



Annual Results 2002



恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Agenda

- Financial Highlights
- Business Review
- Future Plans and Strategies
- Outlook for 2003
- New Business Initiatives
- Open Forum



Financial Highlights

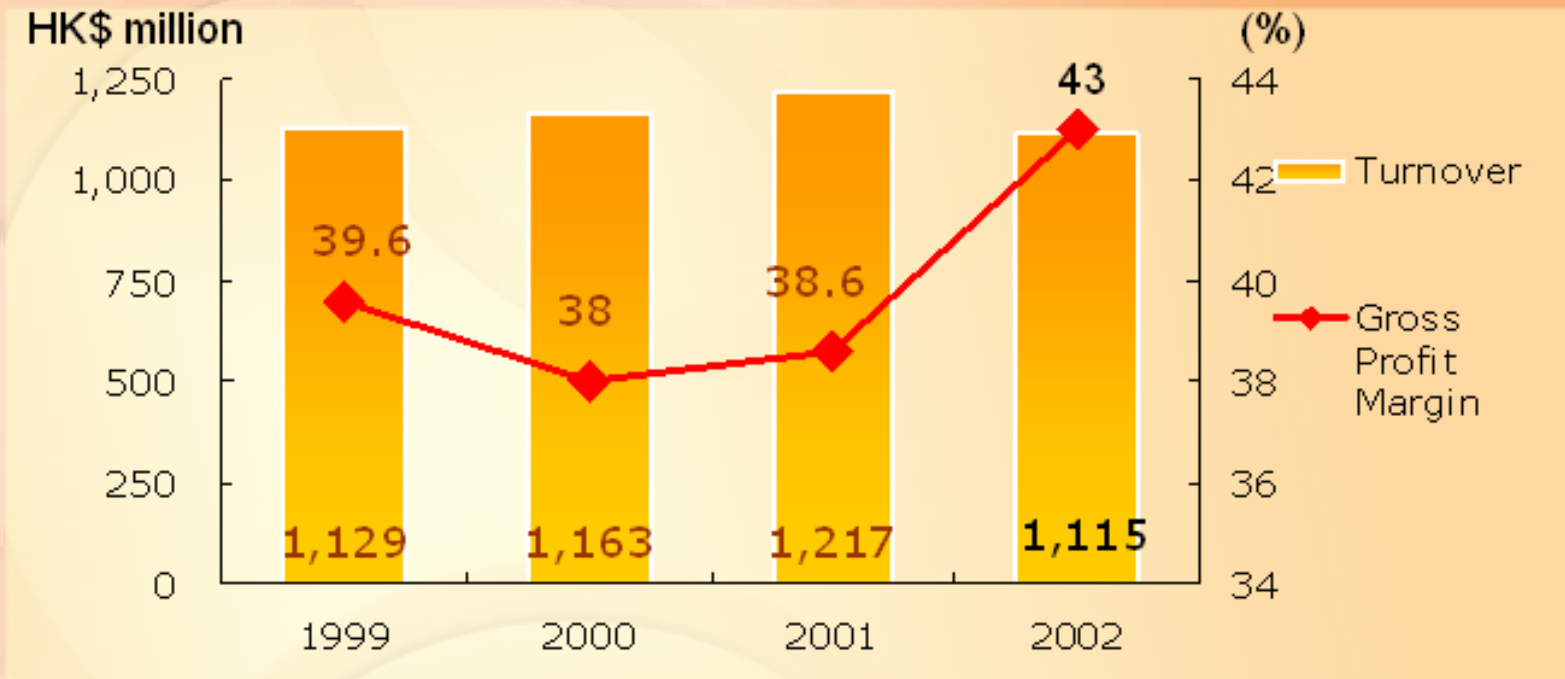


2002 Annual Results

| <i>(HK\$ '000)</i> | <i>2002</i> | <i>2001</i> | <i>Change (%)</i> |
|-------------------------|------------------|------------------|-------------------|
| Turnover | 1,115,404 | 1,217,754 | -8.4 |
| Cost of Sales | (635,808) | (747,832) | N/A |
| Gross Profit | 479,596 | 469,922 | +2.1 |
| Operating Profit | 220,248 | 247,211 | -10.9 |
| Net Profit | 199,710 | 227,232 | -12.1 |
| Dividend | | | |
| - Interim | 8 cents | 10 cents | |
| - Final | 10 cents | 10 cents | |



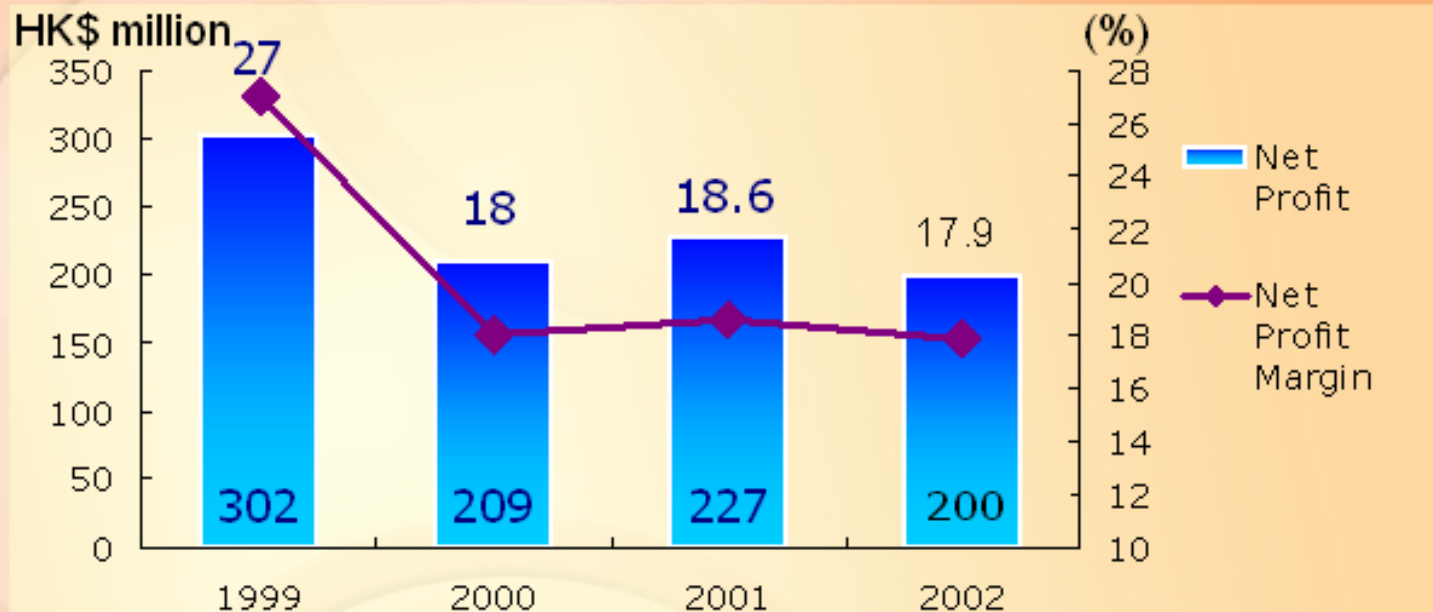
Operating Data Analysis



- **Lower raw material cost and gradual reduction of import tariffs for raw materials post China's entry into WTO, coupled with a more efficient purchasing process resulted in the improvement in gross profit margin**
- **Sales of pantliners maintained an upward trend thanks to its current low penetration rate**
- **Sales of sanitary napkins and baby diapers declined as market competition intensified**



Operating Data Analysis



- Selling and administrative expenses increased substantially to \$ 309 million, accounted for 27.7% of the total turnover
- The increase was caused by the payment of consultancy fee, increased marketing resources and costs related to the organization restructuring
- With our strengthened internal control system, more efficient operation flow was achieved and management related cost will be controlled in the future



Turnover Breakdown by Products

| <i>Year ended 31 Dec (HK\$million)</i> | 2002 | 2001 | Change(%) |
|--|------------|------------|--------------|
| Sanitary Napkins | 650 | 736 | -11.6 |
| Pant liners | 133 | 126 | +5.5 |
| Baby Diapers | 253 | 268 | -5.5 |
| Cosmetics Products | 17 | - | N/A |
| Others | 62 | 88 | -29.5 |



Key Figures

| (HK\$) | 2002 | 2001 | Change (%) |
|-------------------------------------|------------------|------------------|--------------|
| Cash on Hand | 710m | 547m | +29.7 |
| Finished Goods Turnover | 72 days | 56 days | +28.6 |
| Accounts Receivable Turnover | 28 days | 28 days | - |
| Current Ratio | 7.5 times | 5.7 times | +31.6 |
| Gearing Ratio | Nil | Nil | - |

- Net cash inflow of HK\$311m from operating activities and less capital expenditures during the year



Business Review



Sanitary Napkins

Reasons for the decline

- Intensifying market competition
- Regional and local players are more aggressive
- New products launch not fast enough
- Not much emphasis on brand & image building

Plans and Strategies

- New TVCs and packaging
- Upgrade functional quality of "Anle" products
- Accelerate new product development and launch
- Reinforce cooperation with distributors and strengthen management of national accounts



Baby Diapers

Reasons for the decline

- Immature market consolidating
- Multinational brands become more aggressive
- Smaller players evolving
- Increasing market competition led to pricing pressure
- Insufficient investment in brand building and market promotion

Plans and Strategies

- Enhance sales and market promotions
- New products and pricing strategies
- Further improve the quality of products
- Increase sales through strengthening management of national accounts



Other Business

Tissue Distribution Business

- Benefiting from a surge in sales revenue, commission income from acting as distribution agent for a related company increased significantly to HK\$ 15.7 million

Adult Diapers

- Sales of adult diapers increased
- Focus on overseas markets as domestic market not ready

Skin Care Products

- Launched new skin care and cleansing products under the brand name "Missmay"
- New products launched included facial cream, bath gel, facial cleanser, etc.
- Contributed sales of HK\$ 17 million



Future Plans and Strategies



Brand Building



Maximize the economies of scale and enhance Hengan's corporate image



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Outlook for 2003



Challenge and Opportunities

- Competition remains keen
- Be responsive to market changes
- Diversify product portfolio to make better use of company resources
- Speed up new products launch
- Brand and image building through increased advertising and promotion
- Strengthen both traditional and modern distribution channels
- Enhance profitability through
 - improving operating efficiency
 - controlling costs and expenses



Acquisition of Hearttex Group



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Corporate mission



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Corporate mission

Objective

“Growing with you for a better life”

Corporate spirit

“Integrity, Diligency, Innovation and Dedication”

Goal

“to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team”

To become China's leading corporation in feminine hygiene products, diapers and family hygiene products



Highlights of the Acquisition



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Highlights of the Acquisition

| | | | | | |
|-----------------------------------|--|------|-------|-----------------------------|--|
| Acquiring assets | <ul style="list-style-type: none"> ■ United Wealth, which owns a 68.9% equity interest in Changde Hengan Paper Products Co. Ltd. (“Changde Hengan”) ■ Changde Hengan and its three subsidiaries (together “Hearttex Group”) are principally engaged in the manufacture and sale of raw tissue paper, facial tissue paper and hygiene tissue paper products <ul style="list-style-type: none"> ■ Well-recognised brandname: “Hearttex” (心相印) ■ Market share: 17% (2001) ■ Production capacity: 77,000 tons/year | | | | |
| Considerations and payment method | <ul style="list-style-type: none"> ■ Consideration to HK\$416.13 million (Initial Consideration-HK\$375 million; Earn-out Payment – HK\$41.13 million) ■ Payment method of Initial Consideration (6.884 times of the profit guarantee): <hr/> <p>Unit: HK\$m</p> <table> <tr> <td>Cash</td><td>262.5</td></tr> <tr> <td>Consideration shares (Note)</td><td>44,554,455 shares at issue price HK\$ 2.525</td></tr> </table> <hr/> <p>Note: Representing 4.3% of the enlarged capital</p> | Cash | 262.5 | Consideration shares (Note) | 44,554,455 shares at issue price HK\$ 2.525 |
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| Consideration shares (Note) | 44,554,455 shares at issue price HK\$ 2.525 | | | | |
| Profit guarantee | <ul style="list-style-type: none"> ■ 2003 audited profit: not less than HK\$54.47 million, earn-out payment up to HK\$41.13 million | | | | |



Corporate and business structure



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Corporate and business structure

- After the Acquisition, Hengan International will become a completed paper hygiene product group with popular brandnames
- The organization chart of Hengan International immediately after the Acquisition is as follows:



Note: A nominee company holding shares of Hengan International on behalf of certain directors and senior management of Hengan International Group and their family members



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About Hearttex Group



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Focused business

- Operation commenced in 1997
- Products types of Hearttex Group are as follows:






- With ISO9002 certification in both quality control and product quality
- A market leader in the PRC tissue industry with market share of 17% and ranked No.1 in the PRC in 2001



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Leading market position and well-recognized brandname

- A market leader in the PRC tissue industry since 2001:

| Products | Market share and ranking | |
|----------------------|---|---|
| | 2000 | 2001 ^(Note) |
| Facial tissue paper | 18%  | 17%  |
| Hygiene tissue paper | 6%  | |

Source: China General Chamber of Commerce/ China National Commercial Information Centre (中國商業聯合會/中華全國商業信息中心)

Note: Only overall ranking for facial tissue and hygiene tissue is available

- A well-recognized brandname of “Hearttex” (心相印)
 - One of the PRC well-known trademarks of tissue paper products named by The Household Paper Technology Centre of China Light Industry Group Corporation (中國輕工集團生活用紙技術中心)

Well-developed distribution network

- A well-developed distribution network comprising 48 distribution points covering major provinces and cities in the PRC

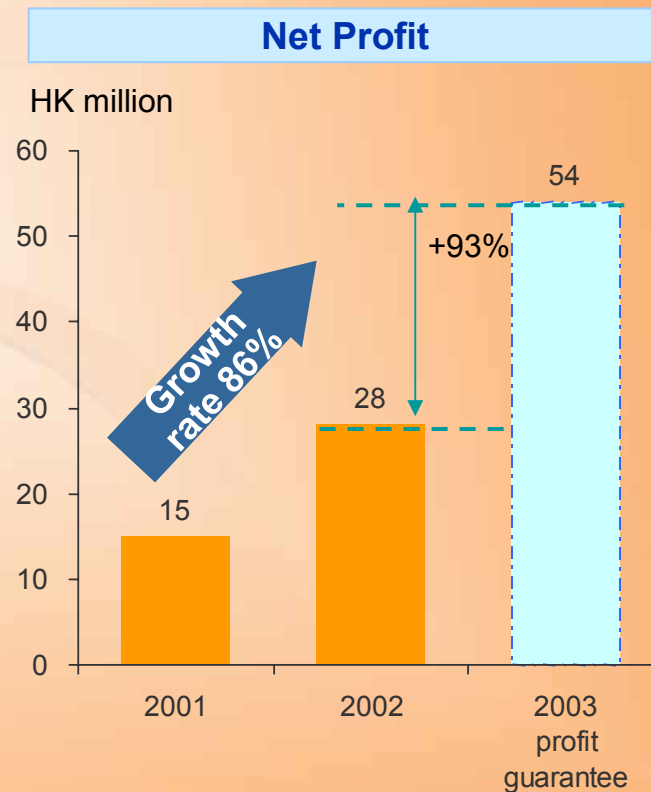
2003 target

79 distribution points covering most part of the PRC



Fast-growing financial performance

- Recorded growth rate of 20% and 86% in turnover and net profit of the Acquiring Assets, respectively in the last two years



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Future plan

To continue *the marketing and sales network development*

To expand *the production base*

To seek *merger and acquisition opportunities*

To establish *modern enterprise system*

To launch *IPO and tap the PRC capital market*

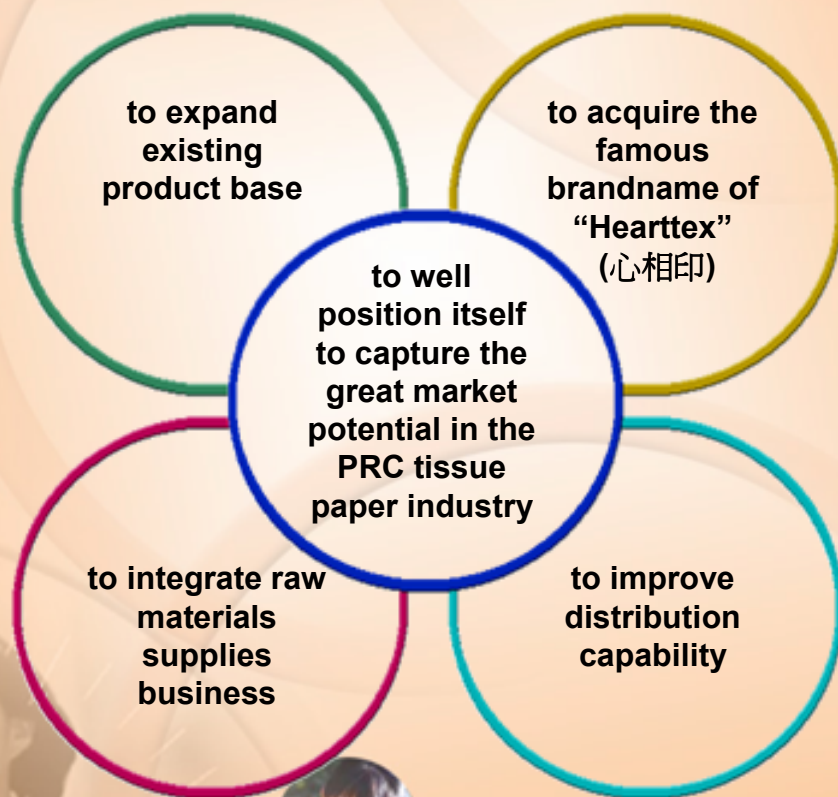


Reasons and benefits



Further promote the achievement of Hengan International's mission

The Acquisition will enable Hengan International



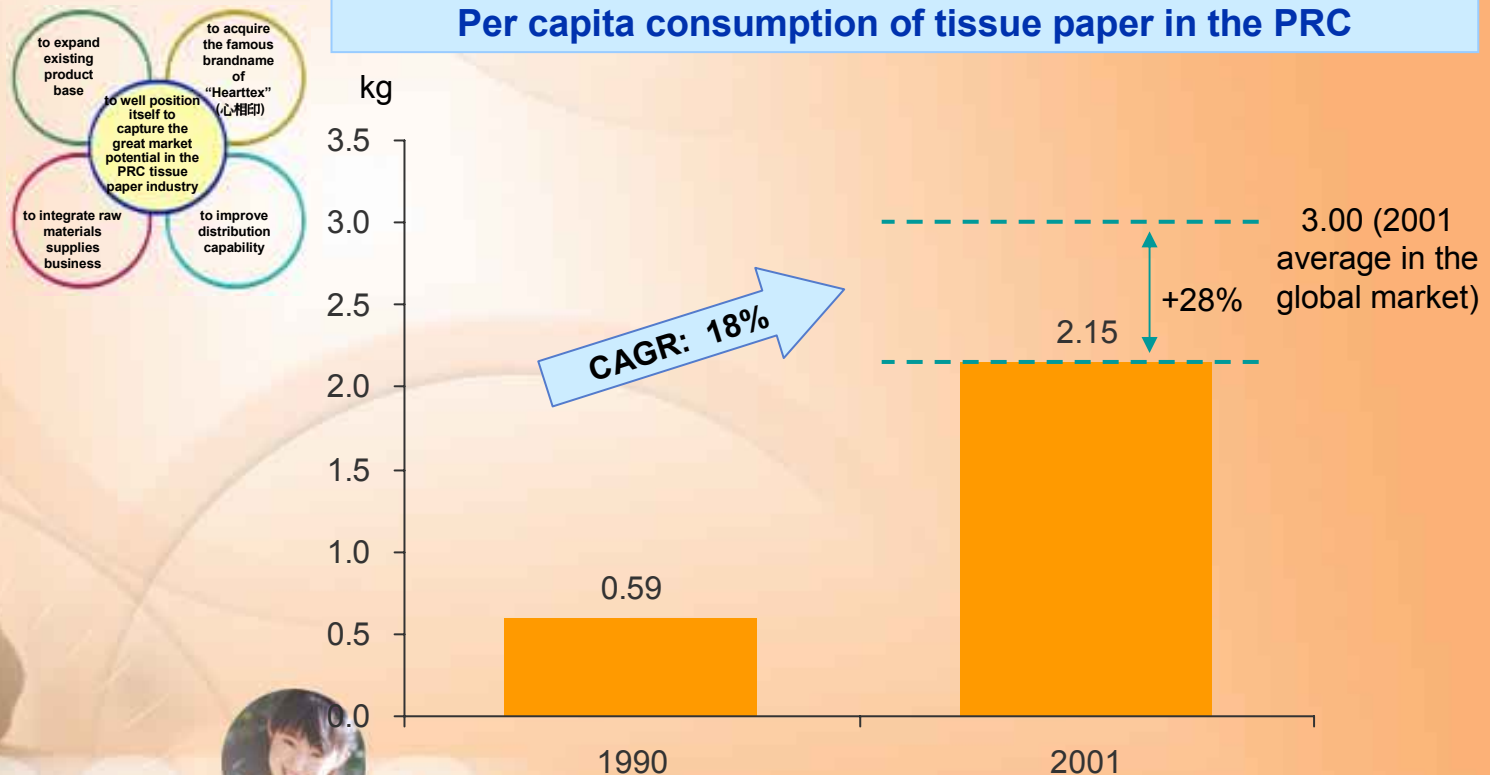
Hengan International's mission

To become China's leading corporation in feminine hygiene products, diapers and family hygiene products



Capture the great market potential in the PRC tissue paper industry

- Per capita consumption of tissue paper in the PRC in 2001 is still 28% lower than that of the global market



Expand existing product base

- Position Hengan International as one of the largest domestic comprehensive household and personal care product manufacturers in the PRC



Present products of Hengan International

Sanitary napkins



Disposable diapers



Products immediately after the acquisition

Tissue paper products



Sanitary napkins



Disposable diapers



Acquire a well-recognized brandname, business integration and improve distribution capability



- Enables to acquire "Hearttex" (心相印) and grasp the opportunity to secure a strong presence in the PRC tissue paper product market



- Allows to integrate raw materials supplies business



- Helps improve distribution capability and efficiency by strengthening the foundation for better penetration throughout the PRC market



Open Forum

