

REPORT_OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31st December 2000.

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 profit before taxation for the year by business activities is as follows:

	2000		1999	
	Turnover HK\$'000	Profit before taxation HK\$'000	Turnover HK\$'000	Profit before taxation HK\$'000
Sanitary napkins	877,215	184,268	955,171	292,531
Disposable diapers	186,532	38,644	100,056	28,581
Others	99,489	7,868	74,443	1,201
	1,163,236	230,780	1,129,670	322,313

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

	2000		1999	
	Turnover (HK\$ million)	Percentage of total sales	Turnover (HK\$ million)	Percentage of total sales
The PRC				
Northern	172	14.8	169	15.0
Eastern	146	12.6	144	12.7
Fujian	494	42.4	482	42.7
Central	152	13.1	164	14.5
South-western	198	17.0	167	14.8
Overseas	1	0.1	4	0.3
	1,163	100.0	1,130	100.0

RESULTS AND APPROPRIATIONS

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

The Directors had declared an interim dividend of HK10 cents per share totalling HK\$99,531,000 which was paid on 10th October 2000.

The Directors recommend the payment of a final dividend of HK8 cents per share, totalling HK\$79,625,000.

RESERVES

Movements in the reserves of the Group and the Company are set out in note 23 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,537,000 (1999: HK\$2,112,000).

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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 21 to the accounts.

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 four financial years is set out on pages 75 to 76.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased a total of 6,998,000 shares of its own shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), all of which have been cancelled. The Directors considered the share repurchases will lead to an enhancement of the Company’s earnings and shareholders’ value. Details of the shares repurchased during the year are set out as follows:

Month of repurchase	Number of ordinary share of HK\$0.10 each	Price per ordinary share paid		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
July 2000	2,238,000	2.125	1.870	4,567,000
August 2000	4,760,000	2.275	2.125	10,366,000
	6,998,000			14,933,000

None of the Company’s 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 (appointed on 1st April 2000)
Mr. Yue Wai Leung, Stan (resigned on 24th March 2000)

Non-Executive Director

Mr. Paul M. Theil (appointed on 12th July 2000)

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, Messrs. Sze Man Bok, Hui Chi Lin, Yeung Wing Chun, Poon Fuk Chuen and Paul M. Theil 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 18 to 21.

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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 2000 as disclosed in note 26 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 26 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 2000, the aggregate amounts of tissue paper purchased by the Group from Changde Hengan Paper Products Co., Ltd., a company beneficially owned by the Executive Directors of the Company, except for Mr. Yue Wai Leung, Stan and 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 2000, 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 2000, 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

Name of Directors	Number of shares	Nature of interest	Percentage of 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 2000.

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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 2000, 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

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

- | | |
|------------------------------------|-----|
| – the largest supplier | 11% |
| – five largest suppliers, combined | 32% |

None of the Directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

The percentage of sales for the year attributable to the Group's five largest customers is less than 30% of the total sales for the year and therefore no additional disclosure with regard to major customers is made.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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 1 that the Company was unable to hold two full board meetings because one of the Independent Non-Executive Directors of the Company was unable to attend and 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 has established a defined contribution pension scheme (the “Scheme”) covering full time employees in the PRC who wish to participate in the Scheme on a voluntary basis. Both the Group and the relevant employees are required to make a monthly cash contribution equivalent to 10% of the relevant employees’ salaries. The maximum contribution by the Group and each relevant employee is subject to a cap of RMB100 per month. The funds of the Scheme are placed with a local financial institution in Fujian, the China, and are managed by a representative committee of the Group’s employees.

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, 12th March 2001