



“ *L*everaging on
our renowned
brandnames and
distribution network,
Hengan endeavors to
diversify its product
portfolio to meet the
needs of the market and
maximize the returns for
our shareholders.”

Hengan International Group Company Limited (“Hengan International” or the “Group”) has always placed customers and quality as its top priorities. Embracing its corporate mission of “Growing with you for a better life” throughout the years, the Group has grown to become a renowned personal hygiene corporation with many prestigious brands in the PRC market.

2003 was a year of substantial growth for the Group. Although competition in China’s personal hygiene product market remained keen, the adjustments in product structure, complemented by the nationwide sales strategies, facilitated the Group in achieving stable growth from the existing products. In addition, the Group also brought in new income streams by way of acquisitions so as to strengthen the Group’s profitability.

For the year ended 31st December 2003, turnover of the Group was HK\$1,688,512,000, representing an increase of 51.4% as compared to the previous year. Profit attributable to shareholders increased 27.7% to HK\$254,988,000 and earnings per share was HK 24.9 cents (2002: HK 20.1 cents). The Board has resolved to recommend the payment of a final dividend of HK 12 cents per share (2002: HK 10 cents). Together with the interim dividend of HK 10 cents per share, the annual dividend amounted to HK 22 cents per share (2002: HK 18 cents).

During the year under review, sanitary napkins (including pantliners) continued to be the core products of the Group, contributing approximately 47.5% to the total turnover. Sales of baby diapers also showed a significant increase, contributing approximately 18.8% to the total turnover. “Missmay” skincare and cleansing products also witnessed growing market acceptance, with sales revenue contributing approximately 4.4% to the total turnover. The tissue paper business acquired by the Group during the year also stimulated the growth momentum and with only seven and a half months period following completion of the acquisition, it already contributed HK\$409,846,000 of revenue, representing 24.3% of the total turnover.

After years of rapid development, the sanitary napkin market has accumulated a high penetration rate throughout the country. Given the low entry barriers of the industry, new entrants continued to intensify market competition and it is expected that it will take some time before there will be consolidation in the market. Amidst such intense market environment, the Group has adjusted its product mix and adopted flexible pricing strategy so as to maintain its market share. As such, sales showed a slight improvement.



CHAIRMAN'S STATEMENT

During the year, the satisfactory growth of the China's baby diaper business was mainly attributable to the improvement in the living standards, which in turn stimulated the continuous demand for disposable baby diapers. In addition, with the Group's quality products, nationwide distribution channels and appropriate marketing strategies, sales of the Group continued to record satisfactory growth during the year.

In the wake of the Severe Acute Respiratory Syndrome ("SARS") outbreak during the first half of the year, people became more aware of personal hygiene. Benefiting from such crisis, cleansing products under the "Missmay" series witnessed a steady development, as evidenced by the growing turnover during the year.

With the determination of becoming the leading corporation in the personal hygiene industry, the Group acquired the "Hearttex" tissue paper business in May 2003. With the ever-increasing demand for quality tissue paper, the "Hearttex" tissue paper business will continue to flourish at a rapid rate, bringing fruitful returns and revenue contribution to the Group.

The Group has established a sturdy foundation for future development amidst the intense market competition. The Group has accumulated several prestigious brands, including "Anle", "Anerle" (安爾樂), "Anerle" (安兒樂), "Missmay" and "Hearttex". The Group will closely monitor the market trends and changes, bring in advanced production facilities and technology when appropriate, refine the packaging design of its products and launch unique products which suit market needs in order to enhance market share and profitability in every region so as to surpass its competitors in China's personal hygiene product market.



Turnover by Regions

NORTH-WESTERN

	2003	2002
Sales Value: (HK\$ million)	91	58
Percentage of Total Sales:	5.4%	5.2%

NORTHERN

	2003	2002
Sales Value: (HK\$ million)	153	84
Percentage of Total Sales:	9.1%	7.5%

NORTH-EASTERN

	2003	2002
Sales Value: (HK\$ million)	120	81
Percentage of Total Sales:	7.1%	7.3%

SHANDONG

	2003	2002
Sales Value: (HK\$ million)	147	82
Percentage of Total Sales:	8.7%	7.4%

EASTERN

	2003	2002
Sales Value: (HK\$ million)	228	146
Percentage of Total Sales:	13.5%	13.1%

CENTRAL

	2003	2002
Sales Value: (HK\$ million)	269	181
Percentage of Total Sales:	15.9%	16.2%

SICHUAN

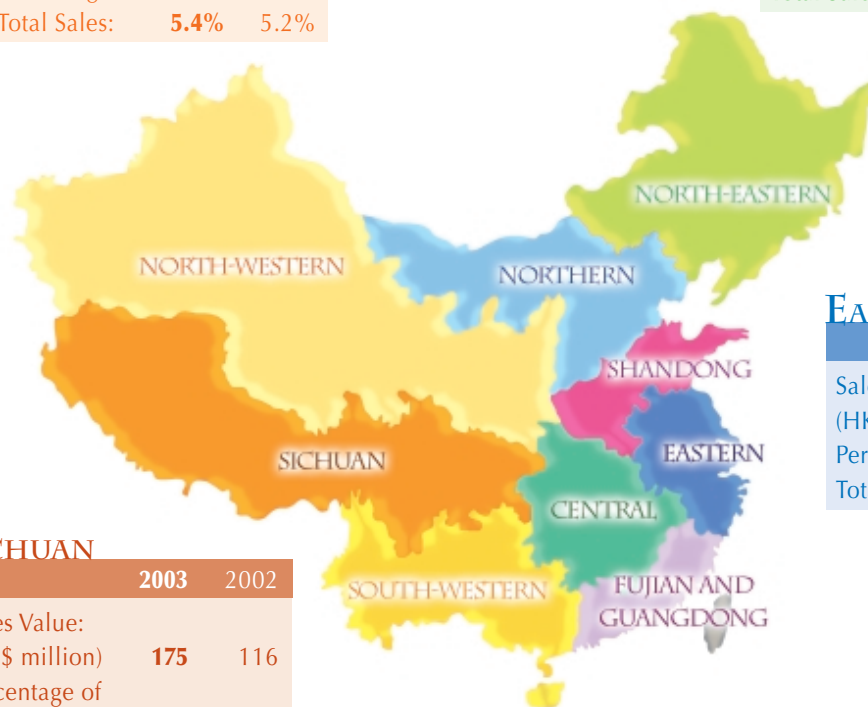
	2003	2002
Sales Value: (HK\$ million)	175	116
Percentage of Total Sales:	10.4%	10.4%

SOUTH-WESTERN

	2003	2002
Sales Value: (HK\$ million)	132	82
Percentage of Total Sales:	7.8%	7.3%

FUJIAN AND
GUANGDONG

	2003	2002
Sales Value: (HK\$ million)	353	274
Percentage of Total Sales:	20.9%	24.7%



Lastly, I would like to take this opportunity to express my gratitude to our shareholders, clients, consumers, business partners as well as all staff members for their support to the Group. 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 consumers with a healthy and affluent living style and to bring satisfactory returns to our shareholders.

Sze Man Bok
Chairman

Hong Kong, 23rd March 2004