



Well prepared for challenges has been our everlasting belief. We shall aggressively guide the Group to step forward and position the Group as a pioneer in the personal hygiene market.

Aiming at satisfying the needs of consumers, Hengan International pays much attention on market development, and strives to bring in the most returns with its resources. With its mission of 'Growing with you for a better life', and setting customer-orientation and quality as its top priorities, the Group has evolved from being a manufacturer to a reputable personal hygiene corporation within a mere decade.

2002 was a challenging year for the Group. Competition of the hygiene products market in China remained keen, and the market was experiencing consolidation, which led a continual drop in products price. Given the situation, the Group continued to strengthen its innovativeness, improved the quality of sanitary napkins and baby diapers and strengthened centralized management and quality control, sales and promotions, etc., so as to increase the Group's core competitiveness, resulting in the improvement in cost-efficiency.

For the year ended 31st December 2002, turnover of the Group was HK\$1,115,404,000 representing a decrease of 8.4% as compared with the previous year. Profit attributable to shareholders fell 12.1% to HK\$199,710,000. Earnings per share was HK 20.1 cents per share (2001: HK 22.8 cents). The Board has resolved to recommend the payment of a final dividend of HK 10 cents per share (2001: HK 10 cents). Taking into account the interim dividend of HK 8 cents per share, the annual dividend amounted to HK 18 cents per share (2001: HK 20 cents).

The main reason for the decline in results was the keen competition of the napkins and baby diapers market in China, which directly affected the sales for the products. In the past year, sanitary napkins (including pantliners) continued to be the main products of our corporation, contributing approximately 70.2% to the total turnover. Sale of baby diapers experienced a slight decline and accounted for approximately 22.7% of the total turnover.

Upon entrance into the WTO, China's economy kept growing at a steady pace. At the same time living standard of citizens has continued to improve. The sanitary napkins market is relatively matured with a penetration rate of approximately 53% and continue to grow with an annual rate of approximate 3-4%. However, attributed to a relatively low entry barrier with multinational enterprises targeting at the high-end market, coupled with the flooding of smaller manufacturers in the low-end market, sales of sanitary napkins continued experiencing a tough time.



Besides, after the two-year rapid expansion, the baby diapers market was stagnant and demand for the product has slowed down. Together with the entry of small manufacturers into the market, the Group recorded a slight decrease in turnover from this business segment. Given the low market penetration of the baby diapers and the rising household income, together with the general reduction in the price of baby diapers, the product demand would continue to increase. Therefore, the Group believes its diapers business still has its development and growth potential.

Chairman's Statement

To enrich the Group's product series, the Group acquired the brand name "Missmay" during the year and established Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd. 恒安麗人堂 (吉安) 日化有限公司 for the sales and distribution of skin care products, paving the path for the Group to diversify its business.

Although facing strong competition, the Group is confident about its future development and will continue to implement its long-term objectives. The Group strives to push the brands "Anle", "Anerle (安爾樂)", "Anerle (安兒樂)", "ElderJoy" and "Missmay" to become top choices for consumers, and maintain Hengan International's leading position in China's personal hygiene industry.

Well prepared for challenges has been Hengan International's believe. The Group will closely monitor market changes and react to them appropriately, and will strive to optimize product quality and technology innovation. Simultaneously we shall develop unique products, enhance market share and profitability in different regions. We will further strengthen our logistics and human resources management, reinforce nationwide distribution channels, exert even more effort in promotion and strengthen brand image in order to provide better products to consumers. At the same time, we shall aggressively guide the Group back onto the right track, and position the Group as a pioneer in the personal hygiene market.



In the coming years, China's economic will continue to experience steady growth. While the consumer market is expected to continue developing, competition is also expected to become more intense. Hengan International has already in the past competed with renowned international brand name enterprises and successfully recorded growth. The management strongly believes that the Group will only benefit when consumers continue chasing after higher product quality and taste.

Lastly, I would like to take this opportunity to express my gratitude to our shareholders, clients, consumers, business partners as well as our staff. Being an established enterprise that provides diversified personal hygiene products, Hengan International will continue to pursue its mission - "Growing with you for a better life", to provide a healthy and affluent living for consumers, and to bring satisfactory returns to our shareholders.



Sze Man Bok

Chairman

Hong Kong, 25th March 2003