

CHAIRMAN'S STATEMENT



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Hengan International Group Company Limited ("Hengan International" or the "Group") always conforms to the corporate mission of "Growing with you for a better life" and endeavors to consolidate its leading market position in mainland China with emphasis on customer satisfaction and product quality. By actively developing sales and marketing channels, enhancing product quality, expanding production capacity and optimizing product mix, the Group is committed to offering quality personal hygiene and household cleansing products to consumers and has successfully emerged as a leading enterprise in the personal hygiene product market.



The Group possesses a strong portfolio of well-established brands, of which "Hearttex" tissue paper was accredited "China Renowned Brand" and "China Top Brand" while "Anerle" sanitary napkin was accredited "China Renowned Brand" by General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, representing extensive market recognition towards the Group's prominent product quality.

In 2005, the personal hygiene product market in mainland China continued to experience a robust growth with overwhelming demand. However, the market remained highly competitive. Meanwhile, although production cost increased as a result of escalating raw material costs, the Group successfully controlled its average production cost through enhancement of internal production efficiency, with measures including shortening of workflow and reduction of raw material wastage rate, as well as the achievement of economies of scale. In addition, the adoption of floating exchange rate mechanism in July 2005 led to an appreciation of Renminbi, which also helped to reduce overall raw material costs and improve the Group's profitability.

For the year ended 31 December 2005, the Group's turnover was approximately HK\$3,030,122,000, representing an increase of approximately 32.1% as compared to the previous year. Profit attributable to shareholders increased by approximately 51.1% to approximately HK\$450,291,000 and earnings per share were approximately HK 41.7 cents (2004: HK 28 cents). The Board recommended the payment of a final dividend of HK 16 cents per share (2004: HK 12 cents). Together with an interim dividend of HK 12 cents per share, the annual dividend amounted to HK 28 cents per share (2004: HK 22 cents).

During the year under review, tissue paper business recorded a remarkable growth and continued to be the Group's major source of revenue, accounting for approximately 41.6% of total turnover. In addition, diaper and sanitary napkin (including pantiliner) businesses also attained impressive growth, accounting for approximately 21.6% and 32.0% of total turnover respectively.

The Group reinforced its marketing efforts in promoting higher-end tissue paper series, and remained as the market leader in mainland China. As the demand for tissue paper products always exceeds supply, the Group proactively expanded production capacity. Phase I of the newly established Shandong production base commenced production in late August of 2005, which further expanded the Group's production capability.

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Diaper business recorded impressive growth during the year under review with the Group's business gradually extended to 3rd and 4th tier cities, towns and villages, creating immense development potential. During the year, the Group's exertion in improving product quality and implementing stringent cost control measures, successfully offset the impact of increase in raw material costs and achieved encouraging sales performance.

For the year under review, as raw material costs for sanitary napkins continued to rise, a number of small and medium-sized sanitary napkin manufacturers in mainland China experienced operation difficulties and some of them ceased production or closed down their businesses. Thus, the Group captured part of the market share of these small and medium-sized manufacturers. Besides, increase in income of Chinese people and improvement in living standard expedited market demand for quality feminine hygiene products. In this connection, Hengan International concentrated on developing mid-to-high-end "Anerle" brand feminine hygiene products, of which the

"Space 7" series was especially well received by the market. Together with the growth of sales of high-margin pantliners products, sanitary napkin business brought forth satisfactory profit contribution to the Group.

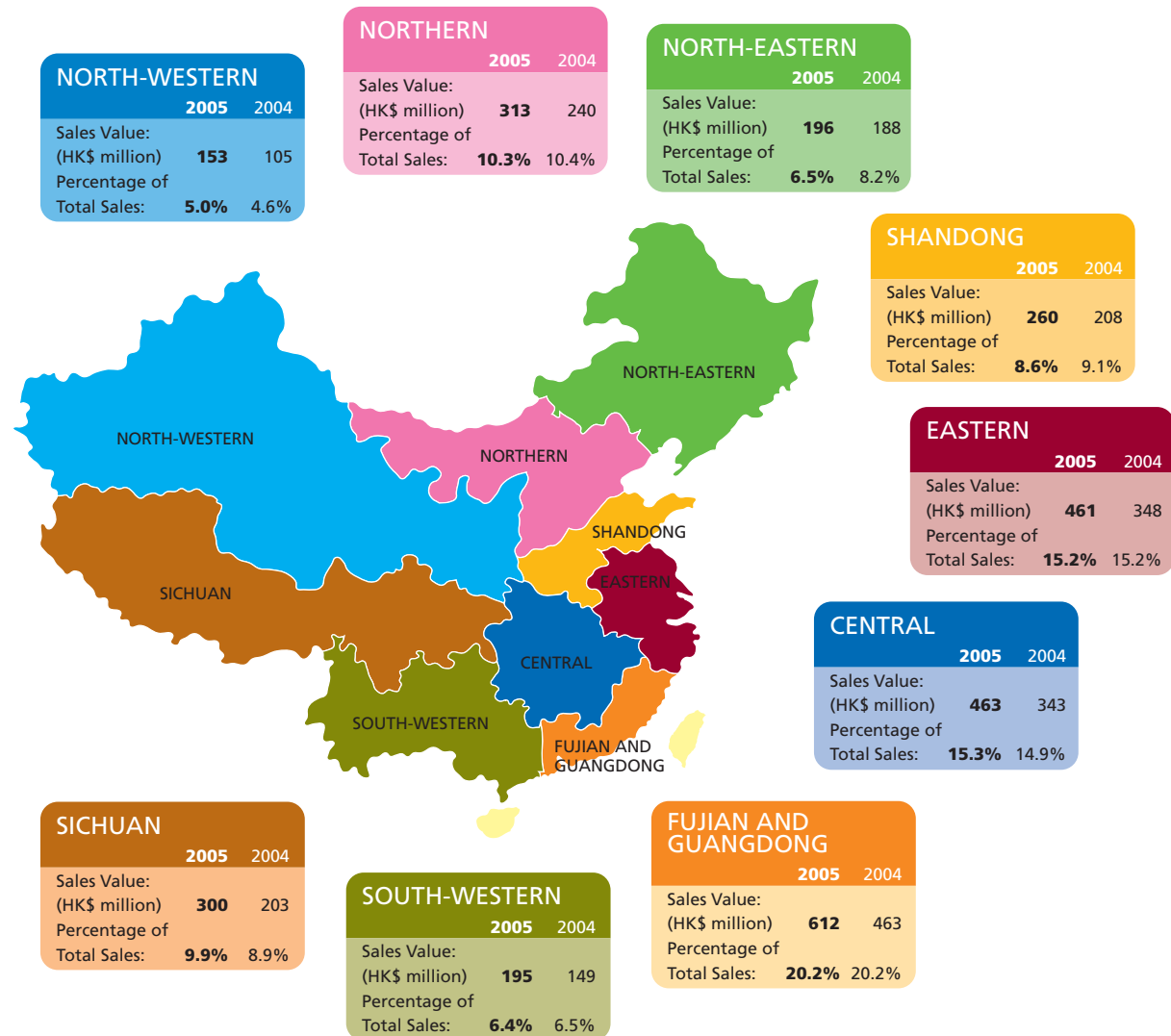
Looking ahead, the Group will proactively diversify its product portfolio and expand production capacity, especially for tissue papers and diapers, in order to capture arising market opportunities. Moreover, Hengan International will further produce more mid-to-high-end products with higher profit margin while optimizing product mix and strengthening marketing efforts, so as to provide comprehensive and quality products to consumers.

On behalf of Hengan International, I would like to express my heartfelt gratitude to our shareholders, customers, business partners as well as all staff members. With your full support and precious contribution, Hengan International has become a leading personal hygiene and care product enterprise and will continue to offer full-fledged superior products and create a healthy and affluent living style to consumers as well as to bring fruitful returns to our shareholders.



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TURNOVER BY REGIONS IN MAINLAND CHINA



Sze Man Bok
Chairman

Hong Kong, 21 March 2006