



Chairman's Statement



***H**engan International is prepared for future challenges and committed to maintaining leadership position in China's sanitary napkin and diaper market.*

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“Growing with you for a better life” has always been the mission of Hengan International. Hengan International has been engaged in the provision of personal hygiene products since 1985, starting out as a manufacturer to become today’s consumer-focused personal hygiene products corporation with manufacturing facilities. Throughout the years, Hengan International has implemented a quality-oriented business strategy and aggressively expanded the innovativeness of its technologies to improve product quality and introduce new products. The Group has made a name for itself with its technological competency.

For the year ended 31st December 2001, turnover of the Group increased 4.7% to HK\$1,217,754,000. Profit attributable to shareholders increased by 8.6% to HK\$227,232,000.

Earnings per share was HK 22.8 cents (2000: HK 20.9 cents). The Board has resolved to recommend the payment of a final dividend of HK 10 cents per share (2000: HK 8 cents). Taking into account the interim dividend of HK10 cents per share, the annual dividend amounted to HK 20 cents per share (2000: HK 18 cents).

During the year under review, sanitary napkins (including pantliners) continued to be the Group’s core products, accounted for 70.8% of the total turnover. Sales of baby diapers recorded tremendous growth during the year, climbing from 16% of total turnover last year to 22% this year.

In China, the market penetration rate of sanitary napkins maintained at approximately 52%. Due to the low entry barrier in terms of capital requirement, small manufacturers continued to flood the low-end sanitary napkin market. Small manufacturers are operating with more flexibility, which enabled them to enjoy certain competitive advantages under the existing market environment. After witnessing two consecutive years of dramatic decline, the decline in sales of “Anle” ordinary sanitary napkins revealed slight improvements during the year. However, the overall sales of sanitary napkins is still not performing satisfactorily, and the market is facing challenges in every aspect.

The consumer market has always been one of the main drivers for China’s economic growth. China’s successful accession into the WTO brings forth numerous business opportunities for all industries and at the same time stimulates the consumer market. However, China’s accession into the WTO also creates challenges for domestic enterprises as many multinational corporations are watching the tremendous PRC market closely.

Although the “Go West” project is still currently at its initial stage, its impact on the consumer market cannot be overlooked. This development can stimulate and promote growth of the consumer market and when the economy is moving westbound, the amount of business activities will be increased. This applies to the daily necessities market and the cosmetics market and thus the future looks promising.





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The baby diapers business in China has demonstrated much potential for further development and growth. With the gradual increase in domestic household income and the rise in the number of young parents, the domestic baby diapers market still has tremendous room for further growth and expansion. In view of the



low market penetration rate of approximately 3% only, we are optimistic about the growth of the baby diapers market.

Innovation and technologies support the Group's continuous improvements and development. Hengan International endeavors to enhance its technological competency by integrating the concept of studying, researching and commercializing. Looking ahead into the future, the Group's strategies will focus on research and development of unique and specialty products, in order to solidify and increase competitiveness of its core products in each and every market segment. The Group will monitor closely the needs of the market and will restructure and fine-tune its sales channels to further strengthen its relationship with end-users.

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Following China's accession into the WTO, 2002 will be a year full of business opportunities and development in the consumer products market will be very active. Hengan International has flourished and grown prosperously amidst intense competition and is used to competing in a constructive manner with internationally acclaimed corporations. We are confident that accession into the WTO will stimulate business activities across all major cities and provinces in China and further activate consumer products market. The increasing demand of product quality and taste will also benefit corporations, such as Hengan International, that dedicates much effort to improving product quality and credibility of brandname and image.



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In order to grasp the opportunities, the Group is aggressively arming itself by engaging a globally renowned management consultancy firm, Thomas Group, to help streamline its business processes. By increasing operational efficiency and strengthening internal communications, the overall operational efficiency and profitability of the Group will be improved. At the same time, we will also increase market promotion efforts, reinforce our brandname as well as improve our competitive edges with an aim to establish and implement the most appropriate sales strategies for the different market segments and to grasp each market opportunity.

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" to provide a healthy and affluent living for our consumers, and to bring satisfactory returns to our shareholders.

Sze Man Bok
Chairman

Hong Kong, 8th March 2002