NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

1. GENERAL INFORMATION

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") manufactures, distributes and sells personal hygiene products through a network of retailers. The Group has manufacturing plants in various parts of the People's Republic of China (the "PRC") and sells mainly in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 21 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of buildings and available-for-sale financial assets which are stated at fair value.

The preparation of consolidated accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

In 2005, the Group adopted the following new/revised standards of HKFRS that are relevant to the operation of the Group. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 18, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest and other disclosures.

— HKASs 2, 7, 8, 10, 16, 18, 23, 27 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, the unlisted investments of the Group were classified as non-current investments and stated in the balance sheet at cost less any provision for impairment losses. In accordance with HKAS 39, these investments have been re-classified as available-for-sale financial assets and stated in the balance sheet at fair value as at 1 January 2005. There was no material change to the value of the available-for-sales financial assets as at 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. However, there was no impact on the consolidated accounts as no share option has been granted since the share option plan became effective.

The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets held for sale. The non-current assets held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets held for sale or for continuing use. The application of HKFRS 5 does not impact on the prior-year accounts.

The adoption of HKFRS 3, HKASs 36 and 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was amortised on a straight-line basis over a maximum period of 20 years and assessed for impairment, where an indication of impairment existed at each balance sheet date. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 21 — prospective accounting for goodwill and fair vale adjustments as part of foreign operations;

— HKAS 38, HKFRSs 3 and 5 — prospectively after the adoption date; and

— HKAS 39 — does not permit to recognise, derecongnise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

Effect of adopting new HKFRSs

The adoption of revised HKAS 17 resulted in the following:

	2005	2004
	HK$'000	HK$'000
Decrease in property, plant and equipment	**(49,972)**	(52,687)
Increase in leasehold land and land use rights	**47,554**	50,173
Decrease in property revaluation reserve	**1,636**	1,698
Decrease in deferred tax liabilities	**842**	876
Increase in minority interest	**(60)**	(60)
Increase in profit for the year	**(96)**	(96)

The adoption of new HKAS 39 and HKFRS 5 resulted in the following:

	2005	2004
	HK$'000	HK$'000
Increase in assets classified as held for sale	**53,157**	—
Increase in available-for-sale financial assets reserve	**(22,124)**	—
Increase in deferred tax liabilities	**(7,979)**	—
Decrease in investments	**(23,054)**	—

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The Group has not early adopted the following new standards or interpretations which are relevant to the operations of the Group and are effective for accounting periods commencing on or after 1 January 2006. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when necessary whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (Note 2(g)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

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 by the Company on the basis of dividend received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(II) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(III) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on periodic valuations by external independent valuers (with an interval of not more than five years), less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are expensed in the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the profit and loss account and depreciation based on the asset's original cost is transferred from other reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

— Buildings	20 years
— Plant and machinery	10–20 years
— Motor vehicles	5 years
— Office equipment, furniture and fixtures	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

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 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Leasehold land and land use rights are amortised using the straight-line method over their estimated useful life of 50 years. Where an indication of impairment exists, the carrying amount of the leasehold land and land use rights are assessed and written down immediately to their recoverable amount.

(g) 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 identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) *Trademarks and patents*

Trademarks and patents are shown at historical cost. Trademarks and patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and patents over their estimated useful lives of not exceeding 20 years.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal for an impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments

In 2004, the Group classified its investments in securities, other than subsidiaries, as non-trading securities, which were stated at cost less provision for impairment losses in fair value at the balance sheet date.

From 1 January 2005 onwards, the Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluate this designation at every reporting date.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(k)).

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Changes in fair value of available-for-sale are recognised in equity. Loans and receivables are carried at amortised cost using the effective interest method. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments (continued)

For unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale and held for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets and assets classified as held for sale, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account — is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in Note 2(k).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Deferred income tax

Deferred income tax 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 consolidated accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Retirement benefits costs

The Group participates in defined contribution retirement schemes administered by local government in different parts of the PRC (the "Central Schemes"). The Group also maintains a defined contribution pension scheme (the "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 contributions 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. The assets of the schemes are held separately from those of the Group in independently administered funds.

With effect from 1 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 assets of the schemes are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown for the net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when a group entity has delivered products to the customers, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loss is recognised using the original effective interest rate.

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

(s) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the profit and loss account on a straight-line basis over the expected lives of the related assets.

(t) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the year in which the dividends are approved by the Company's shareholders.

(w) Comparatives

The Group previously disclosed "other revenues" and "other (expenses)/income" separately in the profit and loss account. Management believe that their inclusion in the "other gains-net" is a fairer representation of the Group's activities.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) *Market risk*

(I) *Foreign currency risk*

Most of the Group's income is in Renminbi while a portion of raw materials were purchased and settled in United States dollars. Renminbi is not freely convertible into other foreign currencies and conversion is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group is able to get sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in the PRC to the holding company in Hong Kong. During the year ended 31 December 2005, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) *Market risk (continued)*

(II) *Price risk*

The Group is exposed to equity securities price risk because the investments held by the Group as presented in the consolidated balance sheet as "assets classified as held for sale" are stated at fair value. The Group is not exposed to commodity price risk.

(ii) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with appropriate credit histories.

(iii) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(iv) *Cash flow interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. During the year ended 31 December 2005, the Group had not issued any financial instruments or entered into any contracts for interest rate hedging purposes.

(b) Fair value estimation

The carrying amounts of the Group's current financial assets, including bank balances and cash, trade receivables, other receivables, prepayments and deposits and current financial liabilities, including trade and bills payables, other payables, accrued charges and bank borrowings approximate to their fair values due to their short maturities. The fair value of the "assets classified as held for sale" is determined with reference to the estimated cash flows arising from the disposal of these assets (Note 19).

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value estimation (continued)

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk or causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Assessment of impairment provision of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 17). Management believes that any reasonably foreseeable change in the assumptions and estimates would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

(b) *Property, plant and equipment, depreciation and valuation*

Property and plant other than machinery and equipment and construction-in-progress are revalued by independent valuer on a regular basis with an interval of not more than five years. In the intervening years, the Directors' review of the carrying values and adjustment is made where there has been a material change. In arriving at the valuation, assumptions and economic estimates have to be made.

Management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment, other than construction-in-progress. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) *Provision for trade receivables, other receivables and prepayments*

Trade receivables, other receivables and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of trade receivables, other receivables and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account. In determining whether any of the trade receivables, other receivables and prepayments is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(d) *Income taxes*

The Group is subject to income taxes in the PRC and in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and tax provisions in the period in which such determination is made.

5. TURNOVER AND SEGMENT INFORMATION

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

	2005	2004
	HK$'000	HK$'000
Sanitary napkins	**971,315**	798,510
Disposable diapers	**654,216**	412,191
Tissue paper products	**1,259,700**	958,679
Skincare and cleansing products, hygiene materials and others	**144,891**	124,167
	3,030,122	2,293,547

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

5. TURNOVER AND SEGMENT INFORMATION (continued)

(b) The Group is organised with four major business segments:

(i) sanitary napkins;

(ii) disposable diapers;

(iii) tissue paper products; and

(iv) skincare and cleansing products, hygiene materials and others.

(c) Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, construction-in-progress, leasehold land and land use rights, intangible assets, prepayment for non-current assets, inventories, receivables and operating cash. They exclude deferred tax assets and investments.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 14), construction-in-progress (Note 15), leasehold land and land use rights (Note 16) and intangible assets (Note 17), including additions resulting from acquisitions through business combinations.

(d) 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.

5. TURNOVER AND SEGMENT INFORMATION (continued)

	Sanitary napkins 2005 HK$'000	Disposable diapers 2005 HK$'000	Tissue paper products 2005 HK$'000	Skincare and cleansing products, hygiene materials and others 2005 HK$'000	Group 2005 HK$'000
Segment turnover	1,010,029	655,396	1,271,463	217,221	3,154,109
Inter-segment sales	(38,714)	(1,180)	(11,763)	(72,330)	(123,987)
Turnover of the Group	971,315	654,216	1,259,700	144,891	3,030,122
Segment results	286,471	66,726	197,940	11,727	562,864
Unallocated costs					(5,113)
Interest income					4,442
Other gains					2,079
Operating profit					564,272
Finance costs					(21,500)
Profit before income tax					542,772
Income tax expense					(91,591)
Profit for the year					451,181
Minority interest					(890)
Profit attributable to shareholders of the Company					450,291
Segment assets	884,941	509,662	2,255,495	119,939	3,770,037
Deferred tax assets					32,457
Assets classified as held for sale					53,157
Unallocated assets					53,050
Total assets					3,908,701
Segment liabilities	134,854	97,232	1,220,367	17,902	1,470,355
Deferred tax liabilities					19,975
Taxation payable					40,916
Unallocated liabilities					15,167
Total liabilities					1,546,413
Capital expenditure	47,335	37,422	522,871	2,177	609,805
Deprecation	55,640	15,720	61,463	6,219	139,042
Amortisation charge	2,383	325	866	589	4,163

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

5. TURNOVER AND SEGMENT INFORMATION (continued)

	Sanitary napkins 2004 HK$'000	Disposable diapers 2004 HK$'000	Tissue paper products 2004 HK$'000	Skincare and cleansing products, hygiene materials and others 2004 HK$'000	Group 2004 HK$'000 Restated (Note 2(a))
Segment turnover	815,363	412,338	968,860	185,030	2,381,591
Inter-segment sales	(16,853)	(147)	(10,181)	(60,863)	(88,044)
Turnover of the Group	798,510	412,191	958,679	124,167	2,293,547
Segment results	190,681	38,937	165,908	4,927	400,453
Unallocated costs					(12,857)
Interest income					4,144
Other expenses					(562)
Operating profit					391,178
Finance costs					(18,177)
Profit before income tax					373,001
Income tax expense					(55,670)
Profit for the year					317,331
Minority interest					(19,305)
Profit attributable to shareholders of the Company					298,026
Segment assets	1,056,553	288,065	1,672,456	155,136	3,172,210
Deferred tax assets					17,681
Investments					23,054
Unallocated assets					25,931
Total assets					3,238,876
Segment liabilities	96,435	32,073	931,967	11,622	1,072,097
Deferred tax liabilities					12,476
Taxation payable					24,350
Unallocated liabilities					20,426
Total liabilities					1,129,349
Capital expenditure	23,671	5,067	419,705	18,628	467,071
Deprecation	54,046	13,069	49,293	5,765	122,173
Amortisation charge	2,179	322	18,486	1,551	22,538

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

6. OTHER GAINS — NET

	2005 HK$'000	2004 HK$'000
Interest income	4,442	4,144
Government grant income	3,121	7,284
Dividend income	1,898	1,763
Others	(2,940)	(562)
	6,521	12,629

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005 HK$'000	2004 HK$'000 Restated (Note 2(a))
Crediting		
Net exchange gains	3,199	471
Amortisation of deferred income on government grants	1,114	694
Reversal for impairment of trade receivables	—	1,532
Charging		
Depreciation (Note 14)	139,042	122,173
Amortisation of leasehold land and land use rights recognised in administrative expenses (Note 16)	3,681	3,521
Losses on disposal/write-off of property, plant and equipment	1,561	4,552
Staff costs including Directors' emoluments (Note 13)	211,725	176,434
Operating leases rental in respect of factory premises and sales liaison offices	12,215	10,322
Repairs and maintenance expenses	17,089	16,033
Auditors' remuneration	2,837	2,943
Amortisation of intangible assets recognised in administrative expenses (Note 17)		
Goodwill	—	18,546
Patents and trademarks	482	471
Impairment of trade receivables	5,706	—

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on trust receipt bank loans	**2,182**	2,187
Interest on short-term bank loans	**14,794**	16,036
Interest on long-term bank loans wholly repayable within five years	**17,798**	1,504
Other finance charges	**967**	5,192
Total borrowing costs incurred	**35,741**	24,919
Less: amount capitalised in buildings and machinery under construction-in-progress		
Interest capitalised	**(14,241)**	(2,029)
Other finance charges	**—**	(4,713)
Total borrowing costs capitalised	**(14,241)**	(6,742)
	21,500	18,177

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 0.87% to 5.13% (2004: 0.87% to 1.80%) per annum.

9. INCOME TAX EXPENSE

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

	2005 HK$'000	2004 HK$'000
Hong Kong profits tax	**756**	577
PRC income tax	**105,611**	64,712
Deferred taxation (Note 31)	**(14,776)**	(9,619)
Taxation charges	**91,591**	55,670

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year.

9. INCOME TAX EXPENSE (continued)

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 followed by a 50% reduction for the next consecutive three years. In addition, a subsidiary of the Group which is assessed as a welfare enterprise is 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:

	2005 **HK$'000**	2004 HK$'000 Restated (Note 2(a))
Profit before income tax	**542,772**	373,001
Taxation calculated at tax rates applicable to profits of the Group's companies	**178,450**	123,090
Deferred tax benefit arising from tax losses not recognised	**667**	859
Income not subject to taxation	**(1,717)**	(1,004)
Expenses not deductible for taxation purposes	**4,977**	3,246
Tax exemption on the profits of certain subsidiaries	**(91,346)**	(73,366)
Under-provision in prior years	**560**	2,845
Income tax expense	**91,591**	55,670

The weighted average applicable tax rate was 32.9% (2004: 33.0%).

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK$293,293,000 (2004: HK$266,022,000), including dividend income from subsidiaries of HK$321,158,000 (2004: HK$277,039,000), which is dealt with in the accounts of the Company.

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK$450,291,000 (2004: HK$298,026,000) and the weighted average number of 1,080,766,355 (2004: 1,064,545,156) ordinary shares in issue during the year. There is no diluted earnings per share since the Company has no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

12. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim, paid, HK12 cents (2004: HK10 cents) per ordinary share	**129,692**	108,077
Final, proposed, HK16 cents (2004: HK12 cents) per ordinary share	**172,923**	129,692
	302,615	237,769

At a Board meeting held on 21 March 2006, the Directors proposed a final dividend of HK16 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 31 December 2006.

13. STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2005 HK$'000	2004 HK$'000
Wages and salaries	**208,175**	173,123
Retirement benefit costs	**3,550**	3,311
	211,725	176,434

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director						
Mr. Sze Man Bok	60	412	—	—	12	484
Mr. Hui Lin Chit (Note (i))	60	321	263	408	12	1,064
Mr. Yeung Wing Chun	60	223	19	—	12	314
Mr. Hung Ching Shan	60	123	19	—	9	211
Mr. Zhang Shi Pao	60	58	9	—	3	130
Mr. Xu Da Zuo	60	176	91	—	3	330
Mr. Xu Chun Man	60	38	15	—	3	116
Mr. Loo Hong Shing Vincent	60	900	230	—	11	1,201
Independent Non-Executive Director						
Mr. Chan Henry	100	—	—	—	—	100
Mr. Chu Cheng Chung	80	—	—	—	—	80
Ms. Ada Ying Kay Wong	100	—	—	—	—	100
Ms. Guan Tao (Note (ii))	—	—	—	—	—	—

13. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS (continued)

(a) Directors' and senior management's emoluments (continued)

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Director						
Mr. Sze Man Bok	60	363	—	—	12	435
Mr. Hui Lin Chit (Note (i))	60	363	215	408	12	1,058
Mr. Yeung Wing Chun	60	215	152	—	12	439
Mr. Hung Ching Shan	60	168	75	—	11	314
Mr. Zhang Shi Pao	60	57	9	—	3	129
Mr. Xu Da Zuo	60	166	74	—	3	303
Mr. Xu Chun Man	60	37	9	—	3	109
Mr. Poon Fuk Chuen (Note (iii))	55	1,448	200	—	11	1,714
Independent Non-Executive Director						
Mr. Chan Henry	100	—	—	—	—	100
Mr. Chu Cheng Chung	20	—	—	—	—	20
Ms. Ada Ying Kay Wong	100	—	—	—	—	100
Ms. Guan Tao (Note (ii))	70	—	—	—	—	70

Notes:

(i) Other benefits represent housing allowance.

(ii) Ms. Guan Tao resigned on 4 May 2005.

(iii) Mr. Poon Fuk Chuen resigned on 30 November 2004.

None of the Directors waived any emoluments during the years ended 31 December 2005 and 2004.

(b) Five highest paid individuals

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 CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2004					
Cost or valuation					
At 1 January 2004, as previously reported	395,547	1,035,807	42,713	18,064	1,492,131
Effect of adopting HKAS 17	(65,529)	—	—	—	(65,529)
At 1 January 2004, as restated	330,018	1,035,807	42,713	18,064	1,426,602
Accumulated depreciation					
At 1 January 2004, as previously reported	53,462	317,648	19,747	10,958	401,815
Effect of adopting HKAS 17	(11,514)	—	—	—	(11,514)
At 1 January 2004, as restated	41,948	317,648	19,747	10,958	390,301
Net book value at 1 January 2004	288,070	718,159	22,966	7,106	1,036,301
Year ended 31 December 2004					
Opening net book amount	288,070	718,159	22,966	7,106	1,036,301
Exchange differences	625	1,334	43	13	2,015
Additions	5,057	26,622	6,550	2,636	40,865
Acquisition of a subsidiary	—	—	31	—	31
Transfer from construction-in-progress (Note 15)	3,889	79,382	449	—	83,720
Disposals	(337)	(4,858)	(264)	(463)	(5,922)
Depreciation for the year	(15,352)	(97,474)	(6,974)	(2,373)	(122,173)
Closing net book amount	281,952	723,165	22,801	6,919	1,034,837

14. PROPERTY, PLANT AND EQUIPMENT — GROUP (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005					
Cost or valuation					
At 1 January 2005, as previously reported	406,968	1,129,106	48,800	18,374	1,603,248
Effect of adopting HKAS 17	(67,754)	—	—	—	(67,754)
At 1 January 2005, as restated	339,214	1,129,106	48,800	18,374	1,535,494
Accumulated depreciation					
At 1 January 2005, as previously reported	72,329	405,941	25,999	11,455	515,724
Effect of adopting HKAS 17	(15,067)	—	—	—	(15,067)
At 1 January 2005, as restated	57,262	405,941	25,999	11,455	500,657
Net book value at 1 January 2005	281,952	723,165	22,801	6,919	1,034,837
Year ended 31 December 2005					
Opening net book amount	281,952	723,165	22,801	6,919	1,034,837
Exchange differences	5,993	19,882	498	141	26,514
Additions	13,625	15,510	7,962	2,081	39,178
Transfer from construction-in-progress (Note 15)	26,368	400,045	114	—	426,527
Disposals	(10)	(10,165)	(746)	(880)	(11,801)
Depreciation for the year	(16,886)	(110,723)	(8,931)	(2,502)	(139,042)
Closing net book amount	311,042	1,037,714	21,698	5,759	1,376,213
At 31 December 2005					
Cost or valuation	386,646	1,557,592	55,251	17,851	2,017,340
Accumulated depreciation	(75,604)	(519,878)	(33,553)	(12,092)	(641,127)
Net book amount	311,042	1,037,714	21,698	5,759	1,376,213

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT — GROUP (continued)

(a) The analysis of cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	**251,192**	**1,557,592**	**55,251**	**17,851**	**1,881,886**
At 2004 professional valuation (note (b))	**135,454**	**—**	**—**	**—**	**135,454**
At 31 December 2005	**386,646**	**1,557,592**	**55,251**	**17,851**	**2,017,340**

The analysis of cost or valuation at 31 December 2004 of the above assets is as follows:

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	203,760	1,129,106	48,800	18,374	1,400,040
At 2004 professional valuation (note (b))	135,454	—	—	—	135,454
At 31 December 2004	339,214	1,129,106	48,800	18,374	1,535,494

(b) In 2004, the Group's 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 net book value of the buildings as at 31 December 2004 was not materially different from their estimated open market value as at 31 December 2004. With reference to the current market situation, the Directors also consider that there is no material change in the open market value of the buildings as at 31 December 2005. Had these buildings not been revalued, the carrying amount of buildings as at 31 December 2005 would have been HK$266,429,000 (2004:HK$235,461,000), being costs of HK$337,956,000 (2004: HK$290,441,000) less accumulated depreciation of HK$71,527,000 (2004: HK$54,980,000).

15. CONSTRUCTION-IN-PROGRESS

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**100,522**	34,212
Exchange differences	**2,163**	(13)
Additions	**570,501**	150,043
Transfer to property, plant and equipment (Note 14)	**(426,527)**	(83,720)
At 31 December	**246,659**	100,522

During the year ended 31 December 2005, finance charges capitalised in construction-in-progress amounted to HK$14,241,000 (2004: HK$6,742,000) (Note 8).

16 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights at their net book values are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases between 10 to 50 years	**6,490**	6,930
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**38,104**	35,614
Leases over 50 years	**2,960**	7,629
	47,554	50,173
Opening	**50,173**	51,405
Exchange differences	**936**	116
Additions	**126**	2,173
Amortisation of prepaid operating lease payments	**(3,681)**	(3,521)
	47,554	50,173

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

17. INTANGIBLE ASSETS

	Group		
	Goodwill	**Patents and trademarks**	**Total**
	HK$'000 (Note)	HK$'000	HK$'000
At 1 January 2004			
Cost	202,960	4,693	207,653
Accumulated amortisation	(6,343)	(655)	(6,998)
Net book amount	196,617	4,038	200,655
Year ended 31 December 2004			
Opening net book amount	196,617	4,038	200,655
Exchange differences	—	8	8
Acquisition of a subsidiary	13,195	—	13,195
Acquisition of additional interests in subsidiaries	260,764	—	260,764
Amortisation charge (Note 7)	(18,546)	(471)	(19,017)
Closing net book amount	452,030	3,575	455,605
At 31 December 2004			
Cost	476,919	4,701	481,620
Accumulated amortisation	(24,889)	(1,126)	(26,015)
Net book amount	452,030	3,575	455,605
Year ended 31 December 2005			
Opening net book amount	**452,030**	**3,575**	**455,605**
Exchange differences	**—**	**81**	**81**
Amortisation charge (Note 7)	**—**	**(482)**	**(482)**
Closing net book amount	**452,030**	**3,174**	**455,204**
At 31 December 2005			
Cost	**476,919**	**4,782**	**481,701**
Accumulated amortisation	**(24,889)**	**(1,608)**	**(26,497)**
Closing net book amount	**452,030**	**3,174**	**455,204**

Note:
The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2005 and have concluded that no impairment is required. For the purposes of impairment testing, goodwill is allocated to the cash-generating unit ("CGU") which is equivalent to the tissue business segment.

17. INTANGIBLE ASSETS (continued)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial estimates made by management, with reference to the prevailing market conditions and an estimated gross profit margin of 38.6%, covering a twenty-year period, the estimated useful life of goodwill. The cash flow projections are discounted appropriately at a discount rate of 8%.

Management determined estimated gross profit margin based on past performance and its expectations for the market development. The discount rate used reflects specific risks relating to the relevant segments.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**2,443,086**	1,919,356
Due from subsidiaries (Note (a))	**38,721**	43,664
	2,481,807	1,963,020

(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 36 to the accounts.

19. ASSETS CLASSIFIED AS HELD FOR SALE/INVESTMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted equity securities outside Hong Kong, at cost	**—**	23,054
Assets classified as held for sale:		
Available-for-sale financial assets, at fair value	**53,157**	—

The balance represents the Group's 4.62% interest in legal person shares in Shanghai Jahwa United Co., Ltd. ("Jahwa"), 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. The Group has entered into a contract to sell its shares at a consideration of HK$53,157,000. The transaction is subject to the formal approval of certain local government authorities in the PRC. Accordingly, the balance was re-classified from investments to assets classified as held for sale.

NOTES TO THE CONSOLIDATED ACCOUNTS
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20. PREPAYMENT FOR NON-CURRENT ASSETS

The balance represents prepayment for property, plant and equipment and land use rights.

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
At cost:		
Finished goods	**409,030**	329,509
Work-in-progress	**8,208**	13,608
Raw materials	**269,713**	212,782
Spare parts and consumables	**45,678**	43,753
	732,629	599,652

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$1,770,798,000 (2004: HK$1,369,181,000).

22. DUE FROM SUBSIDIARIES — COMPANY

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

23. DUE TO SUBSIDIARIES — COMPANY

The balances are unsecured, bearing interest at a rate of 5.07% per annum and not repayable within twelve months from the balance sheet date.

24. TRADE RECEIVABLES

The majority of the Group's sales is on open accounts with credit terms ranging from 30 days to 90 days. At 31 December 2005, the ageing analysis of the trade receivables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
1–30 days	**88,461**	90,887
31–180 days	**136,467**	128,986
181–365 days	**16,003**	9,339
Over 365 days	**383**	—
	241,314	229,212

There was no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. The carrying value of the trade receivables approximates their fair value due to the short-term maturity.

25. BANK BALANCES AND CASH

(a) The effective interest rate on short-term bank deposits was 0.85% (2004: 0.7%)

(b) Approximately HK$30,639,000 (2004: Nil) of the bank balances and cash is restricted to be drawn down until the bills payables of the Group are settled.

(c) The Group's bank balances and cash denominated in Renminbi and United States Dollar are deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(d) The carrying amounts of the bank balances and cash are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**45,715**	19,057	**1,272**	5,342
Renminbi	**406,550**	428,508	**—**	—
United States Dollar	**44,613**	90,999	**32**	973
Others	**3,059**	5,243	**—**	—
	499,937	543,807	**1,304**	6,315

26. TRADE AND BILLS PAYABLES

	Group	
	2005	2004
	HK$'000	HK$'000
Trade payables (Note (a))	**301,290**	201,653
Bills payables (Note (b))	**60,125**	—
	361,415	201,653

The carrying amount of trade and bills payable approximates their fair value due to short-term maturity.

(a) At 31 December 2005, the ageing analysis of the trade payables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
1–30 days	**237,058**	146,860
31–180 days	**59,358**	52,744
181–365 days	**3,303**	1,776
Over 365 days	**1,571**	273
	301,290	201,653

(b) Bills payables of approximately HK$60,125,000 (2004: Nil) are normally with maturity periods within 180 days.

NOTES TO THE CONSOLIDATED ACCOUNTS
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27. BANK BORROWINGS — UNSECURED

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans	**188,571**	260,000	**—**	—
Current				
Trust receipt bank loans	**35,598**	53,563	**—**	—
Current portion of long-term bank loans	**251,429**	—	**—**	—
Short-term bank loans	**482,000**	463,180	**170,000**	100,000
	769,027	516,743	**170,000**	100,000
Total	**957,598**	776,743	**170,000**	100,000

As at 31 December 2005, the effective interest rate was approximately 5.07% (2004: 1.80%).

The carrying amounts of the bank borrowings are denominated in the following currencies:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**923,410**	362,237	**170,000**	100,000
Renminbi	**34,188**	414,506	**—**	—
	957,598	776,743	**170,000**	100,000

27. BANK BORROWINGS — UNSECURED (continued)

At 31 December 2005, the Group's long-term bank loans were repayable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**251,429**	—
Between 1 and 2 years	**188,571**	148,571
Between 2 and 5 years	**—**	111,429
Wholly repayable within 5 years	**440,000**	260,000

The carrying amounts of these bank borrowings approximate their fair value.

28. SHARE CAPITAL

	Authorised share capital	
	Ordinary shares of HK$0.1 each	
	Number of shares	**HK$'000**
At 31 December 2005 and 31 December 2004	**3,000,000,000**	**300,000**

	Issued and fully paid	
	Ordinary shares of HK$0.1 each	
	Number of shares	**HK$'000**
At 1 January 2004	**1,039,866,455**	**103,987**
Issue of shares	**40,899,900**	**4,090**
At 31 December 2004	**1,080,766,355**	**108,077**
At 31 December 2005	**1,080,766,355**	**108,077**

On 30 April 2004 and 30 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.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

29. SHARE OPTION SCHEME

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

30. RESERVES

(a) The reserves of the Group and the Company at 31 December 2005 are analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 Restated (Note 2(a))	**HK$'000**	HK$'000
Retained earnings				
Proposed final dividend (Note 12)	**172,923**	129,692	**172,923**	129,692
Unappropriated retained earnings	**337,466**	214,989	**22,435**	31,757
	510,389	344,681	**195,358**	161,449
Other reserves	**1,719,325**	1,632,211	**1,506,089**	1,506,089
Total reserves	**2,229,714**	1,976,892	**1,701,447**	1,667,538

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

30. 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	Available-for-sale financial assets reserve HK$'000	Statutory reserves (Note (f)) HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2004, as previously reported	733,352	517,705	1,807	37,030	—	129,271	6,653	299,843	1,725,661
Effect of adopting HKAS 17	—	—	—	(1,760)	—	—	—	—	(1,760)
At 1 January 2004, as restated	733,352	517,705	1,807	35,270	—	129,271	6,653	299,843	1,723,901
Appropriation to statutory reserves	—	—	—	—	—	22,122	—	(22,122)	—
Profit for the year (restated)	—	—	—	—	—	—	—	298,026	298,026
2003 final dividends paid	—	—	—	—	—	—	—	(124,784)	(124,784)
2004 interim dividends paid	—	—	—	—	—	—	—	(108,077)	(108,077)
Depreciation transfer on buildings	—	—	—	(1,795)	—	—	—	1,795	—
Reversal of deferred taxation associated with property revaluation in previous years (Note 31)	—	—	—	480	—	—	—	—	480
Issue of shares	185,930	—	—	—	—	—	—	—	185,930
Translation of subsidiaries' accounts	—	—	—	—	—	—	1,416	—	1,416
At 31 December 2004	919,282	517,705	1,807	33,955	—	151,393	8,069	344,681	1,976,892
At 1 January 2005, as previously reported	**919,282**	**517,705**	**1,807**	**35,653**	**—**	**151,393**	**8,069**	**344,681**	**1,978,590**
Effect of adopting HKAS 17	**—**	**—**	**—**	**(1,698)**	**—**	**—**	**—**	**—**	**(1,698)**
At 1 January 2005, as restated	**919,282**	**517,705**	**1,807**	**33,955**	**—**	**151,393**	**8,069**	**344,681**	**1,976,892**
Appropriation to statutory reserves	**—**	**—**	**—**	**—**	**—**	**26,994**	**—**	**(26,994)**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**450,291**	**450,291**
2004 final dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(129,692)**	**(129,692)**
2005 interim dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(129,692)**	**(129,692)**
Depreciation transfer on buildings	**—**	**—**	**—**	**(1,795)**	**—**	**—**	**—**	**1,795**	**—**
Reversal of deferred taxation associated with property revaluation in previous years (Note 31)	**—**	**—**	**—**	**480**	**—**	**—**	**—**	**—**	**480**
Fair value gains on available-for-sale financial assets, net of tax (Note 19)	**—**	**—**	**—**	**—**	**22,124**	**—**	**—**	**—**	**22,124**
Translation of subsidiaries' accounts	**—**	**—**	**—**	**—**	**—**	**—**	**39,311**	**—**	**39,311**
At 31 December 2005	**919,282**	**517,705**	**1,807**	**32,640**	**22,124**	**178,387**	**47,380**	**510,389**	**2,229,714**

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

30. RESERVES (continued)

(c) Company

	Share premium account (Note (d))	Capital redemption reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	1,318,352	1,807	128,288	1,448,447
Profit for the year	—	—	266,022	266,022
2003 final dividends paid	—	—	(124,784)	(124,784)
2004 interim dividends paid	—	—	(108,077)	(108,077)
Issue of shares	185,930	—	—	185,930
At 31 December 2004	1,504,282	1,807	161,449	1,667,538
At 1 January 2005	**1,504,282**	**1,807**	**161,449**	**1,667,538**
Profit for the year	**—**	**—**	**293,293**	**293,293**
2004 final dividends paid	**—**	**—**	**(129,692)**	**(129,692)**
2005 interim dividends paid	**—**	**—**	**(129,692)**	**(129,692)**
At 31 December 2005	**1,504,282**	**1,807**	**195,358**	**1,701,447**

(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.

31. DEFERRED TAXATION — GROUP

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

The movements on the deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Reserve an revaluation of property and available-for-sale financial assets HK$'000
At 1 January 2004, as previously reported	13,866
Effect of adopting HKAS 17	(910)
At 1 January 2004, as restated	12,956
Credited to property revaluation reserve (Note 30(b))	(480)
At 31 December 2004	12,476
At 1 January 2005, as previously reported	**13,352**
Effect of adopting HKAS 17	**(876)**
At 1 January 2005, as restated	**12,476**
Credited to property revaluation reserve (Note 30(b))	**(480)**
Debited to available-for-sale financial assets reserve (Note 30(b))	**7,979**
At 31 December 2005	**19,975**

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

31. DEFERRED TAXATION — GROUP (continued)

Deferred tax assets

	Unrealised profit on inventories	
	2005	2004
	HK$'000	HK$'000
At 1 January	**(17,681)**	(8,062)
Credited to profit and loss account (Note 9)	**(14,776)**	(9,619)
At 31 December	**(32,457)**	(17,681)

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of HK$1,666,000 (2004: HK$1,565,000) in respect of losses amounted to HK$5,618,000 (2004: HK$5,074,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2005	2004
	HK$'000	HK$'000
2007	**1,461**	1,431
2008	**758**	743
2009	**2,875**	2,900
2010	**524**	—
	5,618	5,074

32. CASH GENERATED FROM OPERATIONS

	2005 HK$'000	2004 HK$'000 Restated (Note 2(a))
Profit before income tax	**542,772**	373,001
Depreciation	**139,042**	122,173
Amortisation of leasehold land and land use rights	**3,681**	3,521
Amortisation of goodwill	**—**	18,546
Amortisation of patents and trademarks	**482**	471
Losses on disposal/write-off of property, plant and equipment	**1,561**	4,552
Amortisation of deferred income on government grants	**(1,114)**	(694)
Interest income	**(4,442)**	(4,144)
Interest expenses	**21,500**	18,177
Operating profit before working capital changes	**703,482**	535,603
Increase in inventories	**(132,977)**	(167,394)
Increase in trade receivables, other receivables, prepayments and deposits	**(81,536)**	(44,205)
Increase/(decrease) in trade and bills payables, other payables and accrued charges	**209,317**	(33,195)
Net cash inflow generated from operations	**698,286**	290,809

33. CONTINGENT LIABILITIES

	Company	
	2005 HK$'000	2004 HK$'000
Guarantees for bank loans of subsidiaries	**752,000**	262,237

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

At 31 December 2005, the Group had no material contingent liabilities (2004: Nil).

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

34. COMMITMENTS

(a) Capital commitments

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	**159,827**	399,068
Land and buildings	**46,616**	74,650
Authorised but not contracted for in respect of		
Plant, machinery and equipment	**150,601**	—
Land and buildings	**—**	—
	357,044	473,718

At 31 December 2005, the Company had no capital commitment (2004: Nil).

(b) Commitments under operating leases

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group					
	Land and buildings		**Others**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Not later than one year	**7,050**	6,819	**2,852**	3,000	**9,902**	9,819
Later than one year and not later than five years	**4,394**	7,828	**2,852**	—	**7,246**	7,828
Later than five years	**—**	1,873	**—**	—	**—**	1,873
	11,444	16,520	**5,704**	3,000	**17,148**	19,520

At 31 December 2005, the Company had no commitment under operating lease (2004: Nil).

35. RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2005, the Company paid interest of approximately HK$21,489,000 (2004: Nil) to a wholly-owned subsidiary (Note 23).

(b) Save as disclosed above and in Notes 13, 18, 22 and 23, the Group and the Company had no material related party transactions as at 31 December 2005 and 2004 and for the two years then ended.

36. SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2005 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 % 2005
Direct subsidiary:				
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Indirect subsidiaries:				
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 enterprise hygiene products in the 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 the PRC	RMB5,680,000	100

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2005

36. 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 % 2005
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
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
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
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
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
Hengan (Luohe Linying) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal enterprise hygiene products in the 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 the PRC	RMB3,980,000	100

36. 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 % 2005
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
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
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
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
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
Jinjiang Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing of personal hygiene materials in the PRC	US$10,000,000	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

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36. 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 % 2005
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
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
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
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
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
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

36. 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 % 2005
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
United Wealth International (Holdings) Ltd.	Cayman Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	100
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
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
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
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

NOTES TO THE CONSOLIDATED ACCOUNTS
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36. 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 % 2005
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
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
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
Shandong Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$29,800,000	100
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

36. 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 % 2005
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) Family 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 Limited	Samoa Islands, limited liability company	Investment holding	3 ordinary shares of US$1 each	100
Promise Management Limited	British Virgin Islands limited liability company	Investment holding	2 ordinary shares of US$1 each	100

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36. 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 % 2005
Asset One Holdings Limited	British Virgin Islands limited liability company	Investment holding	2 ordinary shares of US$1 each	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Hengan Zhejiang Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$30,000,000	100

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2005.