

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31 December 2005.

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, 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 operating profit by business segment is as follows:

	2005		2004	
	Turnover HK\$'000	Contribution to operating profit HK\$'000	Turnover HK\$'000	Contribution to operating profit HK\$'000
Sanitary napkins	971,315	286,471	798,510	190,681
Disposable diapers	654,216	66,726	412,191	38,937
Tissue paper products	1,259,700	197,940	958,679	165,908
Skincare and cleansing products, hygiene materials and others	144,891	11,727	124,167	4,927
	3,030,122	562,864	2,293,547	400,453

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

	2005		2004	
	Turnover (HK\$ million)	Percentage of total sales	Turnover (HK\$ million)	Percentage of total sales
PRC				
Fujian and Guangdong	612	20.2	463	20.2
North-western	153	5.0	105	4.6
South-western	195	6.4	149	6.5
Sichuan	300	9.9	203	8.9
North-eastern	196	6.5	188	8.2
Northern	313	10.3	240	10.4
Shandong	260	8.6	208	9.1
Eastern	461	15.2	348	15.2
Central	463	15.3	343	14.9
Overseas	77	2.6	46	2.0
	3,030	100	2,293	100

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RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 38.

The Directors have declared an interim dividend of HK 12 cents per ordinary share, totalling HK\$129,692,000, which was paid on 13 October 2005.

The Directors recommend the payment of a final dividend of HK 16 cents per ordinary share, totalling HK\$172,923,000.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in Note 30 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$1,571,000 (2004: HK\$847,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 28 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained profits. At 31 December 2005, the reserves of the Company available for distribution to shareholders amounted to HK\$1,699,640,000 (2004: HK\$1,665,731,000), subject to the restrictions stated in Note 30(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.

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DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Yeung Wing Chun
Mr. Hung Ching Shan
Mr. Zhang Shi Pao
Mr. Loo Hong Shing Vincent (appointed on 1 March 2005)
Mr. Xu Da Zuo
Mr. Xu Chun Man

Independent Non-Executive Directors

Mr. Chan Henry
Mr. Chu Cheng Chung
Ms. Guan Tao (resigned on 4 May 2005)
Ms. Ada Ying Kay Wong

In accordance with Article 116 of the Company's Articles of Association, Mr. Chu Cheng Chung, Mr. Zhang Shi Pao and Mr. Xu Da Zuo retire, and being eligible, offer themselves for re-election.

Independent non-executive directors were appointed for a 3-year term expiring on 14 December 2008.

DIRECTORS' SERVICE CONTRACTS

Each of the 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 19 to 21.

DIRECTORS' INTERESTS IN CONTRACTS

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.

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

At 31 December 2005, 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 were as follows:

Name	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	Other interests	Total interests	Total interests as % of the relevant issued share capital
Mr. Sze Man Bok	220,335,505	—	—	—	220,335,505	20.39%
Mr. Hui Lin Chit	205,718,693	6,630,224*	—	—	212,348,917	19.65%
Mr. Yeung Wing Chun	40,794,257	45,619*	—	—	40,839,876	3.78%
Mr. Zhang Shi Pao	12,404,027*	—	—	—	12,404,027	1.15%
Mr. Hung Ching Shan	7,680,000	—	—	—	7,680,000	0.71%
Mr. Xu Da Zuo	20,270,135*	—	—	—	20,270,135	1.88%
Mr. Xu Chun Man	17,653,445*	—	—	—	17,653,445	1.63%
Mr. Loo Hong Shing Vincent	100,000	30,000	—	—	130,000	0.01%

* 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.

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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 of Hong Kong Limited (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 9.21% 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.

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(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 2 May 2013.

- (2) No option has been granted under the Scheme as at 31 December 2005.
- (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 part XV of the SFO shows that as at 31 December 2005, the Company had not been notified of any substantial shareholders' interests and short positions, being 5% 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 21 March 2006.

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.

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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, 21 March 2006