

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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 and any related accumulated foreign currency translation reserve.

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

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.

NOTES TO THE ACCOUNTS

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 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 People's Republic of China ("the PRC") are maintained in Renminbi. 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 account 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 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 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. 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.

NOTES TO THE ACCOUNTS

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 as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

(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 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 assets 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.

NOTES TO THE ACCOUNTS

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.

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.

(h) Operating leases

Leases where substantially all the risks and rewards 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

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.

(j) Inventories

Inventories 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.

(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, cash investments with a maturity of three months or less from date of investment.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

(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.

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

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

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 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. 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 contributions 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 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 and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and exclude investments in securities and deferred taxation. Segment liabilities comprise operating liabilities and exclude taxation and deferred taxation. Capital expenditure comprises additions to intangible assets, construction-in-progress 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:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of goods		
Sanitary napkins and disposable diapers	1,232,135	1,137,730
Tissue paper products	975,802	409,846
Skincare and cleansing products, hygiene materials and others	126,356	140,936
	2,334,293	1,688,512
Other revenues		
Interest income	4,144	6,911
Government grant income	7,284	9,461
Commission income from related companies	—	3,309
Dividend income from unlisted investments	1,763	1,761
	13,191	21,442
Total revenues	2,347,484	1,709,954

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.

NOTES TO THE ACCOUNTS

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

Business segment analysis

	Sanitary napkins and disposable diapers 2004 HK\$'000	Tissue paper products 2004 HK\$'000	Skincare and cleansing products, hygiene materials and others 2004 HK\$'000	Group 2004 HK\$'000
Segment turnover	1,232,195	985,983	187,219	2,405,397
Inter-segment sales	(60)	(10,181)	(60,863)	(71,104)
Turnover of the Group	<u>1,232,135</u>	<u>975,802</u>	<u>126,356</u>	<u>2,334,293</u>
Segment results	<u>229,522</u>	<u>165,908</u>	<u>4,927</u>	400,357
Unallocated costs				(12,857)
Other expenses				(562)
Interest income				4,144
Operating profit				391,082
Finance costs				(18,177)
Profit before taxation				372,905
Taxation				(55,670)
Profit after taxation				317,235
Minority interests				(19,305)
Profit attributable to shareholders				<u>297,930</u>
Segment assets	1,347,132	1,672,456	155,136	3,174,724
Deferred tax assets				17,681
Investments				23,054
Unallocated assets				25,931
Total assets				<u>3,241,390</u>
Segment liabilities	128,508	931,967	11,622	1,072,097
Deferred tax liabilities				13,352
Taxation payable				24,350
Unallocated liabilities				20,426
Total liabilities				<u>1,130,225</u>
Capital expenditure	28,738	419,705	18,628	467,071
Depreciation	69,616	49,783	6,295	125,694
Amortisation charge	—	17,996	1,021	19,017

NOTES TO THE ACCOUNTS

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

Business segment analysis *(continued)*

	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	1,415,739	1,062,742	125,702	2,604,183
Deferred tax assets				8,062
Investments				23,054
Unallocated assets				<u>70,293</u>
Total assets				<u>2,705,592</u>
Segment liabilities	145,484	465,154	11,234	621,872
Deferred tax liabilities				13,866
Taxation payable				11,823
Unallocated liabilities				<u>60,152</u>
Total liabilities				<u>707,713</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

5 TAXATION

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

	2004 HK\$'000	2003 HK\$'000
Current		
Hong Kong profits tax	577	—
PRC income tax	64,712	46,034
Deferred taxation (note 25)	(9,619)	(8,062)
	<hr/>	<hr/>
Taxation charges	55,670	37,972

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year. No provision for Hong Kong profits tax has been made for the year ended 31st December 2003 as the Group had no assessable profit.

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-marking year following by a 50% reduction for the next three consecutive 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 taxation rate in the PRC applicable to the Group as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	372,905	325,923
	<hr/>	<hr/>
Taxation calculated at a tax rate of 33% (2003: 33%)	123,059	107,555
Tax exemption on the profit of certain subsidiaries	(73,366)	(71,760)
Deferred tax benefit arising from tax losses not recognised	890	2,833
Income not subject to taxation	(1,004)	(5,427)
Expenses not deductible for taxation purposes	3,246	1,511
Under provision in prior years	2,845	3,260
	<hr/>	<hr/>
Taxation charges	55,670	37,972

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK\$266,022,000 (2003: HK\$159,933,000), including dividend income from subsidiaries of HK\$277,039,000 (2003: HK\$169,602,000), dealt with in the accounts of the Company.

NOTES TO THE ACCOUNTS

7 DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Interim, paid, of HK 10 cents (2003: HK 10 cents) per ordinary share	108,077	103,987
Final, proposed, of HK 12 cents (2003: HK 12 cents) per ordinary share	129,692	124,784
	237,769	228,771

At a meeting held on 22nd March 2005, the directors proposed 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 earnings for the year ending 31st December 2005.

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$297,930,000 (2003: HK\$254,988,000) and the weighted average number of 1,064,545,156 (2003: 1,023,387,410) ordinary shares in issue 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

	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	173,123	130,385
Retirement benefit costs	3,311	2,527
	176,434	132,912

NOTES TO THE ACCOUNTS

10 DIRECTORS' EMOLUMENTS

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

	2004 HK\$'000	2003 HK\$'000
Fees	765	720
Other emoluments:		
Basic salaries and other allowances	3,291	3,128
Discretionary bonuses	735	934
	<u>4,791</u>	<u>4,782</u>

Directors' fees disclosed above include HK\$290,000 (2003: HK\$240,000) paid to independent non-executive directors of the Company.

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
HK\$ Nil to HK\$1,000,000	10	10
HK\$1,000,001 to HK\$1,500,000	1	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.

NOTES TO THE ACCOUNTS

11 INTANGIBLE ASSETS

	Goodwill	Group Patents and trademarks	Total
	HK\$'000	HK\$'000	HK\$'000
Year ended 31st December 2004			
Opening net book amount	196,617	4,038	200,655
Exchange adjustment	—	8	8
Acquisition of a subsidiary (note 26(c))	13,195	—	13,195
Acquisition of additional interests in subsidiaries	260,764	—	260,764
Amortisation charge	(18,546)	(471)	(19,017)
	<u>452,030</u>	<u>3,575</u>	<u>455,605</u>
At 31st December 2004			
Cost	476,919	4,701	481,620
Accumulated amortisation	(24,889)	(1,126)	(26,015)
	<u>452,030</u>	<u>3,575</u>	<u>455,605</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>

NOTES TO THE ACCOUNTS

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
Cost or valuation					
At 1st January 2004	395,547	1,035,807	42,713	18,064	1,492,131
Exchange adjustment	720	1,815	71	33	2,639
Additions	7,230	26,622	6,550	2,636	43,038
Acquisition of a subsidiary (note 26(c))	—	—	31	—	31
Transfer from construction -in-progress (note 13)	3,889	79,382	449	—	83,720
Disposals/write-off	(418)	(14,520)	(1,014)	(2,359)	(18,311)
At 31st December 2004	<u>406,968</u>	<u>1,129,106</u>	<u>48,800</u>	<u>18,374</u>	<u>1,603,248</u>
Accumulated depreciation					
At 1st January 2004	53,462	317,648	19,747	10,958	401,815
Exchange adjustment	75	481	28	20	604
Charge for the year	18,873	97,474	6,974	2,373	125,694
Disposals/write-off	(81)	(9,662)	(750)	(1,896)	(12,389)
At 31st December 2004	<u>72,329</u>	<u>405,941</u>	<u>25,999</u>	<u>11,455</u>	<u>515,724</u>
Net book value					
At 31st December 2004	<u>334,639</u>	<u>723,165</u>	<u>22,801</u>	<u>6,919</u>	<u>1,087,524</u>
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>

NOTES TO THE ACCOUNTS

12 FIXED ASSETS (continued)

(a) The analysis of cost or valuation at 31st December 2004 and 2003 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	268,904	1,129,106	48,800	18,374	1,465,184
At 2004 professional valuation (note (c))	138,064	—	—	—	138,064
At 31 st December 2004	<u>406,968</u>	<u>1,129,106</u>	<u>48,800</u>	<u>18,374</u>	<u>1,603,248</u>
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>

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

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Lease of over 50 years	—	9,385
Lease between 10 to 50 years	8,825	—
Outside Hong Kong, held on:		
Leases of over 50 years	7,629	8,063
Leases between 10 to 50 years	318,185	324,637
	<u>334,639</u>	<u>342,085</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 offering of the shares of the Company dated 27th November 1998. In 2004, the Group's leasehold land and buildings were revalued by China Consultants of Accounting and Financial Management, Co. Ltd. ("CCAFM"), an independent firm of chartered surveyors in the PRC, at open market value based on their existing use. Based on the report issued by CCAFM, the Directors are of the opinion that the aggregate net book value of leasehold land and buildings as at 31st December 2004 was not materially different from their aggregate estimated open market value as at 31st December 2004. Had these leasehold land and buildings not been revalued, the carrying amount of leasehold land and buildings as at 31st December 2004 would have been HK\$285,634,000 (2003:HK\$291,189,000), being costs of HK\$365,092,000 (2003: HK\$353,671,000) less accumulated depreciation of HK\$79,458,000 (2003: HK\$62,482,000).

(d) At 31st December 2004, there were no fixed assets pledged as security for the Group's bank loans (2003: HK\$46,153,000).

NOTES TO THE ACCOUNTS

13 CONSTRUCTION-IN-PROGRESS

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	34,212	29,172
Exchange adjustment	(13)	(842)
Additions	150,043	47,618
Acquisition of subsidiaries (note 26(c))	—	166,309
Transfer to fixed assets (note 12)	(83,720)	(208,045)
	<u>100,522</u>	<u>34,212</u>
At 31st December	<u>100,522</u>	<u>34,212</u>

During the year ended 31st December 2004, finance charges capitalised in construction-in-progress amount of HK\$6,742,000 (2003: HK\$Nil).

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

	2004	2003
	HK\$'000	HK\$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>62,368</u>	<u>4,195</u>

14 INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,919,356	1,374,563
Due from subsidiaries (note (a))	43,664	112,005
	<u>1,963,020</u>	<u>1,486,568</u>

- (a) The balances are unsecured, interest-free and not repayable within twelve months from the balance sheet date.
- (b) The particulars of the Company's principal subsidiaries are set out in note 30 to the accounts.

NOTES TO THE ACCOUNTS

15 INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Investment securities		
Unlisted equity securities 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	
	2004 HK\$'000	2003 HK\$'000
At cost:		
Finished goods	329,509	219,224
Work-in-progress	13,608	15,165
Raw materials	212,782	156,222
Spare parts and consumables	43,753	39,647
	<u>599,652</u>	<u>430,258</u>

At 31st December 2004, there were no raw materials pledged as security for the Group's bank loans (2003: HK\$75,775,000).

17 DUE FROM SUBSIDIARIES - COMPANY

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

18 DUE TO SUBSIDIARIES - COMPANY

The balances are unsecured, interest-free and not repayable within twelve months from the balance sheet date.

NOTES TO THE ACCOUNTS

19 TRADE RECEIVABLES

Majority of the Group's sales is on open accounts with credit terms generally ranging from 30 days to 90 days.

At 31st December 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
1 - 30 days	90,887	73,889
31 - 180 days	128,986	118,487
181 - 365 days	9,339	4,083
	229,212	196,459

20 TRADE PAYABLES

At 31st December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
1 - 30 days	146,860	101,353
31 - 180 days	52,744	71,703
181 - 365 days	1,776	648
Over 365 days	273	1,923
	201,653	175,627

21 LONG-TERM BANK LOANS - UNSECURED

	Group	
	2004 HK\$'000	2003 HK\$'000
Wholly repayment within five years	260,000	—

At 31st December 2004, the Group's long-term bank loans were repayable as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	—	—
In the second year	148,571	—
In the third to fifth year	111,429	—
	260,000	—

NOTES TO THE ACCOUNTS

22 SHARE CAPITAL

	Authorised share capital	
	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1st January 2004 and 31st December 2004	<u>3,000,000,000</u>	<u>300,000</u>
	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	<u>44,554,455</u>	<u>4,456</u>
At 31st December 2003	1,039,866,455	103,987
Issue of shares	<u>40,899,900</u>	<u>4,090</u>
At 31st December 2004	<u>1,080,766,355</u>	<u>108,077</u>

On 30th April 2004 and 30th July 2004, the Company issued 30,160,000 and 10,739,900 shares of HK\$0.10 each at a price of HK\$4.600 and HK\$4.775 per share respectively as part of the consideration for the acquisition of additional interests in subsidiaries from minority shareholders.

23 SHARE OPTION SCHEME

No option 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 up to 99,531,200 share options within 10 years from its adoption date, 2nd May 2003.

Under the Scheme, the Company's Directors may, at their absolute discretion, grant to any employee and Directors to subscribe for shares of the Company at a price of not less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet issued by The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of offer of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant; and (iii) the nominal value of a share.

NOTES TO THE ACCOUNTS

24 RESERVES

(a) The reserves of the Group and the Company at 31st December 2004 are analysed as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Proposed final dividend (note 7)	129,692	124,784	129,692	124,784
Other reserves	1,848,898	1,600,877	1,537,846	1,323,663
Total reserves	<u>1,978,590</u>	<u>1,725,661</u>	<u>1,667,538</u>	<u>1,448,447</u>

(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 2004	733,352	517,705	1,807	37,030	129,271	6,653	299,843	1,725,661
Appropriation to statutory reserves	—	—	—	—	22,122	—	(22,122)	—
Profit attributable to shareholders	—	—	—	—	—	—	297,930	297,930
2003 final dividend paid	—	—	—	—	—	—	(124,784)	(124,784)
2004 interim dividend paid	—	—	—	—	—	—	(108,077)	(108,077)
Transfer to retained profits	—	—	—	(1,891)	—	—	1,891	—
Deferred taxation credited directly to property revaluation reserve (note 25)	—	—	—	514	—	—	—	514
Issue of shares	185,930	—	—	—	—	—	—	185,930
Translation of subsidiaries' accounts	—	—	—	—	—	1,416	—	1,416
At 31st December 2004	<u>919,282</u>	<u>517,705</u>	<u>1,807</u>	<u>35,653</u>	<u>151,393</u>	<u>8,069</u>	<u>344,681</u>	<u>1,978,590</u>
At 1st January 2003	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' accounts	—	—	—	—	—	(9,231)	—	(9,231)
At 31st December 2003	<u>733,352</u>	<u>517,705</u>	<u>1,807</u>	<u>37,030</u>	<u>129,271</u>	<u>6,653</u>	<u>299,843</u>	<u>1,725,661</u>

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 2004	1,318,352	1,807	128,288	1,448,447
Profit for the year	—	—	266,022	266,022
2003 final dividend paid	—	—	(124,784)	(124,784)
2004 interim dividend paid	—	—	(108,077)	(108,077)
Issue of shares	185,930	—	—	185,930
	<u>1,504,282</u>	<u>1,807</u>	<u>161,449</u>	<u>1,667,538</u>
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
	<u>1,318,352</u>	<u>1,807</u>	<u>128,288</u>	<u>1,448,447</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 subsidiaries in the PRC.

NOTES TO THE ACCOUNTS

25 DEFERRED TAXATION - GROUP

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 on the deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

	Property revaluation	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	13,866	13,866
Credited to equity (note 24(b))	(514)	—
At 31st December	13,352	13,866

Deferred tax asset

	Unrealised profit of inventories	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	(8,062)	—
Credited to profit and loss account (note 5)	(9,619)	(8,062)
At 31st December	(17,681)	(8,062)

Deferred income tax assets are recognised for tax losses carried forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$5,074,000 (2003: HK\$2,174,000) to be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2004	2003
	HK\$'000	HK\$'000
2007	1,431	1,431
2008	743	743
2009	2,900	—
	5,074	2,174

NOTES TO THE ACCOUNTS

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	372,905	325,923
Depreciation	125,694	105,882
Amortisation of goodwill	18,546	6,343
Amortisation of patents and trademarks	471	655
Losses/(gains) on disposal/write-off of fixed assets	4,552	(21,684)
Reserves transferred to profit and loss account upon liquidation of a subsidiary	—	(1,927)
Amortisation of deferred income on government grants	(694)	(430)
Interest income	(4,144)	(6,911)
Interest expense	18,177	8,941
	<hr/>	<hr/>
Operating profit before working capital changes	535,507	416,792
Increase in inventories	(167,394)	(72,118)
Increase in trade receivables, other receivables, prepayments and deposits	(44,205)	(7,537)
(Decrease)/increase in trade payables, other payables and accrued charges	(33,195)	78,516
	<hr/>	<hr/>
Net cash inflow generated from operations	290,713	415,653
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Minority interests		Bank loans	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1st January	168,231	22,437	348,450	—
Minority interests' share of profits	19,305	32,963	—	—
Purchase of subsidiaries (note 26(c))	609	118,427	—	386,957
Purchase of additional interests in subsidiaries	(146,699)	—	—	—
Capital injection by minority shareholders of subsidiaries	—	9,749	—	—
Dividends paid by subsidiaries to minority shareholders	(16,948)	(15,345)	—	—
New trust receipt bank loans	—	—	9,953	43,610
New / (repayment of) short-term bank loans	—	—	158,340	(82,117)
Drawdown of long-term bank loans	—	—	370,000	—
Repayment of long-term bank loans	—	—	(110,000)	—
At 31st December	<u>24,498</u>	<u>168,231</u>	<u>776,743</u>	<u>348,450</u>

NOTES TO THE ACCOUNTS

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	31	289,754
Construction-in-progress	—	166,309
Inventories	2,000	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	(609)	(118,427)
	<u>1,422</u>	<u>217,590</u>
Goodwill	13,195	202,960
	<u>14,617</u>	<u>420,550</u>
Satisfied by		
Allotment of shares	—	112,500
Maximum earn-out payables	—	41,130
Cash	14,617	266,920
	<u>14,617</u>	<u>420,550</u>

The subsidiary acquired during the year contributed HK\$813,000 (2003: HK\$206,917,000) to the Group's net operating cash flows, paid HK\$27,000 (2003: 110,922,000) in respect of the net returns on investments and servicing of finance, no payment (2003: HK\$5,094,000) in respect of taxation and utilised HK\$47,000 (2003: HK\$34,536,000) for investing activities.

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	14,617	266,920
Bank balances and cash in hand acquired	—	(75,749)
Net cash outflow in respect of the purchase of subsidiaries	<u>14,617</u>	<u>191,171</u>

NOTES TO THE ACCOUNTS

27 CONTINGENT LIABILITIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees for bank loans of subsidiaries	<u>262,237</u>	<u>—</u>

Management anticipate that no material liabilities will arise from the above bank guarantees which arose in the ordinary course of business.

28 COMMITMENTS

At 31st December 2004, the Group had the following commitments:

(a) Capital commitments

	Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	399,068	60,188
Land and buildings	74,650	748
Authorised but not contracted for in respect of		
Plant, machinery and equipment	—	153,722
Land and buildings	—	7,178
	<u>473,718</u>	<u>221,836</u>

At 31st December 2004, the Company did not have any significant capital commitment (2003: Nil).

NOTES TO THE ACCOUNTS

28 COMMITMENTS (continued)

(b) Commitments under operating leases

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Group Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	6,819	12,948	3,000	3,000	9,819	15,948
Later than one year and not later than five years	7,828	8,498	—	—	7,828	8,498
Later than five years	1,873	—	—	—	1,873	—
	<u>16,520</u>	<u>21,446</u>	<u>3,000</u>	<u>3,000</u>	<u>19,520</u>	<u>24,446</u>

At 31st December 2004, the Company did not have any significant commitment under operating lease (2003: Nil).

29 RELATED PARTY TRANSACTIONS

In 2003, the Group entered into the following transactions with companies controlled by Mr. Sze Man Bok, Mr. Hui Lin Chit and Mr. Yeung Wing Chun, directors of the Company, prior to the completion of the acquisition as described in note 29(c) below:

	2004 HK\$'000	Group 2003 HK\$'000
Hunan Hengan Paper Co., Ltd. ("Hunan Hengan") (Formerly known as "Changde Hengan Paper Products Co., Ltd.") - Purchase of raw materials (note (a))	—	3,670
United Wealth International (Holdings) Limited ("United Wealth") and its subsidiaries - Commission income (note (b))	—	3,309
	<u>—</u>	<u>3,309</u>

NOTES TO THE ACCOUNTS

29 RELATED PARTY TRANSACTIONS *(continued)*

- (a) Pursuant to a supply agreement entered into by the Company and Hunan Hengan on 26th November 1998, the Group was granted a non-exclusive right to purchase tissue paper raw materials from Hunan Hengan at purchase price not less favourable than that offered to other independent parties in the PRC.
- (b) Pursuant to an agency agreement entered into by the Company and United Wealth International (Holdings) Limited ("United Wealth") on 26th November 1998, the Group was granted a non-exclusive right to distribute the packaged tissue paper products manufactured by United Wealth ("United Wealth Group") through the Group's sales network and earns a commission income calculated at a rate of 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 Lin Chit and Mr. Yeung Wing Chun, who are directors and substantial shareholders (except that Mr. Yeung Wing Chun is a director but not a substantial shareholder) 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 the completion of the acquisition, Hunan Hengan and United Wealth became subsidiaries of the Company.

30 SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31st December 2004 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	
				2004 %	2003 %
<i>Direct subsidiary:</i>					
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100	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	100
Hengan (Anxiang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB22,000,000	100	100

NOTES TO THE ACCOUNTS

30 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	
				2004 %	2003 %
Hengan (Binyang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB5,680,000	100	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB147,360,000	98.32	98.32
Hengan (Fushun) Sanitary Products Co., Ltd.	PRC, sino-foreign co-operative joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB28,700,000	75	75
Hefei Hengan Hygiene Products Factory	PRC, joint operation enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB3,680,000	99.98	99.98
Hengan (Jiangxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB7,420,000	100	100
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 the PRC	RMB240,000,000	98.96	98.96
Hengan (Jinjiang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK\$50,000,000	100	100
Hengan (Luohe Linying) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$1,200,000	100	100

NOTES TO THE ACCOUNTS

30 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	
				2004 %	2003 %
Hengan (Shaanxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB3,980,000	100	100
Shangyu City Hengan Hygiene Products Co.	PRC, joint operation enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB7,290,000	99.99	99.99
Hengan (Sichuan) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$1,380,000	100	100
Hengan (Tianjin) Hygiene Supplies Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$3,000,000	100	100
Hengan (Weifang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$3,410,000	100	100
Hengan (Xiaogan) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$1,460,000	100	100
Jinjiang Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing of personal hygiene materials in the PRC	US\$10,000,000	100	100
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$15,800,000	100	100

NOTES TO THE ACCOUNTS

30 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	
				2004 %	2003 %
Hengan (Jinjiang) Feminine Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$6,000,000	100	100
Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB10,000,000	100	100
Hengan (Sichuan) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$3,000,000	100	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 the PRC	RMB32,000,000	70	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 the PRC	RMB1,000,000	70	70
Hengan (Shangyu) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$3,000,000	100	100
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Distribution and sale of personal hygiene products in the PRC	RMB52,608,000	100	100
United Wealth International (Holdings) Ltd.	Cayman Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US\$1 each	100	100

NOTES TO THE ACCOUNTS

30 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	
				2004 %	2003 %
Hunan Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB334,115,800	100	68.88
Jinjiang Hengan Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$12,000,000	100	51.66
Fushun Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$3,000,000	100	51.66
Hengan (Chongqing) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK\$2,500,000	100	51.66
Jinjiang Hengan Household Tissue Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$12,000,000	100	68.88
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$3,000,000	100	68.88
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$3,000,000	100	68.88
Shandong Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$29,800,000	100	76.66
Hengan (China) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$68,880,000	100	—

NOTES TO THE ACCOUNTS

30 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	
				2004 %	2003 %
Shandong Hengan Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$20,880,000	100	—
Hengan (Jiangxi) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK\$10,000,000	100	—
Hengan (Weifang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK\$10,000,000	100	—
Hengan (Xiaogan) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK\$10,000,000	100	—
Hengan Pharmacare Co., Ltd.	Hong Kong, limited liability company	Trading and procurement in Hong Kong	10,000 ordinary shares of HK\$1 each	70	—
Gather Wise Investments Ltd.	Samoa Islands, limited liability company	Investment holding	3 ordinary shares of US\$1 each	100	—
Promise Management Ltd.	British Virgin Islands limited liability company	Investment holding	2 ordinary shares of US\$1 each	100	—
Asset One Holdings Ltd.	British Virgin Islands limited liability company	Investment holding	2 ordinary shares of US\$1 each	100	—

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December 2004.

NOTES TO THE ACCOUNTS

31 COMPARATIVE FIGURES

Certain 2003 comparative figures have been restated to conform to current year's presentation.

32 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 22nd March 2005.