



Notes to the Accounts

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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain property, plant and equipment are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 31	:	Impairment of assets

The effect of adopting these new standards is set out in the accounting policies below.

(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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



1 Principal accounting policies *(Continued)*

(c) Fixed assets

- (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 and accumulated impairment losses.
- (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) The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to their normal working condition to allow continue use of the overall asset are capitalised and depreciated over the period to the next overhaul.
- (v) Improvements are capitalised and depreciated over their expected useful lives to the Group.

(d) Construction-in-progress

Construction-in-progress is stated at cost less accumulated impairment losses. 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.



Notes to the Accounts

1 Principal accounting policies *(Continued)*

(e) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets and construction-in-progress are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(f) 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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Investments

(i) *Held-to-maturity securities*

Held-to-maturity securities are stated in the balance sheet 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.

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 as an expense immediately.

(ii) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each 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 their fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.



1 Principal accounting policies *(Continued)*

(h) 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.

(i) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) 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.

(k) 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.

(l) 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 and commission income are recognised when the right to receive payment is established.

Dividend income is recognised when the right to receive payment is established.



Notes to the Accounts

1 Principal accounting policies *(Continued)*

(m) Retirement benefit costs

The Group contributes to the defined contribution retirement schemes which are available to certain of its employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(n) 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.

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. No geographical analysis is presented as less than 10% of the Group's turnover are attributable to markets outside the PRC.

Unallocated costs represent corporate expenses. Segment assets consist primarily fixed assets, inventories, receivables and operating cash, and exclude investments in securities. Segment liabilities comprise operating liabilities and exclude taxation. Capital expenditure comprises additions to fixed assets (Note 10) and construction-in-progress (Note 11).

(p) Dividends

In accordance with the revised SSAP 9, the company no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 20, this change has resulted in an increase in the opening retained earnings at 1st January 2001 and 1st January 2000 by HK\$79,625,000 and HK\$100,231,000 respectively which represent the reversal of the provision for the 2000 and 1999 proposed final dividend previously recorded as a liability as at 31st December 2000 and 31st December 1999 although not declared until after the balance sheet date.



2 Turnover, revenues and segment information

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
<i>Turnover</i>		
Sale of goods		
Sanitary napkins and disposable diapers	1,140,345	1,063,747
Hygiene materials and others	77,409	99,489
	<u>1,217,754</u>	<u>1,163,236</u>
<i>Other revenues</i>		
Interest income	18,908	24,963
Government subsidy income	2,158	5,016
Commission income from a related company	6,562	3,024
Dividend income from unlisted investments	1,012	—
Others	7,316	8,068
	<u>35,956</u>	<u>41,071</u>
Total revenues	<u>1,253,710</u>	<u>1,204,307</u>

The Group is organised with two major business segments:

- Sanitary napkins and disposable diapers
- Hygiene materials and others

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

2 Turnover, revenues and segment information *(Continued)*

Business segment analysis

	Sanitary napkins and disposable diapers 2001 HK\$'000	Hygiene materials and others 2001 HK\$'000	Group 2001 HK\$'000
Total turnover	1,141,064	123,214	1,264,278
Inter-segment sales	(719)	(45,805)	(46,524)
Segment turnover	<u>1,140,345</u>	<u>77,409</u>	<u>1,217,754</u>
Segment results	<u>230,770</u>	<u>7,948</u>	238,718
Unallocated costs			<u>(10,415)</u>
Operating profit			228,303
Interest income			18,908
Finance costs			<u>(414)</u>
Profit before taxation			246,797
Taxation			<u>(18,212)</u>
Profit after taxation			228,585
Minority interests			<u>(1,353)</u>
Profit attributable to shareholders			<u>227,232</u>
Segment assets	1,541,756	91,346	1,633,102
Investments			100,878
Unallocated assets			<u>123,365</u>
Total assets			<u>1,857,345</u>
Segment liabilities	128,989	15,587	144,576
Taxation payable			14,182
Unallocated liabilities			<u>16,810</u>
Total liabilities			<u>175,568</u>
Capital expenditure	93,987	12,370	106,357
Depreciation	51,792	13,938	65,730



2 Turnover, revenues and segment information *(Continued)*

Business segment analysis *(Continued)*

	Sanitary napkins and disposable diapers 2000 HK\$'000	Hygiene materials and others 2000 HK\$'000	Group 2000 HK\$'000
Total turnover	1,064,865	142,434	1,207,299
Inter-segment sales	(1,118)	(42,945)	(44,063)
Segment turnover	<u>1,063,747</u>	<u>99,489</u>	<u>1,163,236</u>
Segment results	<u>210,213</u>	<u>6,071</u>	216,284
Unallocated costs			(9,235)
Operating profit			207,049
Interest income			24,963
Finance costs			(1,232)
Profit before taxation			230,780
Taxation			(20,157)
Profit after taxation			210,623
Minority interests			(1,463)
Profit attributable to shareholders			<u>209,160</u>
Segment assets	1,453,300	103,570	1,556,870
Investments			100,878
Unallocated assets			145,327
Total assets			<u>1,803,075</u>
Segment liabilities	120,287	14,719	135,006
Taxation payable			27,093
Unallocated liabilities			6,736
Total liabilities			<u>168,835</u>
Capital expenditure	137,427	3,974	141,401
Depreciation	45,546	9,222	54,768



Notes to the Accounts

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Group	
	2001	2000
	HK\$'000	HK\$'000
<i>Crediting</i>		
Reversal of write-down of inventories	—	1,899
<i>Charging</i>		
Cost of inventories sold	603,339	575,657
Staff costs	81,175	78,953
Depreciation	65,730	54,768
Operating leases in respect of factory premises and sales liaison offices	9,132	9,997
Repairs and maintenance expenses	10,756	9,298
Retirement benefit costs	1,252	917
Auditors' remuneration	1,768	1,963
Provision for doubtful debts	4,512	21,535
Loss on disposal/written off of fixed assets	978	10,087
	—————	—————

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4 Finance costs

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on short-term bank loans	—	352
Net exchange loss	303	823
Other finance charges	111	57
	—————	—————
	414	1,232
	—————	—————



5 Taxation

	Group	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax (<i>Note (a)</i>)	—	—
PRC income tax (<i>Note (b)</i>)	18,212	20,157
	<hr/>	<hr/>
	18,212	20,157
	<hr/> <hr/>	<hr/> <hr/>

- (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 (2000: Nil).
- (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 2000 and 2001 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\$220,125,000 (2000: HK\$56,874,000), including dividends income from subsidiaries of HK\$220,768,000 (2000: HK\$51,919,000), which is dealt with in the accounts of the Company.



Notes to the Accounts

7 Dividends

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interim, paid, HK 10 cents (2000: HK 10 cents) per ordinary share	99,531	99,531
Final, proposed, HK 10 cents (2000: HK 8 cents) per ordinary share	99,531	79,625
	<hr/> 199,062 <hr/>	<hr/> 179,156 <hr/>

Notes:

- (a) The previously recorded final dividend proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 was HK\$79,625,000. Under the Group's new accounting policy as described in Note 1(p), this has been written back against opening reserves as at 1st January 2001 in Note 20 and is now charged in the period in which it was proposed.
- (b) At a meeting held on 8th March 2002, the directors recommended the payment of a final dividend of HK 10 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

8 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$227,232,000 (2000: HK\$209,160,000) and the weighted average number of 995,312,000 (2000: 999,367,066) 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	
	2001	2000
	HK\$'000	HK\$'000
Fees	680	475
Other emoluments:		
Basic salaries and other allowances	3,463	3,077
Discretionary bonuses	367	325
	<u>4,510</u>	<u>3,877</u>

Directors' fees disclosed above include HK\$200,000 (2000: Nil) paid to independent non-executive directors of the Company.

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of directors	
	2001	2000
HK\$ Nil to HK\$1,000,000	10	12
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	—
	<u>11</u>	<u>13</u>

- (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.



Notes to the Accounts

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
Cost or valuation					
At 1st January 2001	239,317	555,725	18,143	16,528	829,713
Exchange adjustment	692	1,686	55	48	2,481
Additions at cost	27	4,612	10,599	4,480	19,718
Transfer from					
construction-in-progress	22,595	78,109	246	—	100,950
Disposals/written off	(99)	(2,959)	(787)	(1,805)	(5,650)
	<u>262,532</u>	<u>637,173</u>	<u>28,256</u>	<u>19,251</u>	<u>947,212</u>
At 31st December 2001	<u>262,532</u>	<u>637,173</u>	<u>28,256</u>	<u>19,251</u>	<u>947,212</u>
Accumulated depreciation					
At 1st January 2001	15,769	143,276	5,213	8,590	172,848
Exchange adjustment	48	434	17	24	523
Charge for the year	9,210	51,726	2,389	2,405	65,730
Disposals/written off	(205)	(2,010)	(386)	(1,033)	(3,634)
	<u>24,822</u>	<u>193,426</u>	<u>7,233</u>	<u>9,986</u>	<u>235,467</u>
At 31st December 2001	<u>24,822</u>	<u>193,426</u>	<u>7,233</u>	<u>9,986</u>	<u>235,467</u>
Net book value					
At 31st December 2001	<u>237,710</u>	<u>443,747</u>	<u>21,023</u>	<u>9,265</u>	<u>711,745</u>
At 31st December 2000	<u>223,548</u>	<u>412,449</u>	<u>12,930</u>	<u>7,938</u>	<u>656,865</u>

(a) The analysis of cost or valuation at 31st December 2001 of the above assets is as follows:

At cost	124,468	637,173	28,256	19,251	809,148
At 1998 professional valuation (<i>Note (c)</i>)	138,064	—	—	—	138,064
	<u>262,532</u>	<u>637,173</u>	<u>28,256</u>	<u>19,251</u>	<u>947,212</u>



10 Fixed assets (Continued)

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

	2001	2000
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Lease over 50 years	10,505	11,065
Outside Hong Kong, held on:		
Leases over 50 years	11,691	11,930
Leases between 10 to 50 years	215,514	200,553
	237,710	223,548

(c) The Group's leasehold land and buildings were revalued at 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 2001 was not materially different from their aggregate estimated open market value as at 31st December 2001. Had these leasehold land and buildings not been revalued, their net book value as at 31st December 2001 would have been HK\$187,871,000 (2000: HK\$174,049,000), being costs of HK\$213,422,000 (2000: HK\$196,954,000) less accumulated depreciation of HK\$25,551,000 (2000: HK\$22,905,000).

11 Construction-in-progress

	Group	
	2001	2000
	HK\$'000	HK\$'000
At 1st January	60,148	60,019
Exchange adjustment	46	209
Additions at cost	86,639	88,461
Transfer to fixed assets	(100,950)	(88,541)
At 31st December	45,883	60,148

During the year ended 31st December 2001, there was no interest expenses capitalised in construction-in-progress (2000: Nil).



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:

	2001 HK\$'000	2000 HK\$'000
Outside Hong Kong, held on: Leases between 10 to 50 years	<u>15,039</u>	<u>15,503</u>

12 Interests in subsidiaries

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	838,158	802,769
Due from subsidiaries	<u>285,254</u>	<u>302,376</u>
	<u>1,123,412</u>	<u>1,105,145</u>

The particulars of the Company's principal subsidiaries are set out in Note 24 to the accounts.



13 Investments

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Held-to-maturity securities				
Listed debt securities in Hong Kong, at cost plus/less discount/premium <i>(Note (a))</i>	77,824	77,824	77,824	77,824
Investment securities :				
Unlisted equity securities outside Hong Kong, at cost <i>(Note (b))</i>	23,054	23,054	—	—
	100,878	100,878	77,824	77,824
Market value of listed debt securities	83,740	80,075	83,740	80,075

- (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 4.62% of legal person shares in Shanghai Jiahua United Co., Ltd. ("Jiahua"), a PRC established company engaging in the manufacture and sale of personal care products with its "A" shares listed on the Shanghai Stock Exchange. The Company's legal person shares cannot be freely traded on the Shanghai Stock Exchange.



Notes to the Accounts

14 Inventories

	Group	
	2001	2000
	HK\$'000	HK\$'000
At cost:		
Finished goods	132,853	96,558
Raw materials	132,541	179,666
Work-in-progress	2,928	4,742
Spare parts and consumables	19,577	19,608
	<hr/> 287,899 <hr/>	<hr/> 300,574 <hr/>

15 Due from subsidiaries and due to related companies

The balances are interest free and repayable on demand.

16 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 2001, the ageing analysis of the trade receivables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	39,692	49,762
31 - 180 days	44,217	46,630
181 - 365 days	7,531	—
	<hr/> 91,440 <hr/>	<hr/> 96,392 <hr/>



17 Trade payables

At 31st December 2001, the ageing analysis of the trade payables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	45,848	35,287
31 - 180 days	38,707	27,928
181 - 365 days	12,190	11,680
	<u>96,745</u>	<u>74,895</u>

18 Share capital

	Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised		
3,000,000,000 ordinary shares of HK\$0.10 each	<u>300,000</u>	<u>300,000</u>
Issued and fully paid		
At 1st January 995,312,000 (2000: 1,002,310,000)		
ordinary shares of HK\$0.10 each	99,531	100,231
Cancellation upon repurchase of shares	<u>—</u>	<u>(700)</u>
At 31st December	<u>99,531</u>	<u>99,531</u>

19 Share option scheme

Under the Share Option Scheme approved by the shareholder 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 2000 and 2001.

Notes to the Accounts

20 Reserves

	Group							
	Share premium account (Note (a)) HK\$'000	Capital reserve (Note (b)) HK\$'000	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves (Note (c)) HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2000, as previously reported	639,541	517,705	1,107	50,896	72,127	13,229	129,885	1,424,490
Effect of adopting SSAP 9 (Revised) (Note 1(p))	—	—	—	—	—	—	100,231	100,231
At 1st January 2000, as restated	639,541	517,705	1,107	50,896	72,127	13,229	230,116	1,524,721
Premium on shares repurchased	(14,233)	—	—	—	—	—	—	(14,233)
Transfer to capital redemption reserve	—	—	700	—	—	—	(700)	—
Profit attributable to shareholders	—	—	—	—	—	—	209,160	209,160
Appropriation to statutory reserves	—	—	—	—	19,869	—	(19,869)	—
1999 Final dividend paid	—	—	—	—	—	—	(100,231)	(100,231)
2000 Interim dividend paid	—	—	—	—	—	—	(99,531)	(99,531)
Translation of PRC subsidiaries' accounts	—	—	—	—	—	2,189	—	2,189
At 31st December 2000	<u>625,308</u>	<u>517,705</u>	<u>1,807</u>	<u>50,896</u>	<u>91,996</u>	<u>15,418</u>	<u>218,945</u>	<u>1,522,075</u>
Representing:								
2000 Final dividend proposed	—	—	—	—	—	—	79,625	79,625
Others	<u>625,308</u>	<u>517,705</u>	<u>1,807</u>	<u>50,896</u>	<u>91,996</u>	<u>15,418</u>	<u>139,320</u>	<u>1,442,450</u>
	<u>625,308</u>	<u>517,705</u>	<u>1,807</u>	<u>50,896</u>	<u>91,996</u>	<u>15,418</u>	<u>218,945</u>	<u>1,522,075</u>



20 Reserves (Continued)

	Group							
	Share							
	premium	Capital	Capital	Property	Statutory	Exchange	Retained	
	account	reserve	redemption	revaluation	reserves	reserve	profits	Total
(Note (a))	(Note (b))	reserve	reserve	(Note (c))	reserve	profits	Total	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January 2001,								
as previously reported	625,308	517,705	1,807	50,896	91,996	15,418	139,320	1,442,450
Effect of adopting SSAP 9								
(Revised) (Note 1(p))	—	—	—	—	—	—	79,625	79,625
At 1st January 2001,								
as restated	625,308	517,705	1,807	50,896	91,996	15,418	218,945	1,522,075
Appropriation to								
statutory reserves	—	—	—	—	9,322	—	(9,322)	—
Profit attributable to								
shareholders	—	—	—	—	—	—	227,232	227,232
2000 Final dividend paid	—	—	—	—	—	—	(79,625)	(79,625)
2001 Interim dividend paid	—	—	—	—	—	—	(99,531)	(99,531)
Translation of PRC								
subsidiaries' accounts	—	—	—	—	—	398	—	398
At 31st December 2001	<u>625,308</u>	<u>517,705</u>	<u>1,807</u>	<u>50,896</u>	<u>101,318</u>	<u>15,816</u>	<u>257,699</u>	<u>1,570,549</u>
Representing:								
2001 Final dividend								
proposed	—	—	—	—	—	—	99,531	99,531
Others	<u>625,308</u>	<u>517,705</u>	<u>1,807</u>	<u>50,896</u>	<u>101,318</u>	<u>15,816</u>	<u>158,168</u>	<u>1,471,018</u>
	<u>625,308</u>	<u>517,705</u>	<u>1,807</u>	<u>50,896</u>	<u>101,318</u>	<u>15,816</u>	<u>257,699</u>	<u>1,570,549</u>



Notes to the Accounts

20 Reserves (Continued)

	Share premium account (Note (a)) HK\$'000	Company		Total HK\$'000
		Capital redemption reserve HK\$'000	Retained profits HK\$'000	
At 1st January 2000, as previously reported	1,224,541	1,107	136,847	1,362,495
Effect of adopting SSAP 9 (Revised) (Note 1(p))	—	—	100,231	100,231
At 1st January 2000, as restated	1,224,541	1,107	237,078	1,462,726
Premium on shares repurchased	(14,233)	—	—	(14,233)
Transfer to capital redemption reserve	—	700	(700)	—
Profit for the year	—	—	56,874	56,874
1999 Final dividend paid	—	—	(100,231)	(100,231)
2000 Interim dividend paid	—	—	(99,531)	(99,531)
At 31st December 2000	<u>1,210,308</u>	<u>1,807</u>	<u>93,490</u>	<u>1,305,605</u>
Representing:				
2000 Final dividend proposed	—	—	79,625	79,625
Others	<u>1,210,308</u>	<u>1,807</u>	<u>13,865</u>	<u>1,225,980</u>
	<u>1,210,308</u>	<u>1,807</u>	<u>93,490</u>	<u>1,305,605</u>



20 Reserves (Continued)

	Company			Total HK\$'000
	Share premium account (Note (a)) HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	
At 1st January 2001, as previously reported	1,210,308	1,807	13,865	1,225,980
Effect of adopting SSAP 9 (Revised) (Note 1(p))	—	—	79,625	79,625
At 1st January 2001, as restated	1,210,308	1,807	93,490	1,305,605
Profit for the year	—	—	220,125	220,125
2000 Final dividend paid	—	—	(79,625)	(79,625)
2001 Interim dividend paid	—	—	(99,531)	(99,531)
At 31st December 2001	<u>1,210,308</u>	<u>1,807</u>	<u>134,459</u>	<u>1,346,574</u>
Representing:				
2001 Final dividend proposed	—	—	99,531	99,531
Others	<u>1,210,308</u>	<u>1,807</u>	<u>34,928</u>	<u>1,247,043</u>
	<u>1,210,308</u>	<u>1,807</u>	<u>134,459</u>	<u>1,346,574</u>

20 Reserves (Continued)

- (a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.
- (b) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration for share exchange on merger in previous years.
- (c) Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiary companies in the PRC and form part of shareholders funds.
- (d) The Company's reserves available for distribution comprise the share premium account and retained profits. At 31st December 2001, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK\$1,344,767,000 (2000: HK\$1,303,798,000) as restated, subject to the restrictions stated in Note 20(a) above.

21 Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Operating profit	247,211	232,012
Depreciation charge	65,730	54,768
Loss on disposal/written off of fixed assets	978	10,087
Decrease/(increase) in inventories	12,675	(111,197)
Decrease in trade receivables, other receivables, prepayments and deposits	18,042	143,692
Increase in trade payables, other payables and accrued charges, including amount due to related companies	19,644	26,012
Interest income	(18,908)	(24,963)
Finance costs	(414)	(880)
Net cash inflow from operating activities	<u>344,958</u>	<u>329,531</u>



21 Consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital, share premium and capital reserve		Short-term bank loans		Minority interests	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	1,242,544	1,257,477	—	70,416	12,634	12,577
Cash items:						
Repurchase of shares	—	(14,933)	—	—	—	—
Repayment of bank loans	—	—	—	(70,416)	—	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	(2,290)	(1,406)
Non-cash item:						
Minority's share of profit for the year	—	—	—	—	1,353	1,463
At 31st December	1,242,544	1,242,544	—	—	11,697	12,634

22 Commitments

At 31st December 2001, the Group had the following commitments:

(a) Capital commitments

	Group	
	2001 HK\$'000	2000 HK\$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	2,356	23,738
Land and buildings	500	3,428
Total	2,856	27,166

At 31st December 2001, the Company had no capital commitment (2000: Nil).

Notes to the Accounts

22 Commitments (Continued)

(b) Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings and factory premises as follows:

	2001	Group
	HK\$'000	As restated 2000 HK\$'000
Within one year	5,170	4,048
In the second to fifth year inclusive	11,620	9,351
After the fifth year	7,300	8,439
	24,090	21,838

At 31st December 2001, the Company had no commitment under operating lease (2000: Nil).

23 Related party transactions

During the year, the Group entered into the following transactions with companies controlled by executive directors of the Company, except for Mr. Poon Fuk Chuen.

	2001	2000
	HK\$'000	HK\$'000
Change Hengan Paper Products Co., Ltd. ("Change Paper")		
- Purchase of raw materials (Note (a))	15,978	19,647
United Wealth Group		
- Commission income received (Note (b))	6,562	3,024
- Rental income received	—	57

- (a) Pursuant to a supply agreement entered into by the Company and Change Paper on 26th November 1998, the Group was granted a non-exclusive right to purchase tissue paper raw materials from Change Paper at purchase price not less favourable than that offered to other independent parties in the PRC.
- (b) Pursuant to an agency agreement entered into by the Company and United Wealth International (Holdings) Limited ("United Wealth"), on 26th November 1998, the Group was granted a non-exclusive right to distribute the packaged tissue paper products manufactured by all the existing and future subsidiaries of United Wealth ("United Wealth Group") through the Group's sales network and earns a commission income calculated at a rate of 7.5% (2000: 7.5%) on the total value of net sales.



24 Subsidiaries

The following is a list of the principal subsidiaries of the Company at 31st December 2001 which, in the opinion of the Directors, were significant to the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Company	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held %
<i>Direct subsidiaries:</i>				
Hengan International Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100
<i>Indirect subsidiaries:</i>				
Hengan Industrial (Hong Kong) Limited	Hong Kong	Trading and procurement in Hong Kong	2 ordinary shares of HK\$1 each	100
Hengan (Anxiang) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB22,000,000	100
Hengan (Binyang) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB5,680,000	100
Hengan (Chongqing) Hygiene Supplies Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$620,000	100
Fujian Hengan Holding Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB147,360,000	98.32
Hengan (Fushun) Sanitary Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB28,700,000	75
Hefei Hengan Hygiene Products Factory	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB3,680,000	99.98
Hengan (Jiangxi) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB7,420,000	100



Notes to the Accounts

24 Subsidiaries (Continued)

Company	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held %
Hengan (Fujian) Articles for Women and Children Use Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB240,000,000	98.96
Hengan (Jinjiang) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	HK\$50,000,000	100
Hengan (Luohe Linying) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$1,200,000	100
Hengan (Shaanxi) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB3,980,000	100
Shangyu City Hengan Hygiene Products Co.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB7,290,000	99.99
Hengan (Sichuan) Hygienic Products Co. Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$1,380,000	100
Hengan (Tianjin) Hygiene Supplies Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$3,000,000	100
Hengan (Weifang) Hygienic Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$3,410,000	100
Hengan (Xiaogan) Hygiene Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$1,460,000	100
Jinjiang Hengan Hygiene Material Co., Ltd.	PRC	Manufacturing of personal hygiene materials in PRC	US\$10,000,000	100



24 Subsidiaries (Continued)

Company	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held %
Hengan (Jingjiang) Household Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$12,000,000	100
Hengan (Jinjiang) Feminine Products Co., Ltd.	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$4,507,905	100
Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd	PRC	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB10,000,000	100

25 Approval of accounts

The accounts were approved by the board of Directors on 8th March 2002.