

# Chairman's Statement



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## CHAIRMAN'S STATEMENT

Hengan International Group Company Limited (“Hengan International” or the “Group”) always place customers and quality of products as its priorities. With its corporate mission of “Growing with you for a better life” and corporate culture of “integrity, diligence, innovation and dedication”, the Group provides quality personal hygiene and household cleansing products to customers.

As an enterprise holding many renowned brands in personal hygiene products industry, Hengan International continues to develop new products and enhance product quality. By exploring sales channels, strengthening its sales network and customer relationships, Hengan International endeavors to maintain its leading market position in the China Market.

The mainland China personal hygiene products market remained highly competitive in 2004. Some low-end products saw an over-supply and the overall market experienced tremendous pressure on product price and profit. Nevertheless, by adjusting the products sales mix, injecting more resources in developing mid-to-high-end products and implementing proactive marketing strategies, the Group successfully attained satisfactory growth in both sales and profitability.

For the year ended 31st December 2004, the Group’s turnover was approximately HK\$2,334,293,000, representing an increase of approximately 38.2% as compared to the previous year. Profit attributable to shareholders increased approximately 16.8% to approximately HK\$297,930,000 and earnings per share were approximately HK 28 cents (2003: HK 24.9 cents). The Board recommended the payment of a final dividend of HK 12 cents per share (2003: HK 12 cents per share). Together with an interim dividend of HK 10 cents, the annual dividend amounted to HK 22 cents per share (2003: HK 22 cents per share).

During the year under review, tissue paper business achieved a remarkable growth and became the Group’s major source of revenue, accounting for approximately 41.8% of the turnover of the Group. In addition, the Group’s sanitary napkin and diaper business recorded sustainable growth, accounting for approximately 34.8% and approximately 18% of the Group’s total turnover respectively.

After years of development, the penetration rate of the China sanitary napkins markets has exceeded 60%. As the entry barrier for low-end products was relatively lower, numerous competitors entered into the market which sold their products at low prices and triggered intense market competition. Amidst such market conditions, the Group adjusted its product portfolio and injected more resources to develop mid-to-high-end personal hygiene products. Together with its flexible pricing strategy, sales of the Group’s high-end products, such as “Space 7” and “Young Lady” series, continued to increase and were well accepted by the market.



“Hearttex” tissue paper business is the Group’s major growth contributor. Following the growth of the economy, the income and living standards of Chinese people have been gradually improving. The personal hygiene level of general public has elevated while the demand for high quality tissue paper has increased. During the year under review, “Hearttex” tissue paper maintained its leading market position in the mainland China, and recorded sustainable growth in sales and contributed satisfactory revenue and profit for the Group.

## CHAIRMAN'S STATEMENT



The demand for diapers in the PRC market continued to rise. Leveraged on the Group's prominent product quality and marketing and sales strategies, sales of diapers surged.

Sales of "MissMay" skin cleansing and care products decreased during the year. Therefore, the Group, has improved the packaging and quality of these products, formulated a new promotional strategy, strengthening its brand image and positioning with innovative designs. The Group is confident in reviving the sales of "MissMay" skin cleansing and care products.

The Group is dedicated to consolidating its leading market position in the mainland China and expanding overseas market for personal hygiene products. In March 2004 the Group acquired 70% equity interest in Hengan Pharmacare Company Limited ("Hengan Pharmacare"), a Hong Kong based personal care and first-aid products distribution company, at a consideration of HK\$14,000,000. Hengan

Pharmacare is principally engaged in the sales of personal care and pharmaceutical products under the brand names of "Banitore", "Bandi", "Comfitore", etc, mainly in Hong Kong and Southeast Asia, and is a stable revenue source for the Group.

Looking ahead, the Group will stay abreast of changes in market demand, take up advanced production technology and packaging design and, together with effective sales and marketing strategies, endeavor to maintain eminent competitiveness of its products and achieve sustainable business growth.

Lastly, I would like to take this opportunity to express my heartfelt gratitude to our shareholders, clients, consumers, business partners as well as all staff members for their continuous support. Being an established enterprise providing comprehensive personal hygiene products under numerous renowned brands, 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.



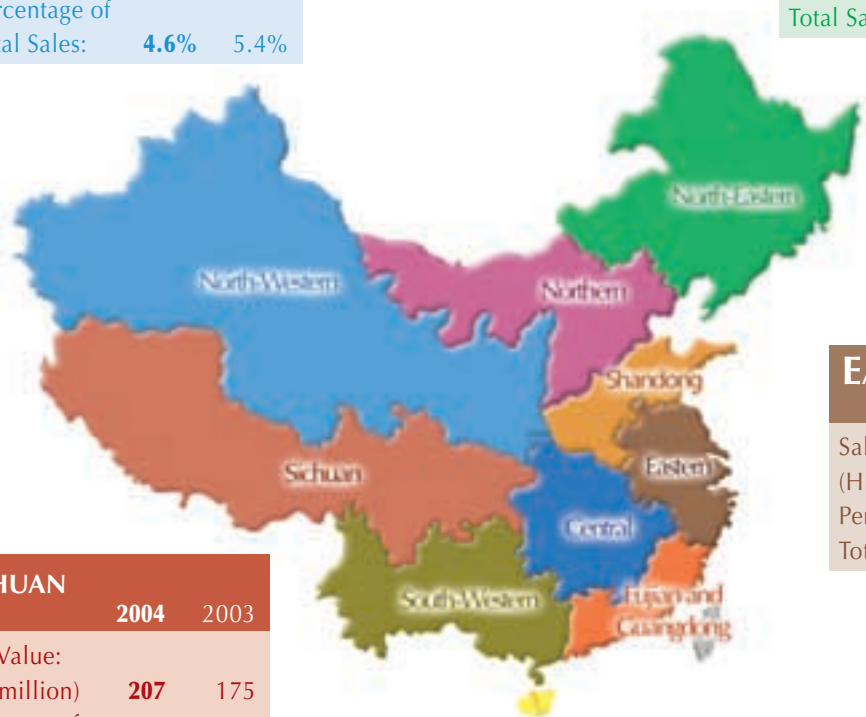
# CHAIRMAN'S STATEMENT

## Turnover by Regions in Mainland China

NORTH-WESTERN		
	2004	2003
Sales Value: (HK\$ million)	<b>107</b>	91
Percentage of Total Sales:	<b>4.6%</b>	5.4%

NORTHERN		
	2004	2003
Sales Value: (HK\$ million)	<b>244</b>	153
Percentage of Total Sales:	<b>10.4%</b>	9.1%

NORTH-EASTERN		
	2004	2003
Sales Value: (HK\$ million)	<b>191</b>	120
Percentage of Total Sales:	<b>8.2%</b>	7.1%



SHANDONG		
	2004	2003
Sales Value: (HK\$ million)	<b>212</b>	147
Percentage of Total Sales:	<b>9.1%</b>	8.7%

EASTERN		
	2004	2003
Sales Value: (HK\$ million)	<b>354</b>	228
Percentage of Total Sales:	<b>15.2%</b>	13.5%

SICHUAN		
	2004	2003
Sales Value: (HK\$ million)	<b>207</b>	175
Percentage of Total Sales:	<b>8.9%</b>	10.4%

CENTRAL		
	2004	2003
Sales Value: (HK\$ million)	<b>349</b>	269
Percentage of Total Sales:	<b>14.9%</b>	15.9%

SOUTH-WESTERN		
	2004	2003
Sales Value: (HK\$ million)	<b>152</b>	132
Percentage of Total Sales:	<b>6.5%</b>	7.8%

FUJIAN AND GUANGDONG		
	2004	2003
Sales Value: (HK\$ million)	<b>471</b>	353
Percentage of Total Sales:	<b>20.2%</b>	20.9%

**Sze Man Bok**  
Chairman

Hong Kong, 22nd March 2005