

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2006		2005	
	Turnover HK\$'000	Contribution to operating profit HK\$'000	Turnover HK\$'000	Contribution to operating profit HK\$'000
Sanitary napkins	1,249,468	451,572	971,315	286,471
Disposable diapers	954,512	134,479	654,216	66,726
Tissue paper products	1,789,440	255,946	1,259,700	197,940
Skincare and cleansing products, hygiene materials and others	121,523	21,803	144,891	11,727
	4,114,943	863,800	3,030,122	562,864

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

	2006		2005	
	Turnover (HK\$ million)	Percentage of total sales (%)	Turnover (HK\$ million)	Percentage of total sales (%)
PRC				
Fujian and Guangdong	780	19.0	612	20.2
North-western	187	4.5	153	5.0
South-western	248	6.0	195	6.4
Sichuan	412	10.0	300	9.9
North-eastern	278	6.8	196	6.5
Northern	446	10.8	313	10.3
Shandong	369	9.0	260	8.6
Eastern	662	16.1	461	15.2
Central	616	15.0	463	15.3
Overseas	117	2.8	77	2.6
	4,115	100	3,030	100

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 36.

The Directors have declared an interim dividend of HK18 cents per ordinary share, totalling HK\$194,538,000, which was paid on 18 October 2006.

The Directors recommend the payment of a final dividend of HK25 cents per ordinary share, totalling HK\$270,192,000.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in Note 31 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$1,560,000 (2005: HK\$1,571,000).

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 29 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained profits. At 31 December 2006, the reserves of the Company available for distribution to shareholders amounted to HK\$1,605,694,000 (2005: HK\$1,699,640,000), subject to the restrictions stated in Note 31(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.

REPORT OF THE DIRECTORS

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. Xu Da Zuo
Mr. Xu Chun Man
Mr. Loo Hong Shing Vincent

Non-Executive Director

Mr. Zhang Shi Pao (*redesignation from executive director to non-executive director on 4 July 2006*)

Independent Non-Executive Directors

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

In accordance with Article 116 of the Company's Articles of Association, Mr. Sze Man Bok, Mr. Yeung Wing Chun, Mr. Hung Ching Shan and Mr. Xu Chun Man 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 Director 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 18 to 20.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed under the Continuing 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

The following transactions are regarded as continuing connected transactions under the Rules Governing the Listing of Securities ("Listing Rules"), and are disclosed in accordance with Main Board Chapter 14A of the Listing Rules. These continuing connected transactions between certain connected parties (as defined in the Listing Rules) and the Group also constituted related party transactions as disclosed in note 36 to the consolidated accounts.

	2006	2005
	HK\$'000	HK\$'000
Purchases from Weifang Power		
– electricity energy	13,133	–
– heat energy	9,770	–

Pursuant to agreements dated 12 July 2006 between a wholly-owned subsidiary of the Company and Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power"), the Group purchased electricity energy and heat energy from Weifang Power at prices lower than the prevailing market prices. Weifang Power is 95% beneficially owned by the sons of Mr. Sze Man Bok and Mr. Hui Lin Chit, the executive directors and substantial shareholders of the Company.

The independent non-executive directors have reviewed and confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary course of business of the Group; (b) either on normal terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance with the amount agreed with The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and stated in our announcement dated 12 July 2006.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed – Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board of Directors.

REPORT OF THE DIRECTORS

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

At 31 December 2006, 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	224,323,505	-	-	-	224,323,505	20.76%
Mr. Hui Lin Chit	207,618,693	10,667,058*	-	-	218,285,751	20.19%
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	16,493,445*	-	-	-	16,493,445	1.53%
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.

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.

REPORT OF THE DIRECTORS

(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 9.21% 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.

(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 2006.
- (3) No valuation of share options was made as no option has been granted under the Scheme.

REPORT OF THE DIRECTORS

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 2006, 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 2007.

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.

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 2007