

## CHIEF EXECUTIVE OFFICER'S REPORT

In face of keen market competition, only high quality and market-oriented products will provide the backbone for further growth of the Company.



## “GROWING WITH YOU FOR A BETTER LIFE”

### OVERALL PERFORMANCE

Looking back at year 2000, under the principle of quality assurance and efficiency enhancement, Hengan International put continuous efforts on product mix adjustment to accommodate the market changes and to reinforce its brand image. In year 2000, the Group introduced a wide range of products to meet the needs of different consumers. By adopting flexible promotion and marketing strategies, the Group's turnover was maintained at HK\$1,163,236,000. Profit attributable to shareholders amounted to HK\$209,160,000, a decrease of 30.8%.

Over the years, with its insight of the market trend, Hengan International has been able to exercise stringent cost control by upgrading production facilities and integrating production process. The Group adopts the multi-branding strategy and continued efforts are being put to uplift its branding. Leveraging on its expertise in the industry and knowledge of China consumer market, coupled with suitable adjustment in product mix and new product development, the Group has lifted the product image among consumers and at the same time greatly broadened the Group's product range so that the Group's leading position in the PRC hygiene product market is maintained.

The significant drop in net profit in year 2000 was mainly a result of keen market competition, as all manufacturers conducted all sorts of promotion campaigns with a view to seizing a share of the market. In the year under review, the Group invested a substantial amount of resources in promotion campaigns, such as premium gifts, exhibition shows and displays in shopping arcades. In addition, as the consumer behavior changed, the Group spent more in reinforcing the traditional sales channels and at the same time further developed modern sales channels so as to increase its market presence and share. Furthermore, the drop in net profit was caused by an increase in administration expenses. In the year under review, provision for bad and doubtful debts amounted to approximately HK\$22,000,000 against trade receivables was made by the Group with reference to the market conditions and financial and credit position of individual customers. On top of this, the Group wrote-off some HK\$5,290,000 of obsolete production lines so as to improve the overall production efficiency.

### BUSINESS REVIEW

During the year under review, sales of sanitary napkins and disposable diapers accounted for 75.5% (1999 : 84.5%) and 16.0% (1999 : 8.9%) respectively of the Group's turnover.

The overall gross profit margin of the Group last year was 38.0%, a decrease of 1.6% over 1999. Decrease in gross profit margin was mainly caused by the rise in price of fluff pulp, the principal raw material. As the fluff pulp price has started to stabilise due to the slowing down of the global economy and overstocking of fluff pulp worldwide, the Group's gross profit margin is expected to improve in 2001.

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## PERFORMANCE OF SANITARY NAPKINS

After years of high growth, the sanitary napkin market in China shows a marked slow-down in growth rate. As at the end of 2000, the market penetration rate of sanitary napkins in China was estimated to be approximately 50.0%.

During the year under review, despite the fierce market competition, with its flexible sales strategy, comprehensive product range and reputable brand names, market share of the Group's brands was substained at 16.0% and remained as the market leader.

In year 2000, sales of the "Anle" ordinary sanitary napkins were declining as the low-end market was flooded by small local manufacturers. As a measure to curb the decline of the sales of "Anle", the Group increased its promotion efforts in rural markets and such measures were proven to be effective in certain segments of the market. It is estimated that sales of "Anle" ordinary sanitary napkins will stabilise in the coming year.

As the per capita income in China continues to rise, women are more sophisticated in choosing personal hygiene products such as sanitary napkins, and more demanding on product quality. In view of this, the Group established during the year a joint venture company engaging in the research and development of anti-microbacteria technology in order to strengthen the integration and application of anti-microbacteria technology in the Group's products, which led to the launching of the "Anerle" series of anti-microbacteria sanitary napkins. This new series has become the Group's new selling point in the market. During the year, growth of winged sanitary napkins was in line with the market of 5.0%. We anticipate that the demand for high-end products will continue to rise in the wake of China's entry into the WTO.

As a result of the increasing awareness of personal hygiene among women, market penetration of pantliners in China has been recording double-digit annual growth in the past few years. The overall market penetration rate by the end of 2000 was estimated at 16.5%. During the year under review, the Group's pantliners sales recorded a satisfactory growth of 14.0%.

## PERFORMANCE OF DIAPERS

Baby diapers are beginning to find acceptance among young parents in China. Furthermore, as western lifestyle is gaining popularity and with the rapid growth of the market, penetration rate of baby diapers is on the rise, from 1.6% in 1999 to approximately 2.2% in 2000.

In 2000, volume sales of the "Anerle" series of baby diapers recorded a growth of 2.4 times with a marked increase of 84.0% in turnover. Hengan International, as the market leader in baby diapers, will continue with its efforts in enhancing both the quality and functions of its products. By means of effective sales and distribution strategies, popularity of the Group's products will increase which will further enhance their brand names. It is expected that baby diapers will become a new growth driver of the Group.