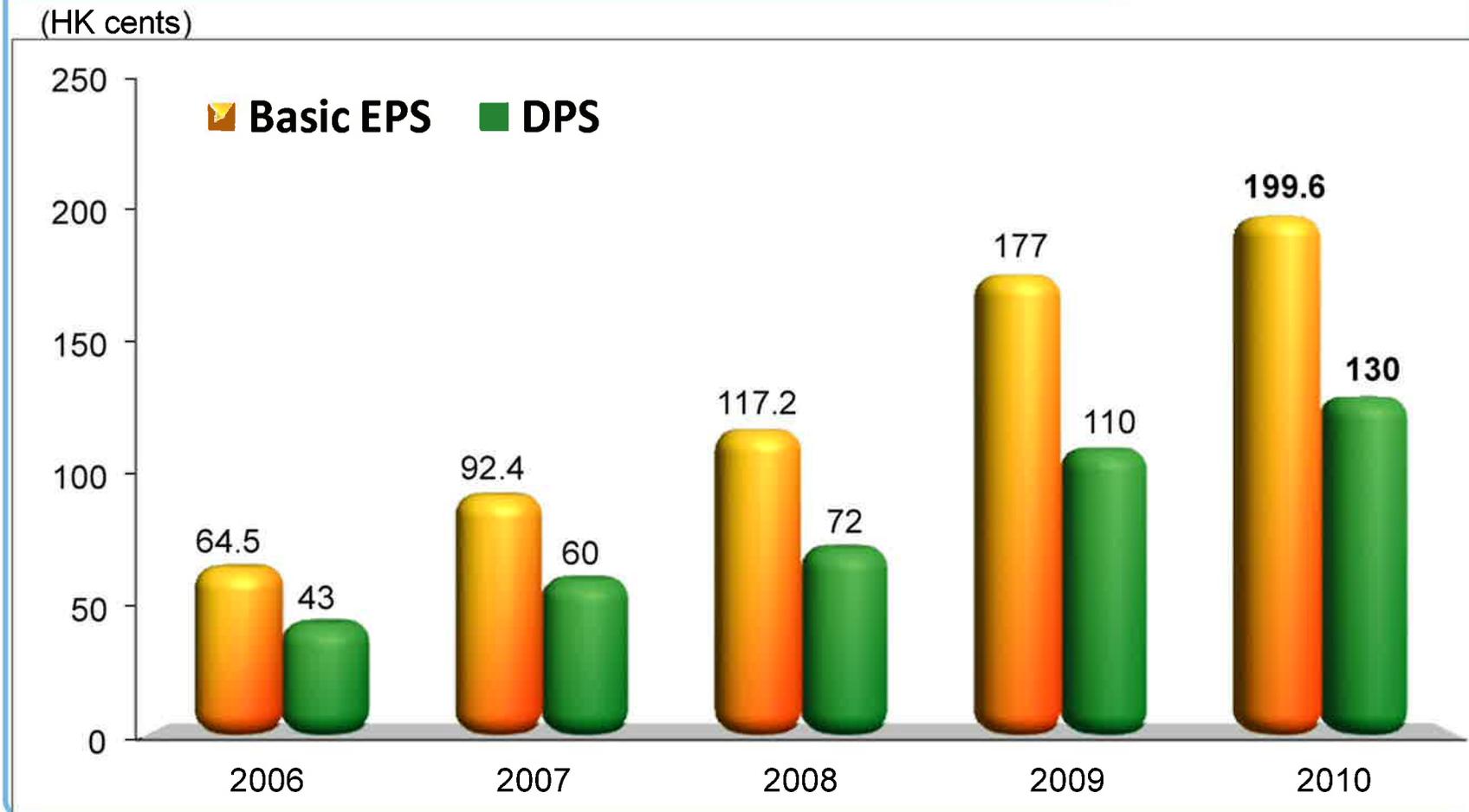
- Distribution costs and administrative expenses accounted for approximately 23.8% of total revenue (2009: 23.0%). Major expenses are as follows:

	approximately
Marketing, advertising & promotion expenses	11.1% of revenue (2009: 9.8%)
Transportation expenses	4.2% of revenue (2009: 4.4%)
Staff costs (excluding labour costs)	3.3% of turnover (2009: 3.5%)

Basic EPS & DPS



2010 Dividend payout ratio: 65.3% (2009: 63.3%)



Key Financial Indicators



<i>(HK\$ '000)</i>	<i>As at 31 December</i>	
	2010	2009
Cash on hand <i>(HK\$ '000)</i>	6,834,535	4,929,635
Finished goods turnover	54 days	58 days
Accounts receivable turnover	31 days	28 days
Accounts payable turnover	53 days	55 days
Current ratio	1.8 times	1.9 times
Gross gearing ratio	50.6%	30.3%
Net gearing ratio	Nil	Nil

Other Financial Information



- Government grants: approximately HK\$165 million (2009: HK\$81 million) as encouragement of the Group's investments in these areas
- Effective tax rate: 18.2% (2009:16.1%). The rate increased as certain PRC companies were losing tax preferential treatment gradually. New tax planning scheme will be launched in 2H 2011 in order to control the effective tax rate
- Donation: around HK\$26 million (2009: HK\$37 million)
- Exchange gain: approximately HK\$68 million due to appreciation of RMB during the year
- Capital expenditure incurred excluding prepayment: around HK\$1.3 billion

Other Financial Information (Cont'd)



- Discounted bills (bills payable): Nil (31 December 2009: HK\$397.5 million): intra-group bills discounted and the fund raised was deposited in banks to earn interest income which was larger than the related bank charges
- Derivative financial instruments
 - RMB non-deliverable forward foreign exchange contracts (“NDF”) entered into with large banks
 - Realized profit related to matured NDF transactions recognized in 2010 – around HK\$7 million
 - Unrealized loss on active NDF transactions recognized in 2010: approximately HK\$0.1 million – if held to maturity profit locked up: around HK\$51 million
- Large amount of cash on hand HK\$6.8 billion mainly in RMB and large amount of bank borrowings HK\$5.3 billion mainly in HK dollar
 - RMB deposit interest income rate > HK\$ borrowing interest expense rate;
 - Net interest income: around HK\$39 million; and
 - Potential RMB appreciation in the future



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Business Review

Tissue Papers



Market overview

- Demand for quality tissue paper products increased due mainly to the continuous rising per capita income and consumers' increasing attention to high quality tissue paper
- Consumption per capita in the PRC is still lower than that of developed countries



Business performance in 2010

- Sales increased by approximately 37.2% to approximately HK\$6.1 billion
- Gross profit margin decreased to approximately 37.3% (2009: 42.1%) mainly because the price of the major raw material, tissue wood pulp, rebounded significantly from the trough in 2009
- Continued to focus on products with higher gross profit margins (e.g. box tissue papers, pocket handkerchiefs and wet tissues) while the sales of toilet roll products with relatively lower gross profit margin accounted for approximately 33.4% of tissue sales (2009: 33.9%)

Sanitary Napkins



Market overview

- Rising living standards and improving consumption power continue to raise mainland consumers' awareness of the importance of personal hygiene, driving the continuous growth in the market penetration of sanitary napkins products.



Business performance in 2010

- Sales increased by approximately 24.5% to HK\$3.2 billion
- Overall gross profit margin increased slightly to approximately 62.5% (2009: 61.1%)
- Strengthen cost controls and increase sales of mid-to-high-end products to offset the effect of significant increase in the prices of petrochemical products and fluff pulp

Disposable Diapers



Market overview

- Increasing family income and urbanization continued to bring opportunities and competition for the disposable diapers market in mainland China



Business performance in 2010

- Sales increased by only approximately 13.3% to approximately HK\$2.4 billion due to competition and low entry barrier – many new companies launching cheaper products which affected Hengan's growth
- New product series (Super Absorbent series and Super Slim series) still recorded sales growth of about 40% during the year
- Gross profit margin recorded slight increase to about 42.4% (2009: 41.1%) mainly due to continuous effort in cost controls and product mix optimization, which successfully offset the surge in the prices of major raw materials, petrochemical products and fluff pulp

Food and Snacks



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 urbanization in the PRC



Business performance in 2010

- Sales increased by 39.3% to HK\$1.2 billion
- Gross profit margin remained fairly stable at approximately 36.2% (2009:36.5%), as the Group effectively offset the influence of raw material price increase by continuous cost control effort and product mix optimization
- Actively optimized the distribution network by applying the distribution network operation mode of personal hygiene products business to the food and snacks products business

Distribution and Marketing Channels



- Advertising and promotion expenses and supermarket expenses increased in 2010, accounting for about 11.1% of revenue (2009: 9.8%)
 - Launched more advertisements and various promotion activities to celebrate the Group's 25th anniversary
 - massive TV advertising campaign in China Central Television ("CCTV")
- Distribution costs to revenue ratio increased to approximately 19.3% (2009: 18.0%)





National Recognition and Awards

■ Mainland:

- Fujian Hengan Holding Co., Ltd., a subsidiary of the Company, was awarded by “State Administration for Industry and Commerce of the People’s Republic of China” as “**Model Enterprise for National Implementation of Trademark Strategy**”
- “Anerle baby diaper” was awarded by Trademark Office of The State Administration For Industry and Commerce of the PRC as “**China Renowned Brand**”



■ Hong Kong:

- The Company was awarded the “Outstanding China Enterprise Awards in Personal Hygiene”



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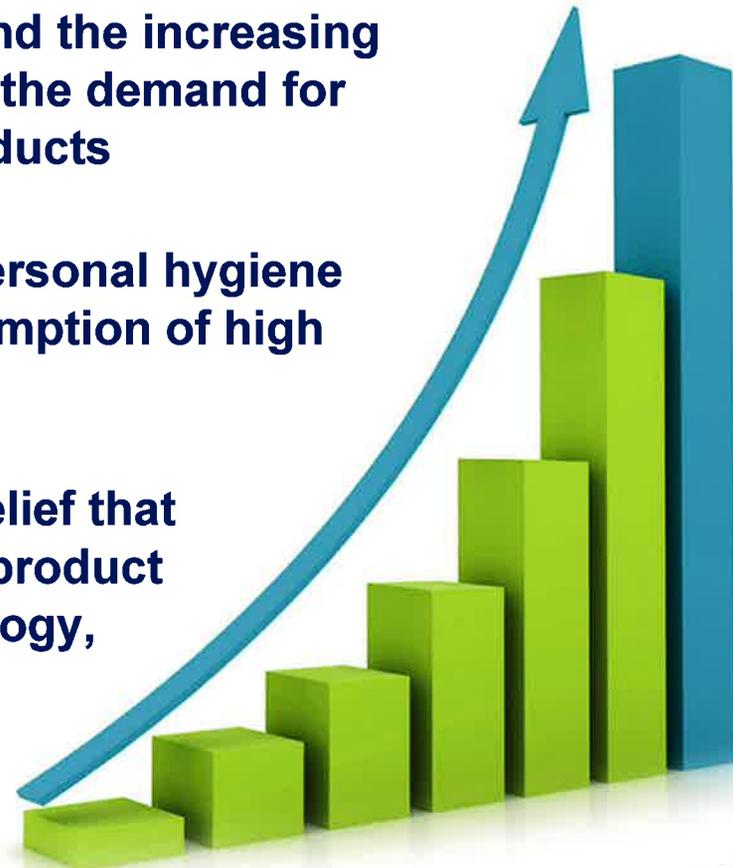


Outlook



Market Outlook

- The country's rapid economic growth and the increasing domestic demand will continue to drive the demand for various daily products and hygiene products
- Consumers' increasing awareness of personal hygiene will also promote growth in retail consumption of high quality hygiene products
- The Group will continue to uphold its belief that **quality takes precedence**, and improve product through unceasingly enhancing technology, improving product quality and refining product portfolio





Plans and strategies

Tissue papers



- Continued to expand production capacity
 - a new tissue paper production base with an annualized production capacity of 60,000 tons in Chongqing will commence operation in 4Q2011
 - will increase 60,000 tons, 120,000 tons and 120,000 tons of production capacity in Chongqing, Wuhu and Jinjiang respectively in 2012
- Total annualized production capacity is expected to reach 600,000 tons by the end of 2011 and 900,000 tons by the end of 2012

Sanitary napkins



- Continue to develop and launch quality mid-to-high-end sanitary napkins
- Will launch new “Space Seven” series of sanitary napkins with higher ASP and gross profit margin in 2H2011

Diapers



- Will launch products with higher ASP and gross profit margin — “Day and Night (動睡裝)” series in mid of 2011, and “Pull Up (拉拉褲)” series in 2H2011

Food and snacks



- Continue to integrate distribution network
- Launch new high-end products to consolidate profit base



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Open Forum