

## 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 properties and marketable securities 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 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group's results other than presentational changes in respect of the presentation of Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement. Certain comparative figures have been reclassified to conform with the current year's presentation.

### (b) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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) In the Company's balance sheet the interests 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) Intangible assets

Expenditure on acquired patents and trademarks is capitalised and amortised using the straight-line method over their estimated useful lives, but not exceeding 20 years. Patents and trademarks are not revalued as there is no active market for these assets.

### (d) Fixed assets

- (i) Leasehold land and buildings are stated at cost/valuation less accumulated depreciation and accumulated impairment losses. 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 revaluation reserve realised in respect of previous valuations is released from the property 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 2025 to 2063 while buildings and other tangible fixed assets are depreciated at rates sufficient to write-off their cost or valuation less accumulated impairment losses 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 continued 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.

## **1 PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **(e) 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. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

### **(f) 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 intangible assets, 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 account 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 an intangible asset and 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.

### **(g) 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.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) 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 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 the profit and loss account 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.

#### (iii) Marketable securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (i) 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)*

### (j) 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.

### (k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

### (l) 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.

### (m) 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 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 Renminbi. The balance sheet 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 whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) 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 and title has passed.

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.

### (o) Retirement benefit costs

The Group participates in defined contribution retirement schemes administered by local government in different part of China ("Central Schemes"). The Group also maintains a defined contribution pension scheme ("Hengan Scheme") for those full time employees who wish to participate in the Hengan Scheme on a voluntary basis. Both the Group and the employees are required to make cash contribution calculated as a percentage of the employees' basic salaries to either the Central Schemes or the Hengan Scheme. The funds of the Hengan Scheme are placed with a local financial institution and are managed by a representative committee of the Group's employees.

With effect from 1st December 2000, the Group also operated the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. The employer and the employee have to contribute in total an amount equal to 10% of the relevant income of the employee to the MPF Scheme. The maximum contribution by the Group and each relevant employee is subject to a cap of HK\$1,000 per month. Contributions from the employer are vested in the employees as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

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

### (p) 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.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (q) 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 of intangible assets, 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 intangible assets, fixed assets and construction-in-progress.

## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, distribution and sale of personal hygiene products in the PRC. Revenues recognised during the year are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Turnover		
Sale of goods		
Sanitary napkins and disposable diapers	<b>1,047,852</b>	1,140,345
Hygiene materials and others	<b>67,552</b>	77,409
	<b>1,115,404</b>	1,217,754
Other revenues		
Interest income	<b>13,103</b>	18,908
Government subsidy income	<b>7,063</b>	2,158
Commission income from related companies	<b>15,759</b>	6,562
Dividend income from unlisted investments	<b>1,176</b>	1,012
Others	<b>385</b>	7,316
	<b>37,486</b>	35,956
Total revenues	<b>1,152,890</b>	1,253,710

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 consolidated trading results of the Group are attributable to markets outside the PRC.

## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

### Business segment analysis

	Sanitary napkins and disposable diapers 2002 HK\$'000	Hygiene materials and others 2002 HK\$'000	Group 2002 HK\$'000
Segment turnover	1,050,417	119,358	1,169,775
Inter-segment sales	(2,565)	(51,806)	(54,371)
Turnover of the Group	<u>1,047,852</u>	<u>67,552</u>	<u>1,115,404</u>
Segment results	<u>198,568</u>	<u>5,182</u>	203,750
Unallocated costs			(9,257)
Other operating income			12,652
Interest income			13,103
Operating profit			220,248
Finance costs			(350)
Profit before taxation			219,898
Taxation			(18,129)
Profit after taxation			201,769
Minority interests			(2,059)
Profit attributable to shareholders			<u>199,710</u>
Segment assets	1,458,080	123,473	1,581,553
Investments and marketable securities			68,563
Unallocated assets			218,127
Total assets			<u>1,868,243</u>
Segment liabilities	115,332	25,725	141,057
Taxation payable			7,037
Unallocated liabilities			7,010
Total liabilities			<u>155,104</u>
Capital expenditure	29,505	6,688	36,193
Depreciation	69,079	6,274	75,353



## 2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

### Business segment analysis *(Continued)*

	Sanitary napkins and disposable diapers 2001 HK\$'000	Hygiene materials and others 2001 HK\$'000	Group 2001 HK\$'000
Segment turnover	1,141,064	123,214	1,264,278
Inter-segment sales	(719)	(45,805)	(46,524)
Turnover of the Group	<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			(10,415)
Interest income			18,908
Operating profit			247,211
Finance costs			(414)
Profit before taxation			246,797
Taxation			(18,212)
Profit after taxation			228,585
Minority interests			(1,353)
Profit attributable to shareholders			<u>227,232</u>
Segment assets	1,541,756	91,346	1,633,102
Investments			100,878
Unallocated assets			123,365
Total assets			<u>1,857,345</u>
Segment liabilities	128,989	15,587	144,576
Taxation payable			14,182
Unallocated liabilities			16,810
Total liabilities			<u>175,568</u>
Capital expenditure	93,987	12,370	106,357
Depreciation	60,801	4,929	65,730

## 3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
<i>Crediting</i>		
Gains on disposal of investments in listed debt securities	6,055	—
Unrealised gains on marketable securities	6,597	—
Reversal of provision for doubtful receivable	—	13,908
<i>Charging</i>		
Depreciation	75,353	65,730
Loss on disposal/write-off of fixed assets	2,279	978
Staff costs (note 9)	75,900	82,427
Operating leases in respect of factory premises and sales liaison offices	6,003	9,132
Repairs and maintenance expenses	8,448	10,756
Auditors' remuneration	1,784	1,768
Provision for doubtful debts	9,219	4,512
	<b>9,219</b>	<b>4,512</b>

## 4 FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Net exchange loss	257	303
Other finance charges	93	111
	<b>350</b>	<b>414</b>

## 5 TAXATION

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
PRC income tax	<b>18,129</b>	18,212

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 (2001: Nil).

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, two subsidiaries of the Group are welfare enterprises and are entitled to full exemption from PRC income tax provided that certain conditions are satisfied.

No provision for deferred taxation has been made in the accounts for the years ended 31st December 2001 and 2002 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\$216,570,000 (2001: HK\$220,125,000), including dividends income from subsidiaries of HK\$204,271,000 (2001: HK\$220,768,000), which is dealt with in the accounts of the Company.

## 7 DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim, paid, HK 8 cents (2001: HK 10 cents) per ordinary share	79,625	99,531
Final, proposed, HK 10 cents (2001: HK 10 cents) per ordinary share	99,531	99,531
	<b>179,156</b>	<b>199,062</b>

At a meeting held on 25th March 2003, the directors proposed a final dividend of HK 10 cents per ordinary share of the Company. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

## 8 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$199,710,000 (2001: HK\$227,232,000) and the weighted average number of 995,312,000 (2001: 995,312,000) ordinary shares of the Company in issue during the year. There is no dilutive earnings per share since the Company has no dilutive potential ordinary shares.

## 9 STAFF COSTS

	2002 HK\$'000	2001 HK\$'000
Wages and salaries	74,182	81,175
Retirement benefit costs	1,718	1,252
	<b>75,900</b>	<b>82,427</b>

## 10 DIRECTORS' EMOLUMENTS

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

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Fees	<b>680</b>	680
Other emoluments:		
Basic salaries and other allowances	<b>3,317</b>	3,463
Discretionary bonuses	<b>504</b>	367
	<b>4,501</b>	4,510

Directors' fees disclosed above include HK\$200,000 (2001: HK\$200,000) paid to independent non-executive directors of the Company.

The emoluments of the Directors fell within the following bands:

<b>Emolument bands</b>	<b>Number of directors</b>	
	<b>2002</b>	2001
HK\$ Nil to HK\$1,000,000	<b>11</b>	10
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	1
	<b>12</b>	11

- (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.

## 11 INTANGIBLE ASSETS

	<b>Group</b>
	HK\$'000
Patents and trademarks	
Acquisition at cost and as at 31st December 2002	<b>4,711</b>

## 12 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 2002	262,532	637,173	28,256	19,251	947,212
Exchange adjustment	131	319	14	10	474
Additions at cost	6,702	2,302	5,562	2,324	16,890
Transfer from construction-in-progress	5,493	25,833	—	—	31,326
Disposals/write-off	(259)	(5,921)	(254)	(2,119)	(8,553)
At 31st December 2002	<b>274,599</b>	<b>659,706</b>	<b>33,578</b>	<b>19,466</b>	<b>987,349</b>
<b>Accumulated depreciation</b>					
At 1st January 2002	24,822	193,426	7,233	9,986	235,467
Exchange adjustment	5	39	1	2	47
Charge for the year	12,136	54,478	6,115	2,624	75,353
Disposals/write-off	(20)	(4,096)	(167)	(1,418)	(5,701)
At 31st December 2002	<b>36,943</b>	<b>243,847</b>	<b>13,182</b>	<b>11,194</b>	<b>305,166</b>
<b>Net book value</b>					
At 31st December 2002	<b>237,656</b>	<b>415,859</b>	<b>20,396</b>	<b>8,272</b>	<b>682,183</b>
At 31st December 2001	237,710	443,747	21,023	9,265	711,745

# Notes to the Accounts

## 12 FIXED ASSETS (Continued)

(a) The analysis of cost or valuation at 31st December 2002 and 2001 of the above asset is as follows:

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	136,535	659,706	33,578	19,466	849,285
At 1998 professional valuation (note (c))	138,064	—	—	—	138,064
At 31st December 2002	<u>274,599</u>	<u>659,706</u>	<u>33,578</u>	<u>19,466</u>	<u>987,349</u>
At cost	124,468	637,173	28,256	19,251	809,148
At 1998 Professional valuation (note (c))	138,064	—	—	—	138,064
At 31st December 2001	<u>262,532</u>	<u>637,173</u>	<u>28,256</u>	<u>19,251</u>	<u>947,212</u>

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

	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on: Lease over 50 years	9,944	10,505
Outside Hong Kong, held on: Leases over 50 years	23,937	11,691
Leases between 10 to 50 years	203,775	215,514
	<u>237,656</u>	<u>237,710</u>

(c) Certain of 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 2002 was not materially different from their aggregate estimated open market value as at 31st December 2002. Had these leasehold land and buildings not been revalued, the carrying amount of leasehold land and buildings as at 31st December 2002 would have been HK\$188,164,000 (2001: HK\$187,871,000), being costs of HK\$232,236,000 (2001: HK\$213,422,000) less accumulated depreciation of HK\$44,072,000 (2001: HK\$25,551,000).

## 13 CONSTRUCTION-IN-PROGRESS

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st January	45,883	60,148
Exchange adjustment	23	46
Additions at cost	14,592	86,639
Transfer to fixed assets	(31,326)	(100,950)
At 31st December	<u>29,172</u>	<u>45,883</u>

During the year ended 31st December 2002, there was no interest expense capitalised in construction-in-progress (2001: Nil).

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

	2002 HK\$'000	2001 HK\$'000
Outside Hong Kong, held on: Leases between 10 to 50 years	<u>11,525</u>	<u>15,039</u>

## 14 INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	894,343	838,158
Due from subsidiaries	290,208	285,254
	<u>1,184,551</u>	<u>1,123,412</u>

The particulars of the Company's principal subsidiaries are set out in note 28 to the accounts.



## 15 INVESTMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities				
Listed debt securities				
in Hong Kong, at cost plus/ less discount/premium	—	77,824	—	77,824
Investment securities Unlisted equity securities outside Hong Kong, at cost (Note)	23,054	23,054	—	—
	<u>23,054</u>	<u>100,878</u>	<u>—</u>	<u>77,824</u>

Note: The equity securities represent the Group's 4.62% of the 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 are not freely traded on the Shanghai Stock Exchange.

## 16 INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
At cost:		
Finished goods	116,522	132,853
Work-in-progress	3,216	2,928
Raw materials	93,808	132,541
Spare parts and consumables	20,676	19,577
	<u>234,222</u>	<u>287,899</u>

## 17 DUE FROM RELATED COMPANIES

The balances represent trade related receivables from related companies (note 27). The amount outstanding at 31st December 2002 is unsecured, interest-free and repayable on demand.

## 18 DUE FROM SUBSIDIARIES

The balances are unsecured, interest-free and repayable on demand.

## 19 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 2002, the ageing analysis of the trade receivables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
1-30 days	36,521	39,692
31-180 days	41,761	44,217
181-365 days	3,230	7,531
	81,512	91,440

## 20 MARKETABLE SECURITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Debt securities: Listed in Hong Kong, at market value	45,509	—

## 21 TRADE PAYABLES

At 31st December 2002, the ageing analysis of the trade payables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
1-30 days	44,961	45,848
31-180 days	20,040	38,707
181-365 days	1,174	12,190
Over 365 days	1,049	—
	67,224	96,745

# Notes to the Accounts

## 22 SHARE CAPITAL

	Company	
	2002 HK\$'000	2001 HK\$'000
Authorised 3,000,000,000 ordinary shares of HK\$0.10 each	<b>300,000</b>	300,000
Issued and fully paid 995,312,000 ordinary shares of HK\$0.10 each	<b>99,531</b>	99,531

## 23 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 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 share option scheme as at 31st December 2001 and 2002.

## 24 RESERVES

(a) The reserves of the Group and the Company at 31st December 2002 are analysed as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Reserves	<b>1,491,640</b>	1,471,018	<b>1,284,457</b>	1,247,043
Proposed final dividend (note 7)	<b>99,531</b>	99,531	<b>99,531</b>	99,531
Total reserves	<b>1,591,171</b>	1,570,549	<b>1,383,988</b>	1,346,574

## 24 RESERVES (Continued)

### (b) Group

	Share premium account (Note (d)) HK\$'000	Capital reserve (Note (e)) HK\$'000	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Statutory reserves (Note (f)) HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total 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 changes in accounting policies	—	—	—	—	—	—	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	625,308	517,705	1,807	50,896	101,318	15,816	257,699	1,570,549
At 1st January 2002	625,308	517,705	1,807	50,896	101,318	15,816	257,699	1,570,549
Appropriation to statutory reserves	—	—	—	—	14,830	—	(14,830)	—
Profit attributable to shareholders	—	—	—	—	—	—	199,710	199,710
2001 final dividend paid	—	—	—	—	—	—	(99,531)	(99,531)
2002 interim dividend paid	—	—	—	—	—	—	(79,625)	(79,625)
Translation of PRC subsidiaries' accounts	—	—	—	—	—	68	—	68
At 31st December 2002	625,308	517,705	1,807	50,896	116,148	15,884	263,423	1,591,171

# Notes to the Accounts

## 24 RESERVES (Continued)

(c) Company

	Share premium account (Note (d)) HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2001, as previously reported	1,210,308	1,807	13,865	1,225,980
Effect of changes in accounting policies	—	—	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>
At 1st January 2002	<b>1,210,308</b>	<b>1,807</b>	<b>134,459</b>	<b>1,346,574</b>
Profit for the year	—	—	<b>216,570</b>	<b>216,570</b>
2001 final dividend paid	—	—	<b>(99,531)</b>	<b>(99,531)</b>
2002 interim dividend paid	—	—	<b>(79,625)</b>	<b>(79,625)</b>
At 31st December 2002	<u><b>1,210,308</b></u>	<u><b>1,807</b></u>	<u><b>171,873</b></u>	<u><b>1,383,988</b></u>

## 24 RESERVES (Continued)

- (d) 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.
- (e) 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.
- (f) Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiary companies in the PRC and form part of shareholders funds.
- (g) The Company's reserves available for distribution comprise the share premium account and retained profits. At 31st December 2002, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK\$1,382,181,000 (2001: HK\$1,344,767,000), subject to the restrictions stated in note 24 (d) above.

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash inflow generated from operating activities

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	219,898	246,797
Depreciation	75,353	65,730
Loss on disposal/write-off of fixed assets	2,279	978
Gains on disposal of investments in listed debt securities	(6,055)	—
Unrealised gains on marketable securities	(6,597)	—
Interest income	(13,103)	(18,908)
Decrease in inventories	53,677	12,675
Decrease in trade receivables, other receivables, prepayments and deposits, including amounts due from related companies	24,517	18,042
(Decrease)/increase in trade payables, other payables and accrued charges, including amounts due to related companies	(13,319)	19,644
PRC income tax paid	(25,274)	(31,144)
Net cash inflow generated from operating activities	<b>311,376</b>	<b>313,814</b>

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Analysis of changes in financing during the year

	Minority interests	
	2002 HK\$'000	2001 HK\$'000
At 1st January	11,697	12,634
Minority's share of profits	2,059	1,353
Capital injection by minority shareholders	9,330	—
Dividends to minority shareholders	(649)	(2,290)
At 31st December	<b>22,437</b>	<b>11,697</b>

## 26 COMMITMENTS

At 31st December 2002, the Group had the following commitments:

### (a) Capital commitments

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for in respect of Plant, machinery and equipment	7,831	2,356
Land and buildings	123	500
Total	<b>7,954</b>	<b>2,856</b>

At 31st December 2002, the Company had no capital commitment (2001: Nil).

## 26 COMMITMENTS *(Continued)*

### (b) Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings and factory premises as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Not later than one year	5,094	5,170
Later than one year and not later than five years	13,463	11,620
Later than five years	4,759	7,300
	<b>23,316</b>	24,090

At 31st December 2002, the Company had no commitment under operating lease (2001: Nil).

## 27 RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with companies controlled by the Directors, Messrs. Sze Man Bok, Hui Chi Lin and Yeung Wing Chun.

	2002 HK\$'000	2001 HK\$'000
Changde Hengan Paper Joint Stock Company Limited ("Changde Paper")		
– Purchase of raw materials <i>(note (a))</i>	12,501	15,978
United Wealth International (Holdings) Limited ("United Wealth") and its subsidiaries		
– Commission income <i>(note (b))</i>	15,759	6,562

- (a) Pursuant to a supply agreement entered into by the Company and Changde Paper on 26th November 1998, the Group was granted a non-exclusive right to purchase tissue paper raw materials from Changde 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 on 26th November 1998, the Group was granted a non-exclusive right to distribute the packaged tissue paper products manufactured by United Wealth and its subsidiaries through the Group's sales network and earns a commission income calculated at a rate of 7.5% (2001: 7.5%) on the total value of net sales.



## 28 SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31st December 2002 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 and kind of legal entity	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, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100
<i>Indirect subsidiaries:</i>				
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK\$1 each	100
Hengan (Anxiang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB22,000,000	100
Hengan (Binyang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB5,680,000	100
Hengan (Chongqing) Hygiene Supplies Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$620,000	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB147,360,000	98.32
Hengan (Fushun) Sanitary Products Co., Ltd.	PRC, sino-foreign co-operative joint venture	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB28,700,000	75
Hefei Hengan Hygiene Products Factory	PRC, joint operation enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB3,680,000	99.98
Hengan (Jiangxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB7,420,000	100

## 28 SUBSIDIARIES (Continued)

Company	Place of incorporation/ establishment and kind of legal entity	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, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB240,000,000	98.96
Hengan (Jinjiang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	HK\$50,000,000	100
Hengan (Luohe Linying) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$1,200,000	100
Hengan (Shaanxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB3,980,000	100
Shangyu City Hengan Hygiene Products Co.	PRC, joint operation enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB7,290,000	99.99
Hengan (Sichuan) Hygienic Products Co. Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$1,380,000	100
Hengan (Tianjin) Hygiene Supplies Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$3,000,000	100
Hengan (Weifang) Hygienic Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$3,410,000	100
Hengan (Xiaogan) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$1,460,000	100
Jinjiang Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing of personal hygiene materials in PRC	US\$10,000,000	100

# Notes to the Accounts

## 28 SUBSIDIARIES (Continued)

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held %
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$12,000,000	100
Hengan (Jinjiang) Feminine Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$6,000,000	100
Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	RMB10,000,000	100
Hengan (Sichuan) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$3,000,000	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal daily use products in PRC	RMB32,000,000	70
吉安市恒祥商貿有限公司	PRC, limited liability company	Distribution and sale of personal daily use products in PRC	RMB1,000,000	70

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December 2002.

## 29 SUBSEQUENT EVENT

Pursuant to an acquisition agreement dated 25th March 2003 entered into between the Company and Mr. Sze Man Bok, Mr. Hui Chi Lin and Mr. Yeung Wing Chun, Directors and (except for Mr. Yeung Wing Chun) substantial shareholders of the Company, the Company shall acquire the shareholders' loans and the entire issued share capital of United Wealth at an aggregate consideration of up to HK\$416,130,000, comprising an initial consideration of HK\$375,000,000 and an earn-out payment of up to HK\$41,130,000. The principal asset of United Wealth is the holding of approximately 68.9% equity interest in Changde Paper, a group of companies engaging in the manufacture and sale of packaged tissue paper products in the PRC.

## 30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 25th March 2003.