



## BUSINESS REVIEW

Turnover of the Group for the six months ended 30 June 2002 amounted to HK\$548,440,000, representing a decrease of HK\$60,055,000 or 9.9% over the same period last year. Profit attributable to shareholders amounted to HK\$89,864,000, representing a decrease of 21.2% over the same period last year. Earnings per share were HK9.03 cents (2001: HK11.5 cents).

The drop in the sales revenue during the period was mainly a result of the continuing decline in sales volume of feminine sanitary napkins. Furthermore, sales of hygiene materials to other sanitary napkins manufacturers also decreased significantly which further affected the sales revenue. Gross profit margin improved significantly over the period which was attributable to the general decline in prices of most of the raw materials. The gradual reduction of import tariff for most of the imported raw materials following China's accession into the WTO also contributed to the lower material costs. In addition, the use of new raw materials, especially for the low-end products, has helped reducing the costs of raw materials. Notwithstanding the fact that there was an improvement in gross profit, there was a decline in net profit for the period which was a result of the significant increase in administrative expenses. The increase in administrative expenses was mainly caused by the payment of consultancy fee and specific provision made for obsolete inventories and overdue receivables.

### Sanitary Napkins

During the period under review, feminine sanitary napkins remained the core products of the Group, the sales of which accounted for 75% (2001: 71%) of the total sales.

Sales of "Anerle" winged napkins saw a slight decline of 2.3% comparing to the same period last year due to keen competition from other products. During the period, the Group continued its efforts in promoting the new product "Space 7" sanitary napkins series that performed relatively satisfactory. However, sales of other existing products were falling behind. Sales of pantliners were steady but the growth was slowing down due partly to the increasing competition and partly to the fact that the market is consolidating after the high growth achieved in the past few years.

The low-end sanitary napkin market is still flooded by smaller players and Hengan International continued losing its market and sales revenue dropped another 10% during the period when comparing to the same period last year. In view of this, the Group has made improvement to the functional quality of its products sold under the "Anle" brand name. These improved products are now no longer ordinary low-end products and sales of which have improved significantly.

### Diapers Business

After the significant growth last year, the baby diapers market as a whole was consolidating over the period and the Group's sales have recorded a decline of 8%, sales revenue reached HK\$108,638,000 (2001: HK\$118,025,000) and accounted for 19.8% of the total sales. In view of the apparent huge market potential, more and more smaller manufacturers were evolving over the period. Competition is increasing and prices are being put under pressure.

Sales of adult diapers increased by 24% to HK\$5,599,000 and most of which are export business as the domestic market is still preliminary.

### Distribution Business

Benefiting from the significant sales growth of the tissue paper business, the Group's commission from acting as a distribution agent for a related company has increased significantly to HK\$7,663,000 (2001: HK\$3,471,000).