

## 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

### (b) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.
- (ii) All significant intercompany transactions and balances within the Group are eliminated on consolidation.
- (iii) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.
- (iv) A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.
- (v) In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# NOTES\_TO THE ACCOUNTS

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Property, plant and equipment

- (i) Leasehold land and buildings are stated at valuation. It is the Group's policy to review regularly the carrying value of leasehold land and buildings on an individual basis and adjustment is made where there has been a material change. If it is considered appropriate, independent professional valuations are obtained. Increases in valuation are credited to property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained earnings.
- (ii) Other tangible fixed assets are stated at cost less accumulated depreciation.
- (iii) Leasehold land is depreciated over the period of leases expiring from 2043 to 2063 while buildings and other tangible fixed assets are depreciated at rates sufficient to write-off their cost or valuation over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:
- |  |     |
|--|-----|
| Buildings                                | 5%  |
| Plant and machinery                      | 10% |
| Office equipment, furniture and fixtures | 20% |
| Motor vehicles                           | 20% |
- (iv) Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.
- (v) The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Property, plant and equipment *(Continued)*

(vi) The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (d) Construction-in-progress

Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

### (e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

### (f) Investments

#### (i) Held-to-maturity securities

Held-to-maturity securities are stated at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

# NOTES\_TO THE ACCOUNTS

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (f) Investments *(Continued)*

#### (i) Held-to-maturity securities *(Continued)*

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account.

#### (ii) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at the balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

### (g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Spare parts and consumables are stated at cost less provision for obsolescence.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

### (i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (j) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The books and records of the Company's subsidiaries established in the PRC are maintained in Reminbi. The accounts of overseas subsidiaries and subsidiaries in the PRC expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

# NOTES\_TO THE ACCOUNTS

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Revenue recognition

Revenue from the sale of goods, net of value added tax where applicable, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Government subsidy income, commission income and income from advances to a related company are recognised when the right to receive payment is established.

### (l) Retirement benefit costs

The Group contributes to a defined contribution pension scheme for certain of its employees. Both the Group and the relevant employees are required to make monthly cash contribution equivalent to 10% of the relevant employees' salaries. The maximum contribution by the Group and the relevant employees is subject to a cap of RMB100 per month per employee. The assets of the scheme are managed by an independent administrator. The Group's contributions to this scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

### (m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## 2 REVENUE AND TURNOVER

The Group is principally engaged in the manufacturing, distribution and sale of personal hygiene products in the People's Republic of China ("PRC"). Revenues recognised during the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Turnover		
Sale of goods		
Sanitary napkins	877,215	955,171
Disposable diapers	186,532	100,056
Others	99,489	74,443
	1,163,236	1,129,670
Other revenues		
Interest income	24,963	33,538
Government subsidy income	5,016	15,966
Commission income from a related company	3,024	617
Income from advances to a related company	—	6,583
Others	8,068	16,349
	41,071	73,053
<b>Total revenues</b>	<b>1,204,307</b>	<b>1,202,723</b>

No geographical analysis is provided as less than 10% of the Group's turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside the PRC.

# NOTES\_TO THE ACCOUNTS

## 3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2000	1999
	HK\$'000	HK\$'000
<u>Crediting</u>		
Reversal of write-down of inventories	1,899	—
<u>Charging</u>		
Cost of inventories sold	575,657	556,675
Staff costs	75,076	67,924
Depreciation	54,768	45,177
Operating leases in respect of factory premises and sales liaison offices	9,997	8,824
Repairs and maintenance expenses	9,298	9,376
Retirement benefit costs	581	634
Auditors' remuneration	1,963	1,829
Provision for doubtful debts	21,535	1,536
Loss on disposal/write-off of fixed assets	10,087	287

## 4 FINANCE COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on short-term bank loans	352	7,061
Less: amount capitalised in construction-in-progress	—	(3,286)
	352	3,775
Net exchange loss	823	1,696
Other finance charges	57	169
	1,232	5,640

## 5 TAXATION

	Group	
	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax (Note (a))	—	674
PRC income tax (Note (b))	20,157	17,871
	20,157	18,545

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profits in Hong Kong during the current year (1999: provided at a rate of 16% on the estimated assessable profits of the Group).

# NOTES\_TO THE ACCOUNTS

## 5 TAXATION *(Continued)*

- (b) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable to the PRC subsidiaries of the Group. The PRC subsidiaries of the Group which are categorised as foreign investment enterprises are entitled to preferential tax treatments including full exemption from PRC income tax for two years starting from their first profit-making year following by a 50% reduction for the next consecutive three years. In addition, certain subsidiaries of the Group which are assessed as welfare enterprises are entitled to full exemption from PRC income tax provided that certain conditions are satisfied.
- (c) No provision for deferred taxation has been made in the accounts for the years ended 31st December 1999 and 2000 as the effect of timing differences is immaterial to the Group.

## 6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK\$56,874,000 (1999: HK\$385,647,000), including dividend income from subsidiaries of HK\$51,919,000 (1999: HK\$361,672,000), which is dealt with in the accounts of the Company.

## 7 DIVIDENDS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interim, paid, of HK 10 cents (1999: HK 15 cents) per ordinary share	99,531	152,007
Final, proposed, of HK 8 cents (1999: HK 10 cents) per ordinary share	79,625	100,231
	179,156	252,238

## 8 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$209,160,000 (1999: HK\$302,514,000) and the weighted average number of 999,367,066 (1999: 1,012,426,619) ordinary shares in issue during the year. There is no dilutive earnings per share since the Company has no dilutive potential ordinary shares.

## 9 DIRECTORS' EMOLUMENTS

(a) The aggregate amounts of emoluments payable to directors of the Company (the "Directors") during the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees	475	—
Other emoluments:		
Basic salaries and other allowances	3,077	3,213
Discretionary bonuses	325	410
	3,877	3,623

During the years ended 31st December 1999 and 2000, no amounts have been paid in respect of directors' fees to independent non-executive directors and the non-executive director of the Company.

# NOTES\_TO THE ACCOUNTS

## 9 DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of directors	
	2000	1999
HK\$Nil to HK\$1,000,000	8	8
HK\$1,000,001 to HK\$1,500,000	1	1
	9	9

- (b) The five individuals whose emoluments were the highest in the Group for both years were also Directors and their emoluments are reflected in the analysis presented above.

## 10 FIXED ASSETS

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Group Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation</b>					
At 1st January 2000	212,756	470,043	7,758	15,475	706,032
Exchange adjustment	741	1,641	76	54	2,512
Additions at cost	20,311	21,524	8,624	2,481	52,940
Transfer from construction-in-progress	6,615	79,086	2,840	—	88,541
Disposals/write-off	(1,106)	(16,569)	(1,155)	(1,482)	(20,312)
At 31st December 2000	239,317	555,725	18,143	16,528	829,713
<b>Accumulated depreciation</b>					
At 1st January 2000	7,462	108,686	3,257	6,579	125,984
Exchange adjustment	27	379	59	24	489
Charge for the year	8,454	41,315	2,467	2,532	54,768
Disposals/write-off	(174)	(7,104)	(570)	(545)	(8,393)
At 31st December 2000	15,769	143,276	5,213	8,590	172,848
<b>Net book value</b>					
At 31st December 2000	223,548	412,449	12,930	7,938	656,865
At 31st December 1999	205,294	361,357	4,501	8,896	580,048

# NOTES\_TO THE ACCOUNTS

## 10 FIXED ASSETS (Continued)

(a) The analysis of cost or valuation at 31st December 2000 of the above assets is as follows:

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Group Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost, acquired subsequent to the latest professional valuation	101,253	555,725	18,143	16,528	691,649
At 1998 professional valuation (Note (c))	138,064	—	—	—	138,064
	239,317	555,725	18,143	16,528	829,713

(b) The Group's interests in leasehold land and buildings at their net book values are analysed as follows:

	2000 HK\$'000	1999 HK\$'000
In Hong Kong, held on:		
Lease over 50 years	11,065	—
Outside Hong Kong, held on:		
Leases over 50 years	11,930	11,930
Leases between 10 to 50 years	200,553	193,364
	223,548	205,294

## 10 FIXED ASSETS *(Continued)*

- (c) The Group's leasehold land and buildings were revalued on 31st August 1998 by Chesterton Petty Limited, an independent firm of chartered surveyors, at open market value basis as set out in the prospectus for the initial public offer of the shares of the Company dated 27th November 1998. The Directors are of the opinion that the aggregate net book value of leasehold land and buildings as at 31st December 2000 was not materially different from their aggregate estimated open market value as at 31st December 2000. Had these leasehold land and buildings not been revalued, their net book value as at 31st December 2000 would have been HK\$174,049,000 (1999: HK\$155,795,000), being costs of HK\$196,954,000 (1999: HK\$170,393,000) less accumulated depreciation of HK\$22,905,000 (1999: HK\$14,598,000).

## 11 CONSTRUCTION-IN-PROGRESS

	Group	
	2000 HK\$'000	1999 HK\$'000
At 1st January	60,019	44,577
Exchange adjustment	209	113
Additions at cost	88,461	70,059
Transfer to fixed assets	(88,541)	(54,730)
At 31st December	60,148	60,019

During the year ended 31st December 2000, there was no interest expenses capitalised in construction-in-progress (1999: HK\$3,286,000).

# NOTES\_TO THE ACCOUNTS

## 11 CONSTRUCTION-IN-PROGRESS *(Continued)*

The Group's construction-in-progress in respect of leasehold land and buildings are analysed as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Outside Hong Kong, held on:		
Leases between 10 to 50 years	15,503	16,309

## 12 INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	802,769	664,484
Due from subsidiaries	302,376	329,159
	1,105,145	993,643

The particulars of the Company's principal subsidiaries are set out in note 27 to the accounts.

## 13 INVESTMENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Held-to-maturity securities				
Listed debt securities in Hong Kong, at cost plus/less discount/premium (Note (a))	77,824	77,824	77,824	77,824
Investment securities				
Unlisted equity securities outside Hong Kong, at cost (Note (b))	23,054	23,054	—	—
	100,878	100,878	77,824	77,824
Market value of listed debt securities	80,075	74,884	80,075	74,884

- (a) The debt securities represent 100,000 unit of bonds of USD100 each issued by Kowloon Canton Railway Corporation and are listed in Hong Kong. The bonds carry interest at 7.25% per annum and have a maturity date on 27th July 2009.
- (b) The equity securities represent the Group's 6.57% equity interest in Shanghai Jiahua Co., Ltd. ("Jiahua"), a PRC established company engaging in the manufacture and sale of personal care products in the PRC. Jiahua is seeking an initial public offer of its "A" shares to be listed on the Shanghai Stock Exchange.

# NOTES\_TO THE ACCOUNTS

## 14 INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
At cost:		
Finished goods	96,558	58,427
Raw materials	179,666	109,435
Work-in-progress	4,742	2,798
Spare parts and consumables	19,608	18,717
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	300,574	189,377

## 15 DUE FROM SUBSIDIARIES

The balances are unsecured and interest free and have no fixed terms of repayment.

## 16 DUE FROM A RELATED COMPANY

During the year ended 31st December 1999, the Group made certain temporary advances to a company beneficially owned by the executive directors of the Company except for Mr. Poon Fuk Chuen and Mr. Yue Wai Leung, Stan. The advances and income accrued thereon were settled during the year ended 31st December 2000 and are analysed as follows:

Company	Maximum amount outstanding during the year HK\$'000	Amount outstanding at 31st December 2000 HK\$'000	Amount outstanding at 31st December 1999 HK\$'000
Changde Hengan Paper Products Co., Ltd. ("Changde Paper")	53,009	—	53,009

## 17 TRADE RECEIVABLES

The majority of the Group's sales is on open accounts with credit terms ranging from 30 days to 60 days.

At 31st December 2000, the ageing analysis of the trade receivables is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	49,762	97,357
31 - 180 days	46,630	61,501
	96,392	158,858

# NOTES\_TO THE ACCOUNTS

## 18 DUE TO A RELATED COMPANY

The balance is unsecured and interest free and has no fixed terms of repayment.

## 19 TRADE PAYABLES

At 31st December 2000, the ageing analysis of the trade payables is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	35,287	26,288
31 - 180 days	27,928	20,407
181 - 365 days	11,680	—
	<hr/>	<hr/>
	74,895	46,695

## 20 TAXATION PAYABLE

	Group	
	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax	—	674
PRC income tax	27,093	28,812
	<hr/>	<hr/>
	27,093	29,486

## 21 SHARE CAPITAL

	Company	
	2000 HK\$'000	1999 HK\$'000
Authorised		
3,000,000,000 ordinary shares of HK\$0.10 each	300,000	300,000
Issued and fully paid		
At 1st January		
1,002,310,000 (1999: 1,013,380,000) ordinary shares of HK\$0.10 each	100,231	101,338
Cancellation upon repurchase of shares	(700)	(1,107)
At 31st December	99,531	100,231

During the year, the Company repurchased a total of 6,998,000 (1999: 11,070,000) shares of its own shares of HK\$0.10 each listed on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$14,933,000 (1999: HK\$24,361,000).

## 22 SHARE OPTION SCHEME

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 to make offers to 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 1999 and 2000.