

CHAIRMAN'S STATEMENT

Hengan International monitors market changes closely and maintains its leadership position in the feminine sanitary napkin and disposable diaper market.



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Entering the 21st century, China has been well-positioned to build a modern and affluent society with her global perspective, perseverance and diligence. Hengan International Group Company Limited (“Hengan International” or the “Group”), one of the most established manufacturers of personal hygiene products in China, has also assumed such a mission. With our flexible but prudent business strategy, coupled with professionalism and persistent quality enhancement, we are able to meet the challenges in the market and strive for a balanced development in our various business operations.

In the year under review, although the economic growth in China was steady, benefits of the economic growth were not fully reflected in the consumer market. Competition in personal hygiene goods was particularly keen. Under such business environment, Hengan International adhered to its strategy of product mix adjustment and focused on lifting image of its brands. Sales was maintained at a stable level.

For the year ended 31st December 2000, turnover of the Group was flat and amounted to HK\$1,163,236,000. Profit attributable to shareholders dropped by 30.8% to HK\$209,160,000. Earnings per share was HK20.9 cents.

The Board recommends the payment of a final dividend of HK8 cents (1999 : HK10 cents), bringing the total dividend for the whole year to HK18 cents (1999: HK25 cents).



In the year under review, sanitary napkins remained the principal product of the Group, which accounted for 75.5% of the total sales. Sales of baby diapers recorded a growth by leaps and bounds, the proportion of which in the total sales rose from 8.8% in the previous year to 15.9% this year. The Group's market share of sanitary napkins and disposable baby diapers were 16.0% and 17.0% respectively, both remained the market leader in China.

Low-end sanitary napkins market was flooded with small manufacturers and competition intensified further. Sales of the Group's “Anle” ordinary sanitary napkins continued to decline. As a measure to forestall the declining “Anle” sales, the Group strengthened its marketing efforts in the rural market and positive response is beginning to show in certain segments.

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In China, the rise in personal purchasing power has led to more stringent requirements on product quality. The sanitary napkin market is evolving from the single product market of yesterday to a myriad of products, from high-end to low-end. To cope with such market changes, Hengan International continued its effort in enhancing product quality and upgrading their functions. In year 2000, apart from enhancing the promotion of products with added medicinal effects and healthcare concepts, series of sanitary napkins with anti-microbacteria function were launched into the market and favourable responses were received.



Sales of baby diapers continued to surge in 2000, reaching HK\$185,144,000, or 15.9% of the total turnover of the Group. Along with the economic growth in China, the market potential of baby products are enormous. With penetration rate at approximately 2.2%, market for baby diapers is no doubt fast growing. In this high growth market, Hengan International recorded a marked sales increase of 84.0% during the year under review and this product is set to become the Group's growth driver.

In respect of development of new products, Hengan International imported the first brand-new adult diaper production line to China. It is expected that following the rise of living standards and improvement in social welfare in China, "ElderJoy" adult diapers will gradually become one of the major products of the Group.

In addition to our vigorous efforts in enhancing product quality, the Group also endeavored to reinforce its traditional sales channels and at the same time further develop the modern sales channels. In the year under review, promotion, marketing and selling expenses accounted for approximately 16.0% of the total turnover of the Group, an increase of 3.0% over 1999. Increase in sales expenses inevitably eroded the Group's profit margin in the short term, it will establish a more creditable reputation and image for the Group's products and increase the Group's market share in the long run.



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Looking forward, the Group will adhere to its business strategy of flexible product mix, focusing on enhancement of product quality and moving towards the development of unique product lines. Efforts will be put to identify dominant products in different regional markets so as to promote the right product in the right market, thereby enhancing competitiveness of our products. In response to market changes, adjustments to sales channels are to be made to further strengthen relationship with the end-users.

Year 2001 is going to be a year of liveliness and opportunities. The entry of China into the World Trade Organisation (“WTO”) brings both crisis and opportunities to all business sectors, and consumer market is no exception. Hengan International grows and prospers in the midst of competition, and it has long been in benign competition with world class producers. We are highly confident that China’s entry into the WTO will activate trading and businesses in major cities and townships. As the consumer products market picks up, demand for quality products will increase. Companies which focus on both product quality and brand image like Hengan International will be benefited.

Finally, I would like to take this opportunity to express my gratitude towards shareholders and staff who have been rendering full support to the Group. Being an established enterprise which provides diversified personal hygiene products, Hengan International will continue to pursue our mission of “Growing with you for a better life” in order to provide a healthy and affluent living for our consumers, and to bring satisfactory returns to our shareholders.



Sze Man Bok

Chairman

Hong Kong, 12th March 2001