

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31st December 2003.

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, tissue paper products and skincare and cleansing products, 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 segment is as follows:

	2003		2002	
	Turnover HK\$'000	Contribution to operating profit HK\$'000	Turnover HK\$'000	Contribution to operating profit HK\$'000
Sanitary napkins and disposable diapers	1,137,730	207,578	1,047,852	198,568
Tissue paper products	409,846	78,028	—	—
Skincare and cleansing products, hygiene materials and others	140,936	28,181	67,552	5,182
	1,688,512	313,787	1,115,404	203,750

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

	2003		2002	
	Turnover (HK\$ million)	Percentage of total sales	Turnover (HK\$ million)	Percentage of total sales
The PRC				
Fujian and Guangdong	353	20.9	274	24.7
North-western	91	5.4	58	5.2
South-western	132	7.8	82	7.3
Sichuan	175	10.4	116	10.4
North-Eastern	120	7.1	81	7.3
Northern	153	9.1	84	7.5
Shandong	147	8.7	82	7.4
Eastern	228	13.5	146	13.1
Central	269	15.9	181	16.2
Overseas	21	1.2	11	0.9
	1,689	100	1,115	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 34.

The Directors have declared an interim dividend of HK 10 cents per ordinary share, totalling HK\$103,987,000, which was paid on 15th October 2003.

The Directors recommend the payment of a final dividend of HK 12 cents per ordinary share, totalling HK\$124,784,000.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in note 22 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$4,674,000 (2002: HK\$3,777,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained profits. At 31st December 2003, the reserves of the Company available for distribution to shareholders amounted to HK\$1,446,640,000 (2002: HK\$1,382,181,000), subject to the restrictions stated in note 22 (d) 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 and 5 respectively.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of the Company's shares during the year. Neither the Company nor any of its subsidiaries has 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. Poon Fuk Chuen
Mr. Xu Da Zuo
Mr. Xu Chun Man

Independent Non-Executive Directors

Mr. Chan, Henry
Mr. Chu Cheng Chung
Ms. Guan Tao
Ms. Ada Ying Kay Wong

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Sze Man Bok, Mr. Yeung Wing Chun, Mr. Hung Ching Shan and Mr. Poon Fuk Chuen 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 16 and 17.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the Connected Transactions below, no contracts of significance in relation to the Group's business to which the Company or any of 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

- (1) Pursuant to an acquisition agreement dated 25th March 2003 and a resolution passed on 2nd May 2003 in an extraordinary general meeting of shareholders, the Company completed on 16th May 2003 the acquisition from Mr. Sze Man Bok, Mr. Hui Chi Lin and Mr. Yeung Wing Chun, who are directors and substantial shareholders (except Mr. Yeung Wing Chun) of the Company, the entire issued share capital of United Wealth International (Holdings) Limited (“United Wealth”) and the shareholders’ loans in the amount of HK\$221,500,000 at an initial consideration of HK\$375,000,000 and an earn-out payment of up to HK\$41,130,000. Subsequent to the year-end date, the entire earn-out amount has been certified to be payable.
- (2) As a result of the acquisition referred to in (1) above, Gather Wise Investments Limited (“Gather Wise”), the other major shareholder of United Wealth’s approximately 68.9% owned subsidiary company, Changde Hengan Paper Products Co., Ltd. (“Changde Paper”), is deemed as a connected person to the extent that it is a substantial shareholder of both Changde Paper and all the subsidiaries of Changde Paper (“Paper Subsidiaries”) and accordingly, transactions among certain subsidiaries of the Group are regarded as connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”). During the year, the following transactions were entered into among certain subsidiaries of the Group on normal commercial terms in the ordinary and usual course of business of all the companies concerned.

	2003	2002
	HK\$’000	HK\$’000
Purchase of raw materials from Changde Paper (<i>Note (a)</i>)	10,590	12,501
Commission income received from Changde Paper and Paper Subsidiaries (<i>Note (b)</i>)	6,032	15,759
Sales of products among Changde Paper and Paper Subsidiaries (<i>Note (c)</i>)	226,032	—
Sales of raw materials by Changde Paper to Paper Subsidiaries (<i>Note (d)</i>)	231,604	—
	231,604	—

- (a) Pursuant to a supply agreement entered into by the Company and Changde Paper on 26th November 1998, the Group was granted a non-exclusive right to purchase tissue paper raw materials from Changde Paper at purchase price not less favourable than that offered by Changde Paper to other independent parties in the PRC.
- (b) Pursuant to an agency agreement entered into by the Company and United Wealth on 26th November 1998, the Group was granted a non-exclusive right to distribute the packaged tissue paper products manufactured by United Wealth and its subsidiaries through the Group’s sales network and earns a commission income calculated at a rate of 7.5% (2002: 7.5%) on the total value of net sales.
- (c) Pursuant to an agreement entered into by Changde Paper and Paper Subsidiaries on 15th May 2003, Changde Paper and Paper Subsidiaries were granted a non-exclusive right to distribute among the parties packaged tissue paper products at predetermined unit prices based on average unit prices in the preceding year as well as relevant distribution costs.
- (d) Pursuant to a supply agreement entered into by Changde Paper and Paper Subsidiaries on 15th May 2003, Changde Paper was granted the exclusive right to sell raw materials to Paper Subsidiaries at prices not lower than the market prices of comparable products which are available from independent third parties.

The above transactions 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 normal commercial terms or terms that are no less favourable than terms available from independent third parties;
 - (iii) the transactions are on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
 - (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 independent shareholders of the Company are concerned;
 - (v) in the year ended 31st December 2003, the aggregate amounts of tissue paper purchased by the Group from Changde Paper did not exceed 3% of the Group's audited consolidated net tangible assets as at 31st December 2003;
 - (vi) in the year ended 31st December 2003, the aggregate commission receivable by the Group from the distribution of packaged tissue paper products did not exceed 3% of the Group's audited consolidated net tangible assets as at 31st December 2003;
 - (vii) in the year ended 31st December 2003, the aggregate sales of tissue paper raw materials of Changde Paper to Paper Subsidiaries did not exceed 35% of the Group's audited consolidated cost of sales for the year ended 31st December 2003; and
 - (viii) in the year ended 31st December 2003, the aggregate sales of packaged tissue paper products of Changde Paper to Paper Subsidiaries and of Paper Subsidiaries to Changde Paper did not exceed 14% of the Group's audited consolidated turnover for the year ended 31st December 2003.
- (b) In the opinion of the Directors, the transactions have been entered into in the manner as stated in paragraph (a)(i) to (viii) above.

DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2003, the interests of each director in the shares, short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Name	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of corporation)	Other interests	Total interests	Total interests as % of the relevant issued share capital
Mr. Sze Man Bok	220,335,505	—	—	—	220,335,505	21.19%
Mr. Hui Chi Lin	201,930,693	6,630,224*	—	—	208,560,917	20.06%
Mr. Yeung Wing Chun	43,824,257	45,619*	—	—	43,869,876	4.22%
Mr. Zhang Shi Pao	14,644,027*	—	—	—	14,644,027	1.41%
Mr. Hung Ching Shan	9,120,000	—	—	—	9,120,000	0.88%
Mr. Xu Da Zuo	20,270,135*	—	—	—	20,270,135	1.95%
Mr. Xu Chun Man	19,783,445*	—	—	—	19,783,445	1.90%

* 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.

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 hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SHARE OPTION SCHEME

(1) The terms of the share option scheme of the Company ("Scheme") are summarised as follows:

(i) Purpose of the Scheme

The purpose of the Scheme is to enable employees of the Group to acquire ownership interests in the Company and to encourage employees to work towards enhancing the value of the Company for the benefit of shareholders.

(ii) Eligible Persons

The Board shall have power at any time within the Scheme period to make an offer to any employee (including Directors), as the Board may at its absolute discretion determine and select subject to terms and conditions of the Scheme.

The basis of eligibility of any of the employees to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(iii) Subscription Price

The subscription price for the shares of the Company under the Scheme is to be determined by the Board provided always that it will not be lower than the highest of:

- (a) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the date of offer (which is deemed to be The date of grant if the offer for the grant of an option is accepted by the employee), which must be a business day;
- (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and
- (c) the nominal value of a share.

(iv) Maximum Number of Shares Available for Issue

The maximum number of shares available for issue is 99,531,200, representing approximately 9.57% of the issued share capital of the Company as at the date of this report.

(v) Maximum Entitlement of Each Employee

The maximum number of shares issued and to be issued upon exercise of options granted under the Scheme of the Company to any employee (including both exercised and outstanding options) in any 12-month period from the date of grant shall not exceed 1% of the shares in issue. Any further grant of option in excess of such 1% limit in any 12 month period upto and including the date of such further grant shall be subject to the issue of a circular to the shareholders of the Company and the approval by shareholders with such employee and his associates abstaining from voting.

(vi) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing on the date on which the employee complies in full with the requirements of the Board for the acceptance of the offer and expiring at the close of business on the last date of the 10-year period or the end of the Scheme period, whichever is the earlier subject to the provisions of early termination thereof.

(vii) Acceptance of Offer

An offer for the grant of options must be accepted not less than 30 days after the offer date and must be accompanied by payment of the option price.

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 2nd May 2013.

- (2) No option has been granted under the Scheme as at 31st December 2003.
- (3) No valuation of share options was made as no option has been granted under the Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2003, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Substantial Shareholders	Long position	Capacity	Percentage of issued share capital
J.P Morgan Chase & Co	4,200,000	Beneficial owner	0.40%
	53,920,000	Investment manager	5.19%
	28,938,000	Custodian/Approved lending agent	2.78%
	87,058,000		8.37%

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 of both the external and internal audit and of internal controls and risk evaluation. The committee comprises four independent non-executive directors, namely Mr. Chan, Henry, Ms. Guan Tao, Ms. Ada Ying Kay Wong and Mr. Chu Cheng Chung. Three 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.

SUBSEQUENT EVENT

Pursuant to acquisition agreements dated 23rd March 2004, the Company has conditionally agreed to effectively acquire (i) approximately 31.1% interests in Changde Paper, which at present is held as to approximately 68.9% by the Group; and (ii) 25.0% interests in each of the three subsidiaries which at present are respectively held as to 75.0% by Changde Paper, at an aggregate consideration of HK\$368,093,000. Each of the acquisition agreement is independent of each other and they are not inter-conditional. Following completion of all acquisition agreements, Changde Paper and its subsidiaries will become wholly-owned subsidiaries of the Group.

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, 23rd March 2004