

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31st December 2001.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are manufacturing, distribution and sale of personal hygiene products comprising sanitary napkins and disposable diapers, mainly in the People's Republic of China (the "PRC").

(a) An analysis of the Group's turnover and contribution to the operating profit by business segments is as follows:

	2001		2000	
	Contribution to			Contribution to
	Turnover	operating profit	Turnover	operating profit
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sanitary napkins and disposable diapers	1,140,345	230,770	1,063,747	210,213
Hygiene materials and others	77,409	7,948	99,489	6,071
	1,217,754	238,718	1,163,236	216,284

(b) The geographical analysis of the Group's turnover is shown as follows:

	2001		2000	
	Turnover	Percentage	Turnover	Percentage
	(HK\$ million)	of total sales	(HK\$ million)	of total sales
The PRC				
Northern	160	13.1	172	14.8
Eastern	145	11.9	146	12.6
Fujian	539	44.3	494	42.4
Central	159	13.0	152	13.1
South-western	209	17.2	198	17.0
Overseas	6	0.5	1	0.1
	1,218	100	1,163	100

Results and Appropriations

The results for the year are set out in the consolidated profit and loss account on page 31.

The Directors had declared an interim dividend of HK 10 cents per share, totalling HK\$99,531,000, which was paid on 8th October 2001.

The Directors recommend the payment of a final dividend of HK 10 cents per share, totalling HK\$99,531,000.



Movements in the reserves of the Group and the Company are set out in Note 20 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$1,286,000 (2000: HK\$1,537,000).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in Note 10 to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in Note 18 to the accounts.

Five-Year Financial Summary

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 4 to 5.

Purchase, Sale or Redemption of Shares

The Company did not redeem any of the Company's shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

Directors

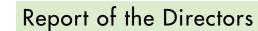
The Directors during the year were:

Executive Directors

Mr. Sze Man Bok Mr. Hui Chi Lin Mr. Yeung Wing Chun Mr. Hung Ching Shan Mr. Zhang Shi Pao Mr. Xu Da Zuo Mr. Xu Chun Man Mr. Poon Fuk Chuen Non-Executive Director Mr. Paul M. Theil (resigned on 7th September 2001)

Independent Non-Executive Directors Mr. Chan, Henry Ms. Guan Tao Ms. Wong Ying Kay, Ada

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Chan, Henry, Ms. Guan Tao and Ms. Wong Ying Kay, Ada retire, and being eligible, offer themselves for re-election.



Directors' Service Contracts

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 17 to 20.

Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

The related party transactions entered into by the Group during the year ended 31st December 2001 as disclosed in Note 23 to the accounts constituted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The transactions disclosed in Note 23 to the accounts were conducted by the Group in accordance with the waiver granted by the Stock Exchange. In respect of these transactions:

- (a) The Independent Non-Executive Directors of the Company have reviewed and confirmed that:
 - (i) the transactions have been entered into in the ordinary and usual course of business of the Group;
 - (ii) the transactions have been entered into on an arm's length basis and on normal commercial terms;
 - (iii) the transactions are on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
 - (iv) the transactions have been entered into either (1) in accordance with the terms of the agreements governing such transactions, or (2) where there is no such agreement, on terms no less favourable than terms available to third parties so far as the shareholders of the Company are concerned;
 - (v) in the year ended 31st December 2001, the aggregate amounts of tissue paper purchased by the Group from Changde Hengan Paper Products Co., Ltd. ("Changde Paper"), a company beneficially owned by the Executive Directors of the Company, except for Mr. Poon Fuk Chuen, do not exceed 3% of the total cost of sales of the Group for that year; and
 - (vi) in the year ended 31st December 2001, the aggregate commission receivable by the Group from the distribution of packaged tissue paper products do not exceed 3% of the Group's consolidated audited net tangible assets for that year.
- (b) In the opinion of the Directors, the transactions have been entered into in the manner as stated in paragraph (a)(i) to (vi) above.



Directors' Interests in Equity or Debt Securities

At 31st December 2001, the interests of the Directors in the shares, warrants and options of the Company, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

(a) Ordinary share of HK\$0.10 each of the Company

	Number of		Percentage of
Name of Directors	shares	Nature of interest	interest
Mr. Sze Man Bok	220,286,000	Personal interest	22.1324%
Mr. Hui Chi Lin	200,000,000	Personal interest	20.0942%
	6,630,224*	Family interest	0.6661%
Mr. Yeung Wing Chun	41,250,000	Personal interest	4.1444%
	45,619*	Family interest	0.0046%
Mr. Hung Ching Shan	9,120,000	Personal interest	0.9163%
Mr. Zhang Shi Pao	14,644,027*	Personal interest	1.4713%
Mr. Xu Da Zuo	20,270,135*	Personal interest	2.0366%
Mr. Xu Chun Man	19,783,445*	Personal interest	1.9877%

* These interests were held by Hengan International Investments Limited, a nominee company holding shares of the Company on behalf of certain directors and senior management of the Group and their family members.

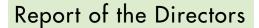
(b) Share options

Under the Share Option Scheme approved by the shareholders of the Company on 10th November 1998, the Directors may, at their discretion, within a period of ten years from 10th November 1998, make offers to Executive Directors or employees of the Group to take up options to subscribe for shares of the Company, subject to the terms and conditions stipulated therein. No options had been granted under the scheme as at 31st December 2001.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures, of the Company or any other body corporate.

Substantial Shareholders

At 31st December 2001, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the Directors as disclosed above.



Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

Corporate Governance

The Directors are of the opinion that the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except for Guideline 7 that non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr. Chan, Henry, Ms. Guan Tao and Ms. Wong Ying Kay, Ada. Two meetings were held during the current financial year.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

Pension Scheme

The Group participates in defined contribution retirement schemes administered by local government in different part of China ("Central Schemes"). The Group also maintains a defined contribution pension scheme ("Hengan Scheme") for those full time employees who wish to participate in the Hengan Scheme on a voluntary basis. Both the Group and the employees are required to make cash contribution calculated as a percentage of the employees' basic salaries to either Central Schemes or the Hengan Scheme. The funds of the Hengan Scheme are placed with a local financial institution and are managed by a representative committee of the Group's employees.

Report of the Directors

With effect from 1st December 2000, the Group also operated the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. The employer and the employee have to contribute in total an amount equal to 10% of the relevant income of the employee to the MPF Scheme. The maximum contribution by the Group and each relevant employee is subject to a cap of HK\$1,000 per month. Contributions from the employer are vested in the employees as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

The aggregate employer's contributions under the above schemes dealt with in the profit and loss account of the Group for the year ended 31st December 2001 amounted to approximately HK\$1,252,000.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board Sze Man Bok Chairman

Hong Kong, 8th March 2002