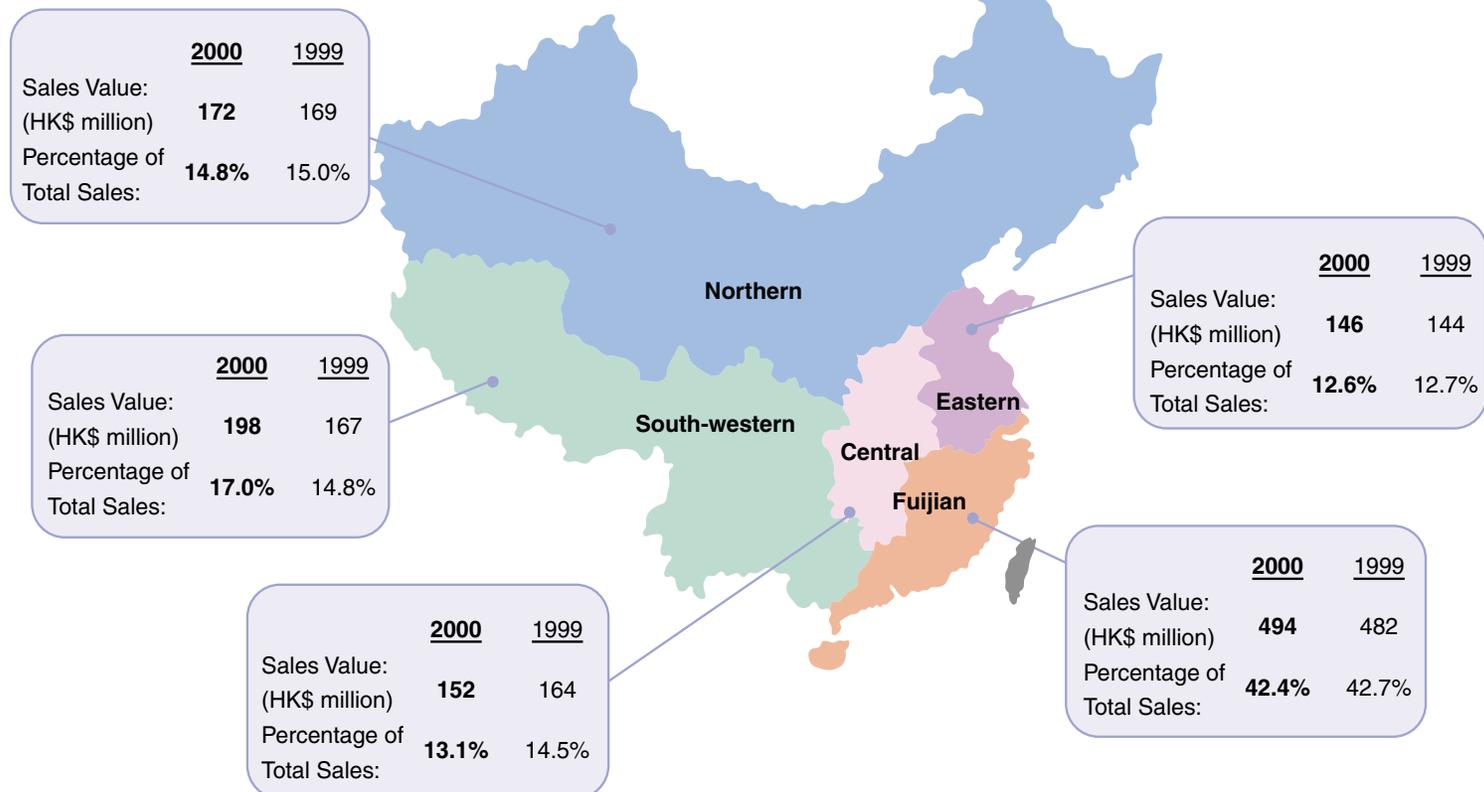


CHIEF EXECUTIVE OFFICER'S REPORT

During the year under review, the Group's adult diapers production line, being the first brand new imported adult diapers production line in China, commenced production and the products are being launched into the market under the "Elderjoy" brand name. Given the adult diapers market is in its nursing stage, it is expected that it will take a long period of time before the market can be tapped. The Group has drawn up sales strategies for capturing the market by stages.



Turnover by Regions



CHIEF EXECUTIVE OFFICER'S REPORT

TURNOVER BY PRODUCTS

	2000 HK\$'000	1999 HK\$'000	Comparison by year (%)
Sanitary napkins	877,215	955,171	-8.2
Disposable diapers	186,532	100,056	+86.4
Others	99,489	74,443	+33.6
	1,163,236	1,129,670	+3.0

PRODUCTION FACILITIES AND SCALE

Acquisition of new equipment and continuous upgrading of existing ones are crucial to the Group in maintaining its pioneer position in the market. In the year under review, through the installation of equipment with world-class technology and upgrading of certain existing facilities, the Group reinforced adjustment of its product mix and uplifted both the quality and ranking of its products.

During the year under review, the Group, with an aim to expand the production capacity, invested approximately HK\$120,000,000 in the purchasing of 14 new production lines, the upgrading of certain existing production lines and the construction of a new production plant for baby diapers. While new equipment were being introduced, there were 15 obsolete production lines for “Anle” ordinary sanitary napkins written-off during the year so as to improve the overall production efficiency. Through the introduction of new equipment, upgrading, renovation of technology and products, the Group’s new products during the year under review included the “Anerle” series of anti-microbacteria sanitary napkins, “Anerle” breathable baby diapers, and “ElderJoy” adult diapers. These activities have substantially enriched the varieties of the Group’s products and is in line with its strategy of multi-branding.

COST CONTROL

While the Group is strengthening its product quality and rigorously implementing the ISO 9002 management standard, it also exercises control over unit cost and production overheads. The Group will further strengthen centralisation of its procurement process and will stress on the selection and application of materials with high and advanced technology. Regular review on the combination of raw materials is carried out so as to control the costs more effectively.

MARKETING STRATEGIES

Brand names are one of the Group's most valuable intangible assets. As it is imminent for China to enter the WTO, the Group understands that brand loyalty becomes more and more important. For this reason, the Group will commit more resources in marketing and for consistent sake, major promotion and advertising campaigns will be centrally planned and organised. As a result, the Group's corporate image can be further enhanced.

In respect of marketing strategies, the Group will review its strategies from time to time according to the needs of different markets. The Group will endeavor to reinforce its traditional sales channels on one hand, and explore modern sales channels on the other. The rural markets will be tapped through traditional channels, where emphasis is placed on promoting medium to low-end products.

In cities and developed regions, the emphasis is on the exploration of modern channels for high-end products of the Group's premium brands, and by strengthening the relationship with the end-users, recognition and reputation of the Group's brands are enhanced and therefore market coverage and market share can be maximised across the board.

DISTRIBUTION BUSINESS

During the year under review, the Group continued to act as the distributor for a related tissue paper manufacturer. This enables the Group to utilise its resources more effectively and capitalise on its nation-wide distribution network, thereby achieving greater cost effectiveness. As there is enormous market potential for tissue paper in China, it is believed that this distribution business will continue to bring attractive commission income to the Group.

In order to utilise more effectively the Group's huge sales network and strength of its brand names, the Group is actively developing other personal hygiene products. Not only will this uplift both the product and corporate image of the Group, it will also bring in additional revenue through its exiting network.

CHIEF EXECUTIVE OFFICER'S REPORT

INVESTMENTS

The Group invested approximately HK\$23,054,000 in Shanghai Jiahua Co., Ltd. (“Jiahua”) in 1999, for an approximately 6.57% interest of Jiahua. This is intended to hold as a long-term investment of the Group. Through the issue of A Shares, Jiahua is going to be listed on the Shanghai Stock Exchange in March 2001. In addition, the Group invested RMB 8,000,000 in a joint venture company engaging in the development and manufacturing of anti-microbacteria products. This 80% owned joint venture has commenced operation and provides anti-microbacteria technology to the Group. Its other products include feminine cleansing lotion and spray. Soft-launches of those new products are being carried out in certain segments of the markets.

FINANCIAL POSITION AND USE OF FUNDS

The Group's financial position remained healthy and as at the end of 2000, the Group's bank balances and cash amounted to HK\$502,410,000 with no borrowings. During the year under review, the Group applied approximately HK\$100,000,000 in the acquisition and upgrading of production equipment, approximately HK\$5,000,000 in the development and acquisition of equipment for its information technology system, and approximately HK\$25,000,000 in the construction and acquisition of production plants and office premises.

HUMAN RESOURCES AND TRAINING

At 31st December 2000, the Group employed approximately 8,000 staff half of which are production workers, 25% of which are salespersons and the remaining comprises management, technical, finance and accounting and general support staff. The Group provides comprehensive training programs to staff including orientation courses for new joiners as well as continuing development programs for existing staff.

Remuneration package is determined with reference to the experience and qualification of individual staff and general market conditions. Year-end bonus is linked to the financial results of the Group as well as performance of the individual. The Group has also a share option scheme available for Executive Directors and employees but no options has been granted under the scheme during the year.

PROSPECTS

Disposable paper products are closely related to consumers and there is ample market potential for personal hygiene products for women, children and the elderly in particular. The Group will continue to focus on its core business. The sanitary napkins market in China is becoming more mature and product diversification and upgrade will be the market development trend. By focusing on product optimization and innovation, and streamlining of its production processes, the Group aims to improve product quality and provide the market with the right products. On the other hand, given the fast growing diaper market in China, the Group will expand the production scale of baby diapers and adult diapers as and when the market changes, with a view to take the Group's turnover to a new high. As the price of fluff pulp has begun to stabilise since the fourth quarter of 2000, it is estimated that the Group's gross profit margin will improve.

The Group will continue to focus on new products development in addition to upgrading of existing products, including strengthening the application of anti-microbacteria technology to sanitary napkins and diapers. By changing and integrating from time to time the use of different types of raw materials, we aim to ensure that new materials and technology developed by the Group can be applied more timely to our products, hence increasing the technological elements of our products.

The Group will continue to capitalise on its extensive sales network, expand its sales channels and establish effective sales management. Through various sales promotion means, the focus will be on promoting new products and reinforcing brand names. Product image of the Group will be enhanced which will eventually help to increase market share.

The Group will continue to strengthen its production management and centralisation of its raw materials procurement processes. Emphasis will be placed on the selection and application of materials with advanced technology. Regular review on the combination of raw materials will be carried out. By controlling the cost more effectively, higher operating efficiency and profitability can be achieved which will result in higher returns to shareholders.

Looking ahead, the Group will proactively identify opportunities and in addition to expanding its domestic market, the Group will also explore overseas markets so as to bring the Group's products to Asian as well as international markets.



Hui Chi Lin

Chief Executive Officer

Hong Kong, 12th March 2001