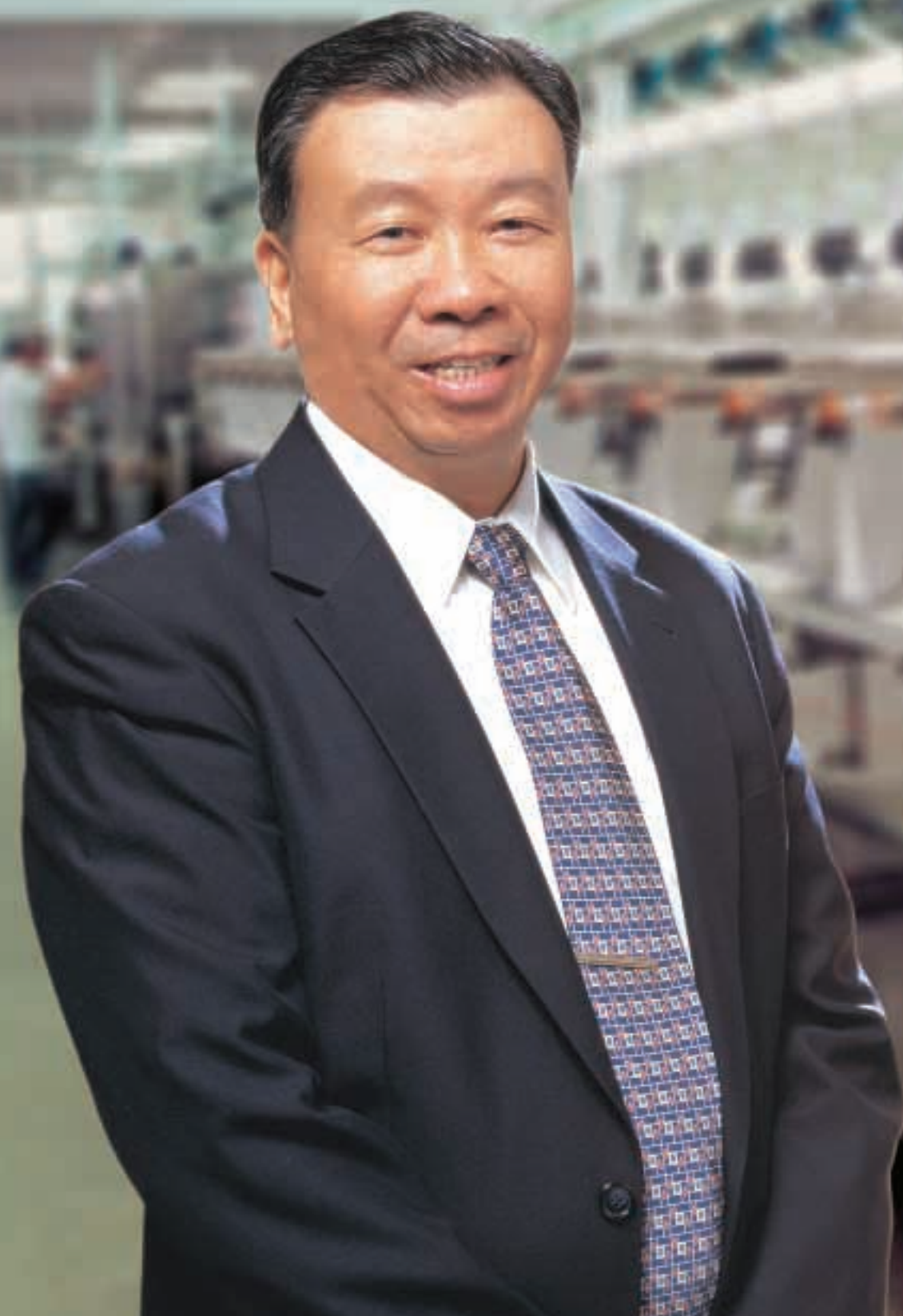


CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present the annual results of the Group for the year ended 31 December 2006. During 2006, the Group's business continued to develop rapidly and achieved robust growth, which further consolidated its leading position in personal hygiene and household cleansing product market in mainland China.

During the year under review, the Group recorded encouraging results, with growth in turnover and profit attributable to shareholders. For the year ended 31 December 2006, the Group's turnover was approximately HK\$4,114,943,000, representing an increase of approximately 35.8% as compared with that of the previous year. Profit attributable to shareholders increased by approximately 54.7% to approximately HK\$696,624,000. Earnings per share amounted to approximately HK64.5 cents (2005: HK41.7 cents). The Board of Directors recommended the payment of a final dividend of HK25 cents per share (2005: HK16 cents). Together with the interim dividend of HK18 cents per share (2005: HK12 cents), the annual dividend amounted to HK43 cents per share (2005: HK28 cents).



Over the years, the Group has been dedicated to enhance shareholder value by taking relevant measures including the payment of satisfactory dividend and optimisation of financial structure. During the year, the Group issued zero-coupon convertible bonds due 2011 and raised approximately HK\$1.5 billion for future development. As such, the Group is well-positioned to continue to grasp market opportunities for sustainable development in personal hygiene and household cleansing product industry.

The Group also received international recognition with its sound operation and sustainable profitability. During the year, the Group ranked as one of the "Top Enterprises in China" by Forbes, which was a proof of its international core competitiveness.

ECONOMIES OF SCALE HIGHLIGHTS UNRIVALLED EDGE AMIDST KEEN MARKET COMPETITION

The improving Chinese economy boosted the demand for personal hygiene products amidst intensified market competition. In addition, high raw material prices imposed tremendous pressure on the operation of certain small-to-middle size manufacturers, resulting in suspension in production or closure of these companies. However, the Group continued to expand production scale to achieve better economies of scale and successfully controlled average production cost at a relatively low level through enhancing internal production efficiency, such as optimising production process and reducing raw material wastage.

A HOUSEHOLD BRAND NAME OF DIVERSIFIED PRODUCTS CATERING TO DIFFERENT NEEDS

The Group has developed a wide range of products for its tissue paper, sanitary napkin and disposable diaper businesses, so as to cater for different customer needs. Furthermore, the Group continued to add value to its products by enhancing its product series towards mid-to-high-end markets.

Capitalising on its quality products, the Group has established enviable brand reputation with increasing awareness. The Group's "Hearttex" tissue paper brand was accredited "China Renowned Trademark" and

CHAIRMAN'S STATEMENT

"China Top Brand" and its "Anerle" sanitary napkin brand was accredited "China Renowned Trademark". During the year, "Hearttex" was ranked as one of the "Top 10 Teenagers Favorite Brands in Quanzhou" while "Anerle" was elected as one of the "10 Economic Brands" in Fujian. All these accreditations represented extensive recognition by the public towards the Group's meticulous product quality.

STRENGTHEN CORPORATE GOVERNANCE AND BE A RESPONSIBLE CORPORATE CITIZEN

Hengan International endeavors to maintain and improve corporate governance standard. In order to realise its commitment to shareholders and fulfill its responsibilities to regulatory bodies, the Group has been dedicated to strengthen internal controls and ensure the compliance with the Code of Best Practice.

For social responsibilities, the Group will continue to fulfil its responsibilities as an excellent corporate citizen and actively participate in charity events, such as books donation, scholarship, charity competition and donation of products. In view of the significant effectiveness of these meaningful activities, the Group will continue to take part in charity events and regard performing social responsibilities as part of our corporate development.

FUTURE PLANS AND MISSION

Looking ahead, the Group will proactively diversify its product portfolio and increase its production capacity, in order to capture immense market potential. Moreover, Hengan International will further produce more mid-to-high-end products with higher profit margin, enhance product mix and strengthen market promotion, so as to provide consumers with comprehensive and quality products.

Entering its 22 years of operation, Hengan International has attained impressive accomplishment, which was attributable to the exertions of the management and staff. 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 strong support and valuable contribution, Hengan International has developed into a leading enterprise of personal hygiene products. In the future, we are committed to offering full-fledged quality products, creating healthy and affluent living style to consumers, as well as bringing fruitful returns to our shareholders.



CHAIRMAN'S STATEMENT

Turnover by Regions in Mainland China



	2006	2005
NORTH-WESTERN		
Sales Value: (HK\$ million)	187	153
Percentage of Total Sales:	4.5%	5.0%
NORTHERN		
Sales Value: (HK\$ million)	446	313
Percentage of Total Sales:	10.8%	10.3%
NORTH-EASTERN		
Sales Value: (HK\$ million)	278	196
Percentage of Total Sales:	6.8%	6.5%
SHANDONG		
Sales Value: (HK\$ million)	369	260
Percentage of Total Sales:	9.0%	8.6%
EASTERN		
Sales Value: (HK\$ million)	662	461
Percentage of Total Sales:	16.1%	15.2%

	2006	2005
CENTRAL		
Sales Value: (HK\$ million)	616	463
Percentage of Total Sales:	15.0%	15.3%
FUJIAN AND GUANGDONG		
Sales Value: (HK\$ million)	780	612
Percentage of Total Sales:	19.0%	20.2%
SOUTH-WESTERN		
Sales Value: (HK\$ million)	248	195
Percentage of Total Sales:	6.0%	6.4%
SICHUAN		
Sales Value: (HK\$ million)	412	300
Percentage of Total Sales:	10.0%	9.9%

Sze Man Bok
Chairman

Hong Kong, 21 March 2007