NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

1. GENERAL INFORMATION

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture, distribute and sell personal hygiene products through a network of independent 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 2007.

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 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 Group'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.

Amendments to published standards effective in 2006

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not have any defined benefit scheme, the amendment does not have any impact on the consolidated accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Standard that is not yet effective and has not been early adopted by the Group

HKFRS 7, Financial instruments: Disclosures, and the complementary amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, are mandatory for the Group's accounting periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated accounts; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006); and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(b) Consolidation

The consolidated accounts include the accounts of the Company and all of 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 assessing 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

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 (see Note 2(g)). 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.

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.

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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 HK 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.

(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 partially disposed of and sold, such exchange differences that were recorded in equity 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Buildings comprise mainly factories, retail outlets and offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, 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.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to 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 charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from other reserves 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

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

(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. 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 licences

Acquired trademarks and licences are shown at historical cost. Trademarks and licences 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 licences over their estimated useful lives of not exceeding 20 years.

(h) Impairment of assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation, and are tested annually for impairment. 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). 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

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.

(i) 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 are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2(k)).

(ii) 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. 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.

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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investments *(Continued)*

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, 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. 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 original effective interest rate. The amount of the provision is recognised in the profit and loss account.

(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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount of is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of tax.

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.

(p) 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 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Retirement benefits costs

The Group participates in defined contribution retirement schemes administered by local government in different parts of the PRC ("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 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.

(r) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable 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)*

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and service in the ordinary courses of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(i) Sales of goods are recognised when a group entity has delivered products to the customer, 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 loans is recognised using the original effective interest rate.

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

(t) Government grants

Grants from the government are reognised 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.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the profit and loss account in the period in which they become receivable.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) 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.

(v) 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.

(w) 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.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign currency risk

A substantial portion of the Group's income is in Renminbi while raw materials were purchased and settled mainly in US dollar. The Group has never any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding company. As at 31 December 2006, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

(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 an appropriate credit history.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Liquidity risk

Prudent liquidity risk management includes 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 and fair value 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 and convertible bonds. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year ended 31 December 2006, the Group had not issued any financial instruments or entered into any contracts for interest rate hedging purposes.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total capital and reserves as shown in the consolidated balance sheet. Net debt is calculated as total borrowings (including bank borrowings and convertible bonds, as shown in the consolidated balance sheet) less bank balances and cash. The increase in the net gearing ratio during 2006 resulted primarily from the issue of convertible bonds for meeting future capital expenditure (Note 28).

(c) 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 their fair values due to their short maturities.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

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 three 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.

(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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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 taxes 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 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:

	2006 **HK$'000**	2005 HK$'000
Sanitary napkins	**1,249,468**	971,315
Disposable diapers	**954,512**	654,216
Tissue paper products	**1,789,440**	1,259,700
Skincare and cleansing products, hygiene materials and others	**121,523**	144,891
	4,114,943	3,030,122

(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 taxation 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

	Sanitary napkins 2006 HK$'000	Disposable diapers 2006 HK$'000	Tissue paper products 2006 HK$'000	Skin care and cleansing products, hygiene materials, and others 2006 HK$'000	Group 2006 HK$'000
Segment turnover	1,301,912	956,735	1,798,297	209,895	4,266,839
Inter-segment sales	(52,444)	(2,223)	(8,857)	(88,372)	(151,896)
Turnover of the Group	1,249,468	954,512	1,789,440	121,523	4,114,943
Segment results	451,572	134,479	255,946	21,803	863,800
Unallocated costs					(20,297)
Interest income					14,559
Other gains					74,619
Operating profit					932,681
Finance costs					(63,796)
Profit before income tax					868,885
Income tax expense					(171,773)
Profit for the year					697,112
Minority interest					(488)
Profit attributable to shareholders of the Company					696,624
Segment assets	1,286,291	772,163	3,184,757	139,058	5,382,269
Deferred tax assets					59,825
Unallocated assets					39,261
Total assets					5,481,355
Segment liabilities	225,421	182,853	633,754	27,568	1,069,596
Deferred tax liabilities					12,239
Taxation payable					96,693
Unallocated liabilities					1,485,813
Total liabilities					2,664,341
Capital expenditure	42,951	96,167	417,809	1,317	558,244
Depreciation	41,757	17,643	95,106	5,508	160,014
Amortisation charge	3,554	616	1,016	464	5,650

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

	Sanitary napkins 2005 HK$'000	Disposable diapers 2005 HK$'000	Tissue paper products 2005 HK$'000	Skin care and cleansing products, hygiene materials, and others 2005 HK$'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 sales					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
Depreciation	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 2006

6. OTHER GAINS – NET

	2006 **HK$'000**	2005 HK$'000
Gains on disposal of assets classified as held-for-sale (Note 19)	**29,929**	–
Interest income	**14,559**	4,442
Government grant income (Note)	**37,546**	3,121
Dividend income	**597**	1,898
Others	**6,547**	(2,940)
	89,178	6,521

Note:

During the year ended 31 December 2006, the Group obtained and recognised as income a government grant of approximately HK$29,674,000 (2005: nil) from a PRC municipal government as an encouragement of the Group's investments in that municipality.

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2006 **HK$'000**	2005 HK$'000
Crediting		
Net exchange gains	**–**	3,199
Amortisation of deferred income on government grants	**1,144**	1,114
Charging		
Net exchange losses	**4,299**	–
Depreciation (Note 14)	**160,014**	139,042
Amortisation of leasehold land and land use rights recognised in administrative expenses (Note 16)	**5,283**	3,681
Amortisation of intangible assets recognised in administrative expenses (Note 17) – patents and trademarks	**367**	482
Losses on disposal/write-off of property, plant and equipment	**819**	1,561
Staff costs, including Directors' emoluments (Note 13)	**259,575**	211,725
Operating leases rental in respect of factory premises and sales liaison offices	**15,733**	12,215
Repairs and maintenance expenses	**26,642**	17,089
Auditors' remuneration	**3,500**	2,837
Impairment of trade receivables	**2,762**	5,706

8. FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
Interest expenses:		
Trust receipt bank loans	**830**	2,182
Short-term bank loans	**8,163**	14,794
Long-term bank loans wholly repayable within five years	**13,336**	17,798
Convertible bonds wholly repayable within five years (Note 28)	**50,243**	–
Other finance charges	**1,745**	967
Total borrowing costs incurred	**74,317**	35,741
Less: borrowing costs capitalised in buildings and machinery under construction-in-progress	**(10,521)**	(14,241)
	63,796	21,500

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 1.66% to 5.34% (2005: 0.87% to 5.13%) per annum.

9. INCOME TAX EXPENSE

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

	2006 **HK$'000**	2005 HK$'000
Hong Kong profits tax	**1,208**	756
PRC income tax	**197,933**	105,611
Deferred taxation (Note 32)	**(27,368)**	(14,776)
Taxation charges	**171,773**	91,591

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

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 consecutive three years.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

9. INCOME TAX EXPENSE *(Continued)*

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

	2006	2005
	HK$'000	HK$'000
Profit before income tax	**868,885**	542,772
Taxation calculated at tax rates applicable to profits of the Group's companies	**285,669**	178,450
Deferred tax benefit arising from tax losses not recognised	**1,990**	667
Income not subject to taxation	**(1,388)**	(1,717)
Expenses not deductible for taxation purposes	**422**	4,977
Tax exemption on profits of certain subsidiaries	**(115,551)**	(91,346)
Under-provision in prior years	**631**	560
Income tax expense	**171,773**	91,591

The weighted average applicable tax rate was 32.9% (2005:32.9%).

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK$273,515,000 (2005: HK$293,293,000), including dividend income from subsidiaries of HK$361,240,000 (2005: HK$321,158,000), which is dealt with in the accounts of the Company.

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$696,624,000 (2005: HK$450,291,000) by the weighted average number of 1,080,766,355 (2005: 1,080,766,355) ordinary shares in issue during the year. Dilutive earnings per share is not presented as the Company does not have dilutive shares and the convertible bonds issued during the year do not have any dilutive effect on the earnings per shares.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim, paid, HK18 cents (2005: HK12 cents) per ordinary share	**194,538**	129,692
Final, proposed, HK25 cents (2005: HK16 cents) per ordinary share	**270,192**	172,923
	464,730	302,615

At a meeting held on 21 March 2007, the Directors proposed a final dividend of HK25 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 2007.

13. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2006 HK$'000	2005 HK$'000
Wages and salaries	**250,376**	208,175
Retirement benefit costs	**9,199**	3,550
	259,575	211,725

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2006 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	330	322	414	12	1,138
Mr. YEUNG Wing Chun	60	234	20	–	12	326
Mr. HUNG Ching Shan	60	117	20	–	9	206
Mr. XU Da Zuo	60	203	116	–	3	382
Mr. XU Chun Man	60	42	10	–	3	115
Mr. LOO Hong Shing Vincent (Note (i))	60	1,027	300	65	12	1,464
Non-Executive Director						
Mr. ZHANG Shi Pao (Note (ii))	60	59	10	–	2	131
Independent Non-Executive Director						
Mr. CHAN Henry	100	–	–	–	–	100
Mr. CHU Cheng Chung	80	–	–	–	–	80
Ms. Ada Ying Kay WONG	100	–	–	–	–	100

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

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 2005 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	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 (Note (ii))	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

Note:

(i) Other benefits represent housing allowance.

(ii) Mr. ZHANG Shi Po was re-designated from an Executive Director to Non-Executive Director on 4 July 2006.

None of the Directors waived any emoluments during the years ended 31 December 2006 and 2005.

13. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: nil) individuals during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries, housing allowances, share option, other allowances and benefits in kind	**517**	–
Bonus	**622**	–
	1,139	–

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands (in HK dollar)		
Nil – HK$1,000,000	**2**	–

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

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 2005					
Cost or valuation	339,214	1,129,106	48,800	18,374	1,535,494
Accumulated depreciation	(57,262)	(405,941)	(25,999)	(11,455)	(500,657)
Net book amount	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)
Deprecation 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
Year ended 31 December 2006					
Opening net book amount	**311,042**	**1,037,714**	**21,698**	**5,759**	**1,376,213**
Exchange differences	**4,772**	**40,331**	**6,918**	**728**	**52,749**
Additions	**26,219**	**73,215**	**13,857**	**2,934**	**116,225**
Transfer from construction-in-progress (Note 15)	**42,410**	**241,032**	**7,232**	**–**	**290,674**
Disposals	**(8,917)**	**(7,622)**	**(882)**	**(3,351)**	**(20,772)**
Depreciation for the year	**(17,826)**	**(128,815)**	**(12,024)**	**(1,349)**	**(160,014)**
Closing net book amount	**357,700**	**1,255,855**	**36,799**	**4,721**	**1,655,075**
At 31 December 2006					
Cost or valuation	**457,864**	**1,994,492**	**91,527**	**17,825**	**2,561,708**
Accumulated depreciation	**(100,164)**	**(738,637)**	**(54,728)**	**(13,104)**	**(906,633)**
Net book amount	**357,700**	**1,255,855**	**36,799**	**4,721**	**1,655,075**

14. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

(a) The analysis of cost or valuation at 31 December 2006 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	**322,410**	**1,994,492**	**91,527**	**17,825**	**2,426,254**
At 2004 professional valuation (note (b))	**135,454**	**–**	**–**	**–**	**135,454**
At 31 December 2006	**457,864**	**1,994,492**	**91,527**	**17,825**	**2,561,708**

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

(b) The Group's buildings were last revalued on 31 December 2004 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 2006 and 2005. Had these buildings not been revalued, the carrying amount of buildings as at 31 December 2006 would have been HK$314,882,000 (2005: HK$266,429,000), being costs of HK$402,440,000 (2005: HK$337,956,000) less accumulated depreciation of HK$87,558,000 (2005: HK$71,527,000).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

15. CONSTRUCTION-IN-PROGRESS

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**246,659**	100,522
Exchange differences	**8,889**	2,163
Additions	**422,686**	570,501
Transfer to property, plant and equipment (Note 14)	**(290,674)**	(426,527)
At 31 December	**387,560**	246,659

During the year ended 31 December 2006, finance charges capitalised in construction-in-progress amounted to HK$10,521,000 (2005: HK$14,241,000) (Note 8).

16. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases between 10 to 50 years	**6,050**	6,490
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**53,270**	38,104
Leases over 50 years	**4,209**	2,960
	63,529	47,554
Opening	**47,554**	50,173
Exchange differences	**1,925**	936
Additions	**19,333**	126
Amortisation of prepaid operating lease payments	**(5,283)**	(3,681)
	63,529	47,554

17. INTANGIBLE ASSETS

	Group		
	Goodwill	**Patents and trademarks**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2005			
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)
Net book amount	452,030	3,174	455,204
Year ended 31 December 2006			
Opening net book amount	**452,030**	**3,174**	**455,204**
Exchange differences	**–**	**103**	**103**
Amortisation charge (Note 7)	**–**	**(367)**	**(367)**
Closing net book amount	**452,030**	**2,910**	**454,940**
At 31 December 2006			
Cost	**476,919**	**4,885**	**481,804**
Accumulated amortisation	**(24,889)**	**(1,975)**	**(26,864)**
Net book amount	**452,030**	**2,910**	**454,940**

Note:

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2006 and have concluded that no impairment is required. For the purposes of impairment testing, goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segment.

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 prevailing market conditions and an estimated gross profit margin of 35.6%, 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**3,020,656**	2,443,086
Due from subsidiaries (note (a))	**404,255**	38,721
	3,424,911	2,481,807

(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 37 to the accounts.

19. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2006	2005
	HK$'000	HK$'000
Available-for-sale financial assets, at fair value	**–**	53,157

The 2005 balance represented 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. During the year ended 31 December 2006, the Group sold its shares at a consideration of HK$53,157,000 with a pre-tax and after-tax profit of approximately HK$29,929,000 (Note 6) and HK$21,687,000, respectively.

20. PREPAYMENT FOR NON-CURRENT ASSETS

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

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
At cost:		
Finished goods	**547,921**	379,411
Work-in-progress	**42,322**	8,208
Raw materials	**450,546**	299,332
Spare parts and consumables	**53,470**	45,678
	1,094,259	732,629

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$2,394,256,000 (2005: HK$1,770,798,000).

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 5.34% (2005: 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 2006, the ageing analysis of the trade receivables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
1-30 days	**214,982**	88,461
31 – 180 days	**186,127**	136,467
181 – 365 days	**6,145**	16,003
Over 365 days	**5,240**	383
	412,494	241,314

There was no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. As credit terms are short and most of the trade receivables are due for settlement within one year, the carrying value of the trade receivables approximate their fair value.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

25. BANK BALANCES AND CASH

(a) The effective interest rate on short-term bank deposit was approximately 1.67% (2005: 0.85%)

(b) Approximately HK$5,775,000 (2005: HK$30,639,000) 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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**24,700**	45,715	**2,024**	1,272
Renminbi	**888,221**	406,550	**–**	–
United States Dollar	**106,916**	44,613	**34**	32
Others	**832**	3,059	**–**	–
	1,020,669	499,937	**2,058**	1,304

26. TRADE AND BILLS PAYABLES

	Group	
	2006	2005
	HK$'000	HK$'000
Trade payables (Note (a))	**410,571**	301,290
Bills payables (Note (b))	**33,359**	60,125
	443,930	361,415

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

26. TRADE AND BILLS PAYABLES *(Continued)*

(a) At 31 December 2006, the ageing analysis of the trade payables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
1-30 days	**301,226**	237,058
31 – 180 days	**100,602**	59,358
181 – 365 days	**7,287**	3,303
Over 365 days	**1,456**	1,571
	410,571	301,290

(b) Bills payables of approximately HK$33,359,000 (2005: HK$60,125,000) are normally with maturity periods within 180 days.

27. BANK BORROWINGS – UNSECURED

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans	**69,837**	188,571	**–**	–
Current				
Trust receipt bank loans	**1,433**	35,598	**–**	–
Current portion of long-term bank loans	**61,981**	251,429	**–**	–
Short-term bank loans	**140,551**	482,000	**65,000**	170,000
	203,965	769,027	**65,000**	170,000
Total	**273,802**	957,598	**65,000**	170,000

As at 31 December 2006, the effective interest rate was approximately 5.34% (2005: 5.07%).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

27. BANK BORROWINGS – UNSECURED *(Continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**273,802**	923,410	**65,000**	170,000
Renminbi	**–**	34,188	**–**	–
	273,802	957,598	**65,000**	170,000

At 31 December 2006, the Group's long-term bank loans were repayable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**61,981**	251,429
Between 1 and 2 years	**62,337**	188,571
Between 2 and 5 years	**7,500**	–
Wholly repayable within 5 years	**131,818**	440,000

The carrying amount of short-term borrowings approximate their fair value.

28. CONVERTIBLE BONDS – COMPANY AND GROUP

On 16 May 2006, the Company issued zero-coupon convertible bonds due on 16 May 2011 (the "maturity date") in the aggregate principal amount of HK$1.5 billion with an initial conversion price of HK$19.12 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 126.15 per cent of their principal amount on the maturity date.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

28. CONVERTIBLE BONDS – COMPANY AND GROUP *(Continued)*

The convertible bonds recognised in the balance sheet are calculated as follows:

	2006	2005
	HK$'000	HK$'000
Face value of convertible bonds issued on 16 May 2006	**1,500,000**	–
Issuing expenses	**(31,989)**	–
Equity component (Note 31(b))	**(20,941)**	–
Liability component on initial recognition on 16 May 2006	**1,447,070**	–
Imputed finance costs (Note 8)	**50,243**	–
Liability component	**1,497,313**	–

The fair value of the liability component of the convertible bonds as at 31 December 2006 amounted to approximately HK$1,511,979,000. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 4.82% per annum.

From 16 May 2006 to 31 December 2006, no bond holders have converted their bonds into ordinary shares of the Company.

29. SHARE CAPITAL

	Authorised share capital	
	Ordinary shares of HK$0.1 each	
	Number of shares	**HK$'000**
At 31 December 2006 and 31 December 2005	3,000,000,000	300,000

	Issued and fully paid	
	Ordinary shares of HK$0.1 each	
	Number of shares	**HK$'000**
At 31 December 2006 and 31 December 2005	1,080,766,355	108,077

30. 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 option granted since the adoption of the Share Option Scheme by the shareholders of the Company on 2 May 2003 ("Scheme"). In accordance with the Scheme, the Company may grant upto 99,531,200 share options within 10 years from its adoption date.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

31. RESERVES

(a) The reserves of the Group and the Company at 31 December 2006 are analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Retained earnings				
Proposed final dividend (Note 12)	**270,192**	172,923	**270,192**	172,923
Unappropriated retained earnings	**526,896**	337,466	**31,220**	22,435
	797,088	510,389	**301,412**	195,358
Other reserves	**1,888,062**	1,719,325	**1,327,030**	1,506,089
Total reserves	**2,685,150**	2,229,714	**1,628,442**	1,701,447

31. 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$'000	Convertible bond-equity component reserve HK$'000	Statutory reserves (Note (f)) HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	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 32)	–	–	–	480	–	–	–	–	–	480
Fair value gains on available-for-sale financial assets, net of tax (Note19)	–	–	–	–	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
At 1 January 2006	**919,282**	**517,705**	**1,807**	**32,640**	**22,124**	**-**	**178,387**	**47,380**	**510,389**	**2,229,714**
Appropriation to statutory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**44,259**	**-**	**(44,259)**	**-**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**696,624**	**696,624**
2005 final dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(172,923)**	**(172,923)**
2006 interim dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(194,538)**	**(194,538)**
Depreciation transfer on buildings	**-**	**-**	**-**	**(1,795)**	**-**	**-**	**-**	**-**	**1,795**	**-**
Reversal of deferred taxation associated with property revaluation in previous years (Note 32)	**-**	**-**	**-**	**480**	**-**	**-**	**-**	**-**	**-**	**480**
Disposal of available-for-sale financial assets (Note 19)	**-**	**-**	**-**	**-**	**(22,124)**	**-**	**-**	**-**	**-**	**(22,124)**
Convertible bond-equity component (Note 28)	**-**	**-**	**-**	**-**	**-**	**20,941**	**-**	**-**	**-**	**20,941**
Translation of subsidiaries' accounts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**126,976**	**-**	**126,976**
Transfer	**(200,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**200,000**	**-**
At 31 December 2006	**719,282**	**517,705**	**1,807**	**31,325**	**-**	**20,941**	**222,646**	**174,356**	**997,088**	**2,685,150**

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

31. RESERVES *(Continued)*

(c) Company

	Share premium account (note (d)) HK$'000	Capital redemption reserve HK$'000	Convertible bond-equity component reserve HK$'000	Retained profits HK$'000	Total HK$'000
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
At 1 January 2006	**1,504,282**	**1,807**	**–**	**195,358**	**1,701,447**
Profit for the year	**–**	**–**	**–**	**273,515**	**273,515**
2005 final dividends paid	**–**	**–**	**–**	**(172,923)**	**(172,923)**
2006 interim dividends paid	**–**	**–**	**–**	**(194,538)**	**(194,538)**
Convertible bond – equity component (Note 28)	**–**	**–**	**20,941**	**–**	**20,941**
Transfer	**(200,000)**	**–**	**–**	**200,000**	**–**
At 31 December 2006	**1,304,282**	**1,807**	**20,941**	**301,412**	**1,628,442**

(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.

32. DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary difference 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

	Reserve on revaluation of property and available-for-sale financial assets	
	2006	2005
	HK$'000	HK$'000
At 1 January	**19,975**	12,476
Credited to property revaluation reserve (Note 31(b))	**(480)**	(480)
(Debited)/credited to available-for-sale financial assets reserve (Note 31(b))	**(7,256)**	7,979
At 31 December	**12,239**	19,975

Deferred tax assets

	Unrealised profit on inventories	
	2006	2005
	HK$'000	HK$'000
At 1 January	**(32,457)**	(17,681)
Credited to profit and loss account (Note 9)	**(27,368)**	(14,776)
At 31 December	**(59,825)**	(32,457)

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$1,706,000 (2005: HK$1,666,000) in respect of losses amounted to HK$6,985,000 (2005: HK$5,618,000) that can be carried forward against future taxable income. The unrecognised tax losses expire in the following years:

	2006	2005
	HK$'000	HK$'000
2007	**–**	1,461
2008	**–**	758
2009	**4,046**	2,875
2010	**2,009**	524
2011	**930**	–
	6,985	5,618

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

33. CASH GENERATED FROM OPERATIONS

	2006 HK$'000	2005 HK$'000
Profit before income tax	868,885	542,772
Depreciation (Note 14)	160,014	139,042
Amortisation of leasehold land and land use rights (Note 16)	5,283	3,681
Amortisation of patents and trademarks (Note 17)	367	482
Losses on disposal/write-off of property, plant and equipment (Note 7)	819	1,561
Gains on disposal of assets classified as held-for-sale	(29,929)	–
Amortisation of deferred income on government grants (Note 7)	(1,144)	(1,114)
Interest income (Note 6)	(14,559)	(4,442)
Interest expenses (Note 8)	63,796	21,500
Operating profit before working capital changes	1,053,532	703,482
Increase in inventories	(342,587)	(132,977)
Increase in trade receivables, other receivables, prepayments and deposits	(155,074)	(81,536)
Increase in trade payables, other payables and accrued charges	275,231	209,317
Net cash inflow generated from operations	831,102	698,286

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2006 HK$'000	2005 HK$'000
Net book amount (Note 14)	20,772	11,801
Losses on disposal/write-off of property, plant and equipment	(819)	(1,561)
Proceeds from disposal of property, plant and equipment	19,953	10,240

34. CONTINGENT LIABILITIES

	Company	
	2006 HK$'000	2005 HK$'000
Guarantees for bank loans of subsidiaries	410,000	752,000

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

At 31 December 2006, the Group had no material contingent liabilities (2005: nil).

35. COMMITMENTS

At 31 December 2006, the Group had the following commitments:

(a) Capital commitments

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	**363,802**	159,827
Land and buildings	**68,785**	46,616
Authorised but not contracted for in respect of		
Plant, machinery and equipment	**–**	150,601
	432,587	357,044

At 31 December 2006, the Company had no capital commitment (2005: Nil).

(b) Commitments under operating leases

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group					
	Land and buildings		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Not later than one year	**7,390**	7,050	**2,927**	2,852	**10,317**	9,902
Later than one year and not later than five years	**3,959**	4,394	**–**	2,852	**3,959**	7,246
	11,349	11,444	**2,927**	5,704	**14,276**	17,148

At 31 December 2006, the Company had no commitment under operating lease (2005: Nil).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

36. RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2006, the Company paid interest of approximately HK$18,160,000 (2005: HK$21,489,000) to a wholly-owned subsidiary (Note 23).

(b) During the year ended 31 December 2006, the Group had carried out the following related party transactions:

	2006	2005
	HK$'000	HK$'000
Purchases from Weifang Power		
– electricity energy	**13,133**	–
– heat energy	**9,770**	–

Pursuant to agreements dated 12 July 2006 between a wholly-owned subsidiary of the Company and Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power"), an electricity company, the Group purchased electricity energy and heat energy from Weifang Power at prices lower than the prevailing market prices. Weifang Power is 95% beneficially owned by the sons of Mr. Sze Man Bok and Mr. Hui Lin Chit, the executive directors and substantial shareholders of the Company.

(c) 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 2006 and 2005 and for the two years then ended.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

37. SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2006 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 (%) 2006
Direct subsidiaries:				
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan (Jinjiang) Feminine Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$8,500,000	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
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 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
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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

37. 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 (%) 2006
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 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
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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

37. 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 (%) 2006
Jinjiang Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing of personal hygiene materials in the PRC	US$10,000,000	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
恒安(四川)家庭用品有限公司	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
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Distribution and sale of personal hygiene products in the PRC	RMB100,000,000	100
Hengan (Cayman Island) 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 Hearttex 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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

37. 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 (%) 2006
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) Hearttex 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
Jinjiang Hengan Household Tissue 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
Chongqing Hengan Hearttex Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	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, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$49,800,000	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
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$35,880,000	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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

37. 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 (%) 2006
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 sale of Personal hygiene Products 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
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
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB80,900,000	100
Hengan Guangxi Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hubei) Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB32,000,000	100

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2006

37. 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 (%) 2006
Hengan (Sichuan) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan (Hunan) Tissue Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB79,000,000	100
Hunan Hengan Living Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB197,500,000	100
Hengan (Fushun) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB24,000,000	100

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2006.

38. EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these accounts are approved for issue, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.