



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044



Annual Results 2008 Corporate Presentation

March 2009

Agenda



- ④ Financial Highlights
- ④ Business Review
- ④ Outlook
- ④ Open Forum



Financial Highlights



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Financial Highlights



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)

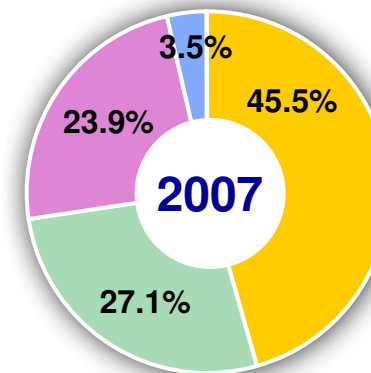
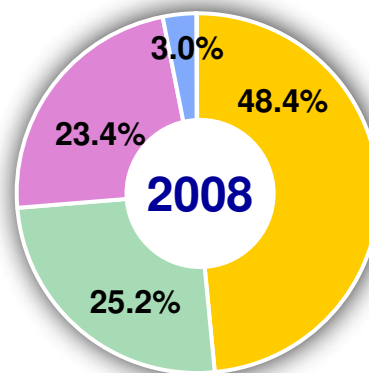
Effect of the change to profit and loss account is not significant

Financial Highlights



(HK\$ '000)	2008	2007 (Restated)	Change (%)
Revenue	8,001,545	5,686,972	▲ 40.7%
Cost of sales	(4,798,999)	(3,410,728)	▲ 40.7%
Gross profit	3,202,546	2,276,244	▲ 40.7%
Operating profit	1,531,072	1,257,999	▲ 21.7%
Net profit	1,340,914	1,008,157	▲ 33.0%
Earnings per share			
– Basic	HK\$1.172	HK\$0.924	▲ 26.8%
– Diluted	HK\$1.152	HK\$0.924	▲ 24.7%
Dividend per share			
– Interim	HK\$0.32	HK\$0.28	
– Final	HK\$0.40	HK\$0.32	

Solid Revenue Base



(HK\$ '000)	2008	2007	Change (%)
Tissue papers	3,874,924	2,585,105	49.9%
Sanitary napkins (including pantliners)	2,015,580	1,538,889	31.0%
Disposable diapers	1,873,526	1,360,913	37.7%
Others	237,515	202,065	17.5%

Gross Profit Margin Overview – By Business Segment



	Gross profit margins	
	2008	2007
Tissue papers	31.6%	31.5%
Sanitary napkins (including pantliners)	57.9%	56.9%
Disposable diapers	35.3%	33.3%
Overall	40.0%	40.0%

Major factors affecting gross profit margin in 2008

Overall

- 🔴 Rising selling price of tissue paper since March 2008
- 🔴 Dropping price of raw materials in 4Q08, after price surge from 1Q08 to 3Q08
- 🔴 Strengthening workflow and reducing raw materials wastage rate
- 🔴 Optimizing product portfolio
- 🔴 Implementing effective purchasing strategy

Major Expenses



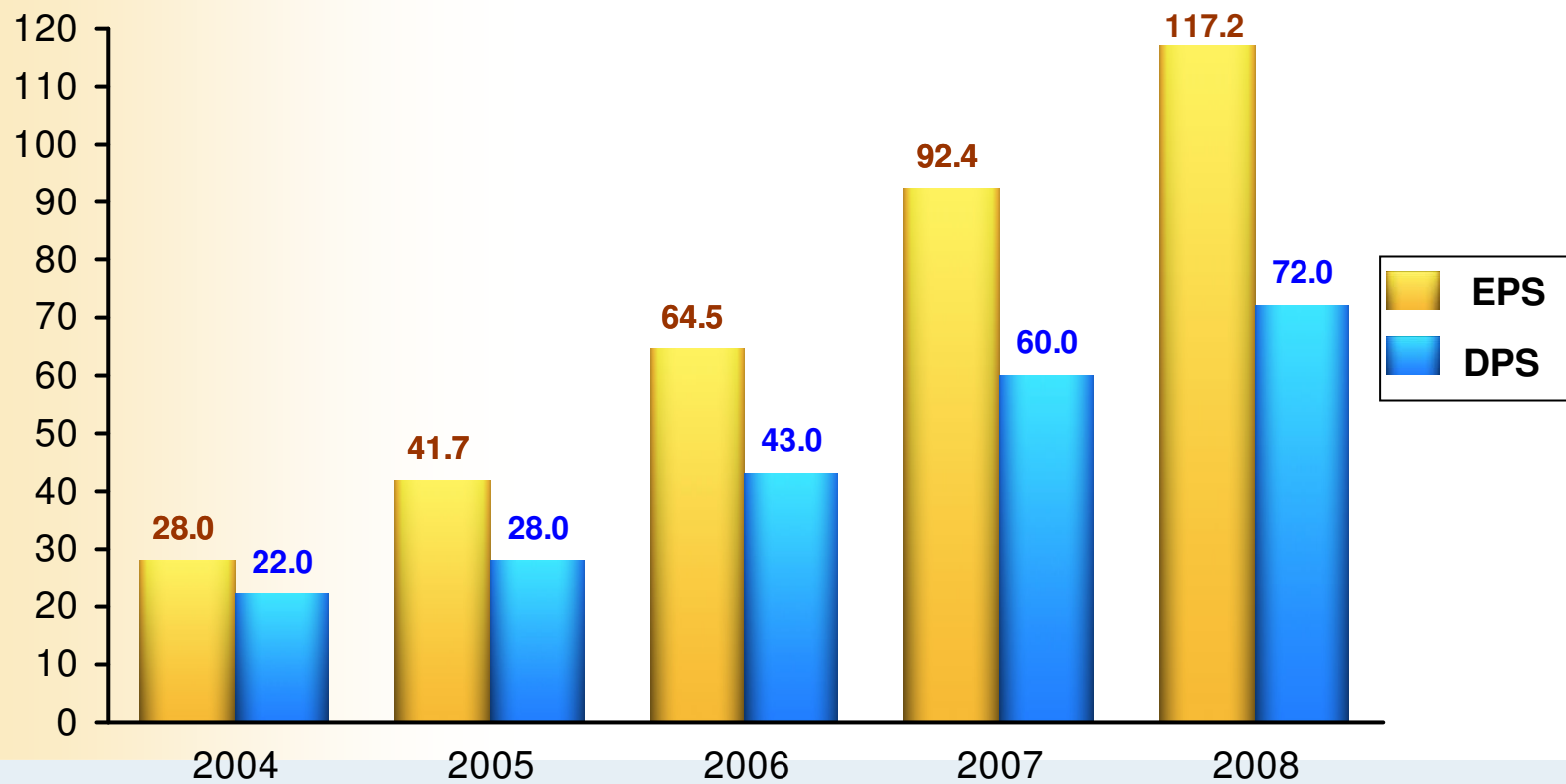
- **Distribution costs and administrative expenses increased to approximately 22.1% of total turnover (2007: 19.7%) mainly due to**
 - Increase in marketing, advertising & promotion expenses: approximately 9.4% of turnover (2007: 7.6%) to consolidate the leading market position and brand equity of the Group
 - Increase in transportation expenses due to increase in the PRC oil price: approximately 4.7% of turnover (2007: 4.1%)

EPS & DPS



Dividend payout ratio: 61.6%

(HK cents)



Key Financial Indicators



	2008	2007
Cash on hand (HK\$ '000)	1,627,592	2,304,920
Finished goods turnover	61 days	64 days
Accounts receivable turnover	31 days	32 days
Accounts payable turnover	60 days	60 days
Current ratio	2.7 times	3.4 times
Gross gearing ratio	27.9%	35.5%
Net gearing ratio	2.8%	-

Other Financial Information



- Government grants – around HK\$102 million (2007:HK\$100 million) as encouragement of the Group's investments in these areas
- Effective tax rate:11.0% (2007:14.8%) - dropped as new PRC companies were enjoying tax preferential treatment
- Donation : HK\$16.7 million (2007 : HK\$ 2 million)
- Grant of 11 million share options to over 500 employees in 2H 2007: approximately HK\$23 million (2007: HK\$11 million)
- Qin Qin – 2008 whole year revenue and profit were approximately HK\$844 million and HK\$53 million respectively. However, only about one month of Qin Qin's results was consolidated into the 2008 accounts of the Group since the acquisition date (28 November 2008)
- Capex: around HK\$1,490 million including Qin Qin fixed assets and intangible assets (2007: HK\$918 million)

Business Review



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Tissue Papers



Market overview

- ① Demand for quality tissue paper products as a result of steady increase of per capita income in the PRC
- ① Relatively low consumption of tissue paper compared with developed countries
- ① Strict enforcement of environmental laws and regulations accelerated market consolidation

Business performance in 2008

- ① Sales revenue increased approximately by 49.9% to approximately HK\$3,875 million
- ① Gross profit margin remained fairly stable at approximately 31.6% (2007: 31.5%) mainly due to
 - Rising selling price by 5%-10% in March 2008
 - Wood pulp price declined in 4Q08, offsetting the impact of increase in 1Q-3Q
- ① Focus on high margin products which represented 68.7% of tissue revenue
- ① Fujian production 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 Demand for branded quality feminine hygiene products increased because of improving living standard and growing awareness in health and hygiene
- ① Market consolidation – small-to-medium size manufacturers experienced great pressure due to high raw material costs in Q1 to Q3 2008
- ① Large-scale manufacturers benefited from economies of scale

Business performance in 2008

- ① Sales revenue increased by approximately 31.0% to HK\$2,016 million
- ① Focused on mid-to-high-end products – Space-7 represented about 50.0% of segment revenue (2007: 40.9%)
- ① Gross profit margin increased from approximately 56.9% to approximately 57.9%, mainly due to increased proportion of high profit margin products, fall in raw material price in 4Q 2008, and tightening cost controls which overweighed the surge of raw material costs in Q1 to Q3 2008.

Disposable Diapers



Market overview

- ① Rapid economic growth and improvement in living standard of the Chinese population drove the demand for disposable diapers products
- ① Strong market growth potential due to relatively low penetration rate of disposable diapers products in the PRC

Business performance in 2008

- ① Sales revenue surged by approximately 37.7% to approximately HK\$1,874 million
- ① Gross profit margin increased to approximately 35.3% (2007: 33.3%) mainly due to
 - Improving product mix
 - Strengthened internal controls

Snack Food



- ① Accelerating economic development and urbanisation in the PRC, consumers in the PRC are putting more emphasis on quality snack food products
- ① Acquired 51% equity interest in Qin Qin Group in 28 November 2008 at a consideration of approximately HK\$260 million.
- ① Qin Qin: Leading snack food manufacturer in the PRC.
- ① Qin Qin brand name potato chips and fruit jelly and Xianggeli seasoning products: “Famous Chinese Food”
- ① Qin Qin brand name fruit jelly: “China Top Brand”
- ① Only about one month contribution in 2008. There will be full-year contribution in 2009

Distribution and Marketing Channels



- ① Strategically increased investment in marketing, promotion and advertising efforts
- ① Adopted proactive sales strategies to boost its brand awareness and customer loyalty
- ① Expanded the distribution network to 2nd and 3rd tier cities, towns, villages and agricultural areas to enhance product coverage
- ① Distribution costs as a percentage of turnover increased to around 18.1% (2007: 15.9%)

Other Relevant Information



- ④ The only tissue producer in the PRC to have been named “A Cooperative Partner of China Space” by China Space Foundation.
- ④ Hearttex tissue products and ElderJoy adult diapers were designated as “Designated Product for China Aerospace” and “Designated Product for China’s Shenzhou Spacecraft”.
- ④ Hearttex was named one of the eight “Most Trusted Brands” by an international consulting firm Alix Partners in Chinese consumer survey.
- ④ Research and Development Department of the Group: the only PRC enterprise in the household tissue product industry awarded as the Enterprise Technological Centre with State Accreditation by 5 PRC national department.
- ④ Appointment of international consulting firm Booz & Company – to improve the Group’s strategic planning, management in business, operating and budgeting, supply chain management, and performance assessment mechanism.

Outlook



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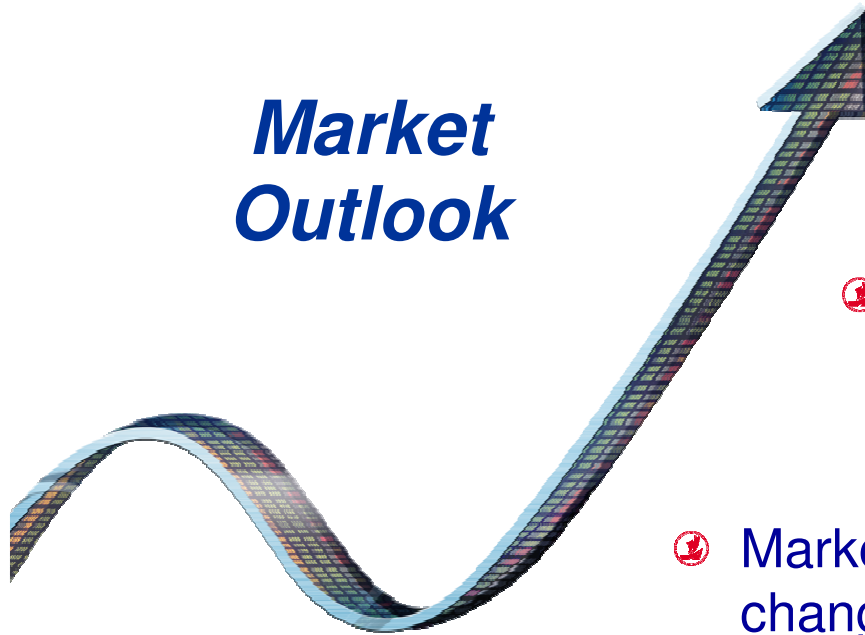
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Future Outlook



Market Outlook



- ① Uncertainties over the operating environment of different industries
- ① Prudent yet optimistic attitude about the prospects of mainland China personal hygiene and care products market
- ① Market consolidation as a result of the changing market and environment



Plans and strategies

Tissue papers



- ③ Continue to develop and launch quality and higher profit margin products
- ③ Further enrich product portfolio
- ③ Expand production capacity by 60,000 tons to 420,000 tons before the end of 2009

Diapers



- ③ Improve its product portfolio and launch more competitive products
- ③ Enhance branding and diversify product range
- ③ Upgrade our existing production technology and add new production lines

Sanitary napkins



- ③ Focus more mid-to-high end products with higher gross profit margins
- ③ Strengthen brand promotion activities

Snack food



- ③ Focus on consolidating Qinqin business so as to create synergy effect resulting from the integration of supply chain, distribution channel and brand management with the Group's existing business

Open Forum



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