

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 policy below, certain property are stated at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice (“SSAP”) 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1st July 2002 and 1st January 2003, respectively.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below.

(b) Group accounting

(i) Consolidation

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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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)*

(b) Group accounting *(continued)*

- (ii) 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 the 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 balance sheet of subsidiaries 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 is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Intangible assets

- (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product coverage is amortised over a maximum period of 20 years.

- (ii) Patents and trademarks

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 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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Fixed assets *(continued)*

(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 continual 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.

(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 or 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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in current and non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

In prior years, the Group credited government grants relating to the purchase of fixed assets when received to the profit and loss account. The Group has taken advantage of the transitional provision stated in paragraph 42(b)(ii) of SSAP 35 and government grants received in prior years have not been restated. The Group has adopted SSAP 35 only to the grants or portions of grants becoming receivable or repayable after 1 January 2003.

(h) 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.

(i) Investments

(i) 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.

(ii) 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 and losses on disposal of marketable securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) 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)*

(k) 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.

(l) 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.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. As a result, total deferred tax liabilities as at 31st December 2001 and 2002 increased by HK\$13,866,000 (with a corresponding reduction of HK\$13,866,000 in property revaluation reserve respectively) as shown in note 22 to the accounts.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control for the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

1 PRINCIPAL ACCOUNTING POLICIES (continued)**(o) 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.

(p) 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 participates in 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. Each of the employer and the employee has to contribute an amount equal to 5% 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 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.

(q) 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.

(r) 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 are attributable to market 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 and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE 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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of goods		
Sanitary napkins and disposable diapers	1,137,730	1,047,852
Tissue paper products	409,846	—
Skincare and Cleansing products, hygiene materials and others	140,936	67,552
	<u>1,688,512</u>	<u>1,115,404</u>
Other revenues		
Interest income	6,911	13,103
Government subsidy income	9,461	7,063
Commission income from related companies	3,309	15,759
Dividend income from unlisted investments	1,761	1,176
Others	—	385
	<u>21,442</u>	<u>37,486</u>
Total revenues	<u>1,709,954</u>	<u>1,152,890</u>

The Group is organised with three major business segments:

- Sanitary napkins and disposable diapers
- Tissue paper products
- Skincare and Cleansing products, 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.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*
Business segment analysis

	Sanitary napkins and disposable diapers 2003 HK\$'000	Tissue paper products 2003 HK\$'000	Skincare and Cleansing products, hygiene materials and others 2003 HK\$'000	Group 2003 HK\$'000
Segment turnover	1,137,749	416,772	243,242	1,797,763
Inter-segment sales	(19)	(6,926)	(102,306)	(109,251)
Turnover of the Group	<u>1,137,730</u>	<u>409,846</u>	<u>140,936</u>	<u>1,688,512</u>
Segment results	<u>207,578</u>	<u>78,028</u>	<u>28,181</u>	313,787
Unallocated costs				(10,719)
Other income				24,774
Interest income				<u>6,911</u>
Operating profit				334,753
Finance costs				<u>(8,830)</u>
Profit before taxation				325,923
Taxation				<u>(37,972)</u>
Profit after taxation				287,951
Minority interests				<u>(32,963)</u>
Profit attributable to shareholders				<u>254,988</u>
Segment assets	1,418,498	1,068,045	125,702	2,612,245
Investments				23,054
Unallocated assets				<u>70,293</u>
Total assets				<u>2,705,592</u>
Segment liabilities	145,484	461,714	11,234	618,432
Taxation payable				11,823
Unallocated liabilities				<u>60,152</u>
Total liabilities				<u>690,407</u>
Capital expenditure	42,185	693,559	4,054	739,798
Depreciation	69,624	30,112	6,146	105,882
Amortisation charge	<u>—</u>	<u>6,343</u>	<u>655</u>	<u>6,998</u>

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Business segment analysis *(continued)*

	Sanitary napkins and disposable diapers 2002 HK\$'000	Tissue paper products 2002 HK\$'000	Skincare and Cleansing products, 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>—</u>	<u>67,552</u>	<u>1,115,404</u>
Segment results	<u>198,568</u>	<u>—</u>	<u>5,182</u>	203,750
Unallocated costs				(9,257)
Other 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	<u>69,079</u>	<u>—</u>	<u>6,274</u>	<u>75,353</u>

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Gains on disposal of marketable securities	—	6,055
Unrealised gains on disposal of marketable securities	—	6,597
Gains on disposal of fixed assets	21,684	—
Amortisation of deferred income on government grants	430	—
Charging		
Depreciation (note 12)	105,882	75,353
Losses on disposal/write-off of fixed assets	—	2,279
Staff costs (note 9)	132,912	75,900
Operating leases in respect of factory premises and sales liaison offices	7,761	6,003
Repairs and maintenance expenses	11,072	8,448
Auditors' remuneration	2,316	1,784
Amortisation of intangible assets (note 11)		
Goodwill	6,343	—
Patents and trademarks	655	—
Provision for doubtful debts	1,426	9,219
	<u> </u>	<u> </u>

4 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Net exchange (gain)/loss	(228)	257
Interest on trust receipt bank loans	885	—
Interest on short term bank loans	8,056	—
Other finance charges	117	93
	<u> </u>	<u> </u>
	<u>8,830</u>	<u>350</u>

NOTES TO THE ACCOUNTS

5 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
PRC income tax	46,034	18,129
Deferred taxation (note 23)	(8,062)	—
Taxation charges	<u>37,972</u>	<u>18,129</u>

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 (2002: 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 which are assessed as welfare enterprises are entitled to full exemption from PRC income tax provided that certain conditions are satisfied.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the basic taxation rate in the PRC applicable to the Group as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	<u>325,923</u>	<u>219,898</u>
Taxation calculated at a tax rate of 33% (2002: 33%)	107,555	72,566
Deferred tax benefit arising from tax losses not recognised	2,833	779
Income not subject to taxation	(5,427)	(8,586)
Expenses not deductible for taxation purposes	1,511	2,952
Utilisation of previously unrecognised tax losses	—	(117)
Tax exemption on the profit of certain subsidiaries	(71,760)	(51,137)
Under provision in prior years	<u>3,260</u>	<u>1,672</u>
Taxation charges	<u>37,972</u>	<u>18,129</u>

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK\$159,933,000 (2002: HK\$216,570,000), including dividend income from subsidiaries of HK\$169,602,000 (2002: HK\$204,271,000), which is dealt with in the accounts of the Company.

7 DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim, paid, of HK 10 cents (2002: HK 8 cents) per ordinary share	103,987	79,625
Final, proposed, of HK 12 cents (2002: HK 10 cents) per ordinary share	124,784	99,531
	<hr/> 228,771 <hr/>	<hr/> 179,156 <hr/>

At a meeting held on 23rd March 2004, the directors proposed the payment of a final dividend of HK 12 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 profits for the year ending 31st December 2004.

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$254,988,000 (2002: HK\$199,710,000) and the weighted average number of 1,023,387,410 (2002: 995,312,000) ordinary shares in issue of the Company during the year. There is no dilutive earnings per share since the Company has no dilutive potential ordinary shares.

9 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	130,385	74,182
Retirement benefit costs	2,527	1,718
	<hr/> 132,912 <hr/>	<hr/> 75,900 <hr/>

NOTES TO THE ACCOUNTS

10 DIRECTORS' EMOLUMENTS

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

	2003 HK\$'000	2002 HK\$'000
Fees	720	680
Other emoluments:		
Basic salaries and other allowances	3,128	3,317
Discretionary bonuses	934	504
	<u>4,782</u>	<u>4,501</u>

Directors' fees disclosed above include HK\$240,000 (2002: HK\$200,000) paid to independent non-executive directors of the Company.

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$ Nil to HK\$1,000,000	10	11
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>12</u>	<u>12</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.

11 INTANGIBLE ASSETS

	Goodwill HK\$'000	Group Patents and trade marks HK\$'000	Total HK\$'000
Year ended 31st December 2003			
Opening net book amount	—	4,711	4,711
Exchange adjustment	—	(18)	(18)
Acquisition of subsidiaries (note 24(c))	202,960	—	202,960
Amortisation charge (note 3)	(6,343)	(655)	(6,998)
	<u>196,617</u>	<u>4,038</u>	<u>200,655</u>
At 31st December 2003			
Cost	202,960	4,693	207,653
Accumulated amortisation	(6,343)	(655)	(6,998)
	<u>196,617</u>	<u>4,038</u>	<u>200,655</u>
At 31st December 2002			
Cost	—	4,711	4,711
Accumulated amortisation	—	—	—
	<u>—</u>	<u>4,711</u>	<u>4,711</u>

NOTES TO THE ACCOUNTS

12 FIXED ASSETS

	Leasehold land and buildings	Plant and machinery	Group Office equipment, furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At 1st January 2003	274,599	659,706	33,578	19,466	987,349
Exchange adjustment	(1,623)	(4,106)	(185)	(90)	(6,004)
Additions at cost	19,816	5,023	6,538	1,780	33,157
Acquisition of subsidiaries (note 24(c))	70,623	215,359	3,056	716	289,754
Transfer from construction-in-progress	38,205	169,154	686	—	208,045
Disposals/write-off	(6,073)	(9,329)	(960)	(3,808)	(20,170)
At 31st December 2003	<u>395,547</u>	<u>1,035,807</u>	<u>42,713</u>	<u>18,064</u>	<u>1,492,131</u>
Accumulated depreciation					
At 1st January 2003	36,943	243,847	13,182	11,194	305,166
Exchange adjustment	(191)	(1,171)	(74)	(50)	(1,486)
Charge for the year (note 3)	17,130	78,993	7,151	2,608	105,882
Disposals/write-off	(420)	(4,021)	(512)	(2,794)	(7,747)
At 31st December 2003	<u>53,462</u>	<u>317,648</u>	<u>19,747</u>	<u>10,958</u>	<u>401,815</u>
Net book value					
At 31st December 2003	<u>342,085</u>	<u>718,159</u>	<u>22,966</u>	<u>7,106</u>	<u>1,090,316</u>
At 31st December 2002	<u>237,656</u>	<u>415,859</u>	<u>20,396</u>	<u>8,272</u>	<u>682,183</u>

12 FIXED ASSETS (continued)

(a) The analysis of cost or valuation at 31st December 2003 and 2002 of the above assets is as follows:

	Leasehold land and buildings	Plant and machinery	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	257,483	1,035,807	42,713	18,064	1,354,067
At 1998 professional valuation (note (c))	138,064	—	—	—	138,064
At 31st December 2003	<u>395,547</u>	<u>1,035,807</u>	<u>42,713</u>	<u>18,064</u>	<u>1,492,131</u>
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>

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

	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Lease of over 50 years	9,385	9,944
Outside Hong Kong, held on:		
Leases of over 50 years	8,063	23,937
Leases between 10 to 50 years	324,637	203,775
	<u>342,085</u>	<u>237,656</u>

(c) The Group's certain 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 2003 was not materially different from their aggregate estimated open market value as at 31st December 2003. Had these leasehold land and buildings not been revalued, the carrying amount of leasehold land and buildings as at 31st December 2003 would have been HK\$291,189,000 (2002: HK\$188,164,000), being cost of HK\$353,671,000 (2002: HK\$232,236,000) less accumulated depreciation of HK\$62,482,000 (2002: HK\$44,072,000).

(d) At 31st December 2003, the net book value of fixed assets pledged as security for the Group's short term bank loan amounted to HK\$46,153,000 (2002: Nil).

NOTES TO THE ACCOUNTS

13 CONSTRUCTION-IN-PROGRESS

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1st January	29,172	45,883
Exchange adjustment	(842)	23
Additions at cost	47,618	14,592
Acquisition of subsidiaries (note 24(c))	166,309	—
Transfer to fixed assets	(208,045)	(31,326)
At 31st December	<u>34,212</u>	<u>29,172</u>

During the year ended 31st December 2003, there was no interest expense capitalised in construction-in-progress (2002: HK\$Nil).

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

	2003 HK\$'000	2002 HK\$'000
Outside Hong Kong, held on: Leases of between 10 to 50 years	<u>4,195</u>	<u>11,525</u>

14 INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1,374,563	894,343
Due from subsidiaries (note (a))	112,005	290,208
	<u>1,486,568</u>	<u>1,184,551</u>

- (a) The balances are unsecured, interest free and have no fixed terms of repayment.
- (b) The particulars of the Company's principal subsidiaries are set out in note 27 to the accounts.

15 INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Investment securities		
Unlisted equity interest outside Hong Kong, at cost (Note)	<u>23,054</u>	<u>23,054</u>

Note: The equity interest represent the Group's 4.62% interest in 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.

16 INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
At cost:		
Finished goods	219,224	116,522
Work-in-progress	15,165	3,216
Raw materials	156,222	93,808
Spare parts and consumables	39,647	20,676
	<u>430,258</u>	<u>234,222</u>

At 31st December 2003, the carrying amount of raw materials that are pledged as security for short term bank loans amounted to HK\$75,775,000 (2002: Nil).

17 DUE FROM SUBSIDIARIES

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

NOTES TO THE ACCOUNTS

18 TRADE RECEIVABLES

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

At 31st December 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
1-30 days	73,889	36,521
31 - 180 days	118,487	41,761
181 - 365 days	4,083	3,230
	<hr/>	<hr/>
	196,459	81,512

19 TRADE PAYABLES

At 31st December 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
1-30 days	101,353	44,961
31 - 180 days	71,703	20,040
181 - 365 days	648	1,174
Over 365 days	1,923	1,049
	<hr/>	<hr/>
	175,627	67,224

20 SHARE CAPITAL

		Authorised share capital	
		Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000	
At 1st January 2003 and 31st December 2003	3,000,000,000	300,000	
		Issued and fully paid	
		Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000	
At 1st January 2003	995,312,000	99,531	
Issue of shares	44,554,455	4,456	
At 31st December 2003	1,039,866,455	103,987	

On 16 May 2003, the Company issued 44,554,455 shares of HK\$0.10 each at a price of HK\$2.525 per share as part of the consideration for the acquisition of subsidiaries. These shares were issued, credited as fully paid and rank pari passu in all aspects with all the issued shares of the Company.

21 SHARE OPTION SCHEME

No options has been granted under the Share Option Scheme approved by the shareholders of the Company on 10th November 1998 nor has there been any options granted since the adoption of the Share Option Scheme by the shareholders of the Company on 2nd May 2003 ("Scheme"). In accordance with the Scheme, the Company may grant upto 99,531,200 share options within 10 years from its adoption date.

22 RESERVES

(a) The reserves of the Group and the Company at 31st December 2003 are analysed as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Proposed final dividend (note 7)	124,784	99,531	124,784	99,531
Other reserves	1,600,877	1,477,774	1,323,663	1,284,457
Total reserves	1,725,661	1,577,305	1,448,447	1,383,988

NOTES TO THE ACCOUNTS

22 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 2003, as previously reported	625,308	517,705	1,807	50,896	116,148	15,884	263,423	1,591,171
Changes in accounting policy – provision for deferred tax liabilities	—	—	—	(13,866)	—	—	—	(13,866)
At 1st January 2003, as restated	625,308	517,705	1,807	37,030	116,148	15,884	263,423	1,577,305
Appropriation to statutory reserves	—	—	—	—	15,050	—	(15,050)	—
Profit attributable to shareholders	—	—	—	—	—	—	254,988	254,988
2002 final dividend paid	—	—	—	—	—	—	(99,531)	(99,531)
2003 interim dividend paid	—	—	—	—	—	—	(103,987)	(103,987)
Reserves transferred to profit and loss account upon liquidation of a subsidiary	—	—	—	—	(1,927)	—	—	(1,927)
Issue of shares	108,044	—	—	—	—	—	—	108,044
Translation of subsidiaries' financial statements	—	—	—	—	—	(9,231)	—	(9,231)
At 31st December 2003	733,352	517,705	1,807	37,030	129,271	6,653	299,843	1,725,661
At 1st January 2002, as previously reported	625,308	517,705	1,807	50,896	101,318	15,816	257,699	1,570,549
Changes in accounting policy – provision for deferred tax liabilities	—	—	—	(13,866)	—	—	—	(13,866)
At 1st January 2002, as restated	625,308	517,705	1,807	37,030	101,318	15,816	257,699	1,556,683
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 subsidiaries' financial statements	—	—	—	—	—	68	—	68
At 31st December 2002	625,308	517,705	1,807	37,030	116,148	15,884	263,423	1,577,305

22 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 2003	1,210,308	1,807	171,873	1,383,988
Profit for the year	—	—	159,933	159,933
2002 final dividend paid	—	—	(99,531)	(99,531)
2003 interim dividend paid	—	—	(103,987)	(103,987)
Issue of shares	108,044	—	—	108,044
At 31st December 2003	<u>1,318,352</u>	<u>1,807</u>	<u>128,288</u>	<u>1,448,447</u>
At 1st January 2002	1,210,308	1,807	134,459	1,346,574
Profit for the year	—	—	216,570	216,570
2001 final dividend paid	—	—	(99,531)	(99,531)
2002 interim dividend paid	—	—	(79,625)	(79,625)
At 31st December 2002	<u>1,210,308</u>	<u>1,807</u>	<u>171,873</u>	<u>1,383,988</u>

- (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.

NOTES TO THE ACCOUNTS

23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

	Property revaluation	
	2003	2002
	HK\$'000	HK\$'000
At 1st January and 31st December	<u>13,866</u>	<u>13,866</u>

Deferred tax assets

	Unrealised profit on inventories	
	2003	2002
	HK\$'000	HK\$'000
Credited to profit and loss (<i>note 5</i>) and at 31st December	<u>(8,062)</u>	<u>—</u>

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	325,923	219,898
Depreciation	105,882	75,353
Amortisation of goodwill	6,343	—
Amortisation of patents and trademarks	655	—
(Gains)/losses on disposal/write-off of fixed assets	(21,684)	2,279
Gains on disposal of marketable securities	—	(6,055)
Unrealised gains on disposal of marketable securities	—	(6,597)
Reserves transferred to profit and loss account upon liquidation of a subsidiary	(1,927)	—
Amortisation of deferred income on government grants	(430)	—
Interest income	(6,911)	(13,103)
Interest expenses	8,941	—
Operating profit before working capital changes	416,792	271,775
(Increase)/decrease in inventories	(72,118)	53,677
(Increase)/decrease in trade receivables, other receivables, prepayments and deposits, including amounts due from related companies	(7,537)	24,517
Increase/(decrease) in trade payables, other payables and accrued charges, including amounts due to related companies	78,516	(13,319)
Net cash inflow generated from operations	415,653	336,650

(b) Analysis of changes in financing during the year

	Minority interests		Short term and trust receipt bank loans	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	22,437	11,697	—	—
Minority interests' share of profits	32,963	2,059	—	—
Purchase of subsidiaries (note 24(c))	118,427	—	386,957	—
Capital injection by minority shareholders of subsidiaries	9,749	9,330	—	—
Dividends paid by subsidiaries to their minority shareholders	(15,345)	(649)	—	—
New trust receipt bank loans	—	—	43,610	—
Repayment of short term bank loans	—	—	(82,117)	—
At 31st December	168,231	22,437	348,450	—

NOTES TO THE ACCOUNTS

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Purchase of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	289,754	—
Construction-in-progress	166,309	—
Inventories	123,918	—
Trade and other receivables	128,086	—
Taxation recoverable	1,149	—
Bank balances and cash	75,749	—
Trade and other payables	(61,991)	—
Short term bank loans, secured	(28,275)	—
Short term bank loans, unsecured	(358,682)	—
Minority interests	(118,427)	—
	<hr/>	<hr/>
	217,590	—
Goodwill	202,960	—
	<hr/>	<hr/>
	420,550	—
	<hr/>	<hr/>
Satisfied by		
Allotment of shares	112,500	—
Maximum earn-out payables	41,130	—
Cash	266,920	—
	<hr/>	<hr/>
	420,550	—
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The subsidiaries acquired during the year contributed HK\$206,917,000 (2002: Nil) to the Group's net operating cash flows, paid HK\$110,922,000 (2002: Nil) in respect of the net returns on investments and servicing of finance, paid HK\$5,094,000 (2002: Nil) in respect of taxation and utilised HK\$34,536,000 (2002: Nil) for investing activities.

Analysis of the net outflow in respect of the purchase of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	266,920	—
Bank balances and cash in hand acquired	(75,749)	—
	<hr/>	<hr/>
Net cash outflow in respect of the purchase of subsidiaries	191,171	—
	<hr/>	<hr/>

25 COMMITMENTS

At 31st December 2003, the Group had the following commitments:

(a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	60,188	7,831
Land and buildings	748	123
Authorised but not contracted for in respect of		
Plant, machinery and equipment	153,722	—
Land and buildings	7,178	—
	<u>221,836</u>	<u>7,954</u>

At 31st December 2003, the Company had no capital commitment (2002: Nil).

(b) Commitments under operating leases

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group					
	Land and buildings		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Not later than one year	12,948	5,094	3,000	—	15,948	5,094
Later than one year and not later than five years	8,498	13,463	—	—	8,498	13,463
Later than five years	—	4,759	—	—	—	4,759
	<u>21,446</u>	<u>23,316</u>	<u>3,000</u>	<u>—</u>	<u>24,446</u>	<u>23,316</u>

At 31st December 2003, the Company had no commitment under operating lease (2002: Nil).

26 RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with companies controlled by Mr. Sze Man Bok, Mr. Hui Chi Lin and Mr. Yeung Wing Chun, directors of the Company, prior to the completion of the acquisition as described in note 26(c) below.

	2003 HK\$'000	2002 HK\$'000
Changde Hengan Paper Products Co., Ltd ("Changde Paper")		
- Purchase of raw materials (<i>note (a)</i>)	3,670	12,501
United Wealth International (Holdings) Limited ("United Wealth") and its subsidiaries		
- Commission income (<i>note (b)</i>)	3,309	15,759

- (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 by Changde Paper 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% (2002: 7.5%) on the total value of net sales.
- (c) Pursuant to an acquisition agreement dated 25th March 2003 and a resolution passed on 2nd May 2003 in an annual general meeting of shareholders, the Company completed on 16th May 2003 the acquisition from Mr. Sze Man Bok, Mr. Hui Chi Lin and Mr. Yeung Wing Chun, who are directors and substantial shareholders (except Mr. Yeung Wing Chun) of the Company, the entire issued share capital of United Wealth and the shareholders' loans in the amount of HK\$221,500,000 at an initial consideration of HK\$375,000,000 and an earn-out payment of up to HK\$41,130,000. Following completion of the acquisition, Changde Paper and United Wealth have become subsidiary companies of the Company.

27 SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31st December 2003 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 shares 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
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

NOTES TO THE ACCOUNTS

27 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

27 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 (Jingjiang) 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
Hengan (Shangyu) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in PRC	US\$3,000,000	100
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Trading	RMB52,608,000	100
*United Wealth International (Holdings) Ltd.	Cayman Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US\$1	100

NOTES TO THE ACCOUNTS

27 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 %
*Changde Hengan Paper Products Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	RMB334,115,800	68.88
*Jinjiang Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	US\$12,000,000	51.66
*Fushun Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	US\$3,000,000	51.66
*Hengan (Chongqing) Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	HK\$2,500,000	51.66
*Jinjiang Hengan Household Tissue Product Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	US\$12,000,000	68.88
*Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	US\$3,000,000	68.88
Fushun Hengan Tissue Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	US\$3,000,000	68.88
Shandong Hengan Tissue Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in PRC	US\$29,800,000	76.66

* Acquired on 16th May 2003

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December 2003.

28 SUBSEQUENT EVENT

Pursuant to acquisition agreements dated 23rd March 2004, the Company has conditionally agreed to effectively acquire (i) approximately 31.1% interests in Changde Paper, which at present is held as to approximately 68.9% by the Group; and (ii) 25.0% interests in each of the three subsidiaries which at present are respectively held as to 75.0% by Changde Paper, at an aggregate consideration of HK\$368,093,000. Each of the acquisition agreements is independent of each other and they are not inter-conditional. Following completion of all acquisition agreements, Changde Paper and its subsidiaries will become wholly-owned subsidiaries of the Group.

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 23rd March 2004.