恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

STOCK CODE: 1044

07 ANNUAL REPORT

CORPORATE MISSION

"Growing with you for a better life" has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of "Integrity, Diligence, Innovation and Dedication". Our goal is "to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team". By building an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market need, Hengan International will become China's leading corporation in feminine hygiene products, diapers and family hygiene products.

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Sze Man Bok *(Chairman)*
Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*
Yeung Wing Chun
Hung Ching Shan
Xu Da Zuo
Xu Chun Man
Loo Hong Shing Vincent

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chan Henry
Chu Cheng Chung
Ada Ying Kay Wong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Loo Hong Shing Vincent *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES
Hui Lin Chit
Loo Hong Shing Vincent

LEGAL ADVISERS
Hong Kong
Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder Asia

AUDITORS
PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE
Ugland House
South Church Street
P.O. Box 309, George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE
Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG
Unit 2101D, 21st Floor
Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

PLACE OF LISTING AND STOCK CODE
The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES
http://www.hengan.com
http://www.irasia.com/listco/hk/hengan

PRINCIPAL BANKERS
Industrial and Commercial Bank of China
Bank of China
Construction Bank of China
Bank of Communications

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

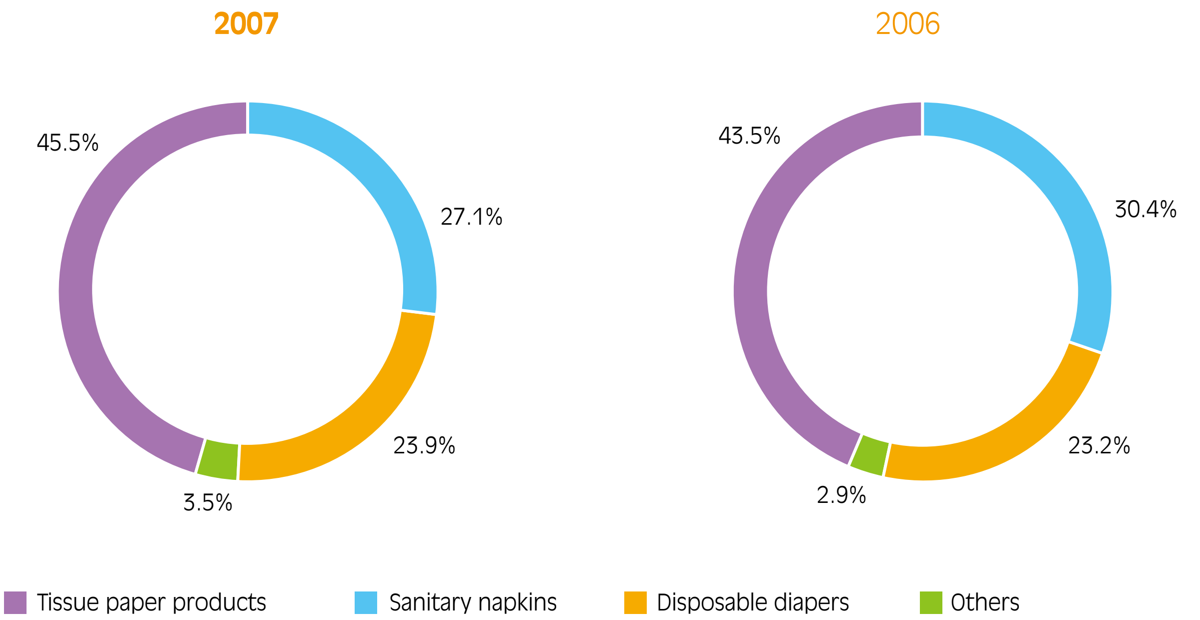
SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

INVESTORS AND MEDIA RELATIONS
iPR Ogilvy Ltd.
Unit 2608-10, 26/F., The Centre
99 Queen's Road
Central
Hong Kong

FINANCIAL HIGHLIGHTS

	2007	2006	2005 Restated	2004	2003
Net profit margin (%)	**17.7**	16.9	14.9	13.0	15.1
Earnings per share (HK cents)	**92.2**	64.5	41.7	28.0	24.9
Finished goods turnover (days)	**64**	71	73	72	63
Trade receivables turnover (days)	**32**	29	28	34	30
Current ratio (times)	**3.4**	2.5	1.3	1.8	2.0
Gross gearing ratio (%)	**34.4**	63.4	41.0	37.3	19.0
Net gearing ratio (%)	**–**	26.9	19.6	11.2	–

ANALYSIS OF REVENUE BY PRODUCT

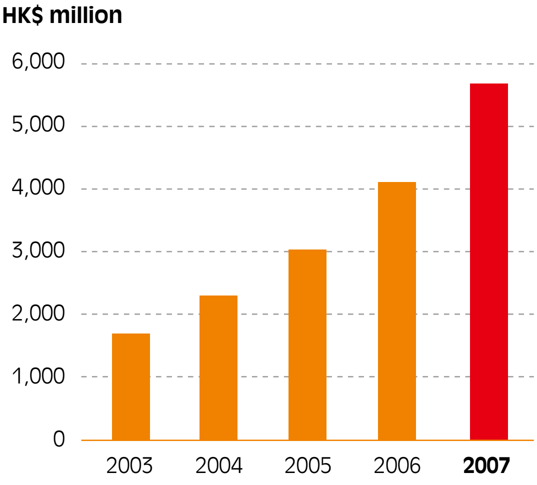


FIVE-YEAR FINANCIAL SUMMARY

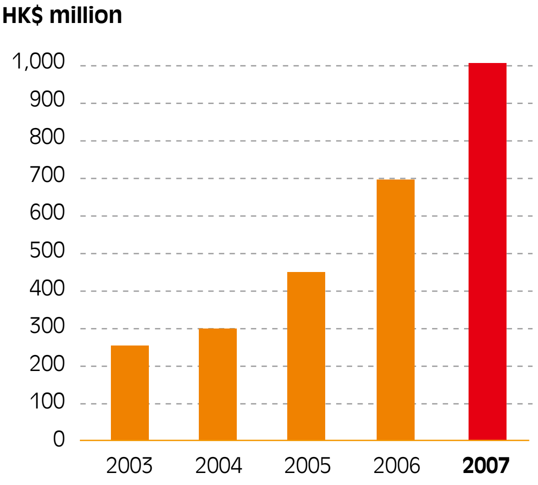
Consolidated Results – for the year ended 31 December

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Reveune	**5,686,972**	4,114,943	3,030,122	2,293,547	1,688,512
Profit before income tax	**1,182,496**	868,885	542,772	373,001	325,923
Income tax expense	**(175,555)**	(171,773)	(91,591)	(55,670)	(37,972)
Profit for the year	**1,006,941**	697,112	451,181	317,331	287,951
Minority interests	**(1,002)**	(488)	(890)	(19,305)	(32,963)
Profit attributable to shareholders of the Company	**1,005,939**	696,624	450,291	298,026	254,988
Earnings per share (HK cents)	**92.2**	64.5	41.7	28.0	24.9

REVENUE



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

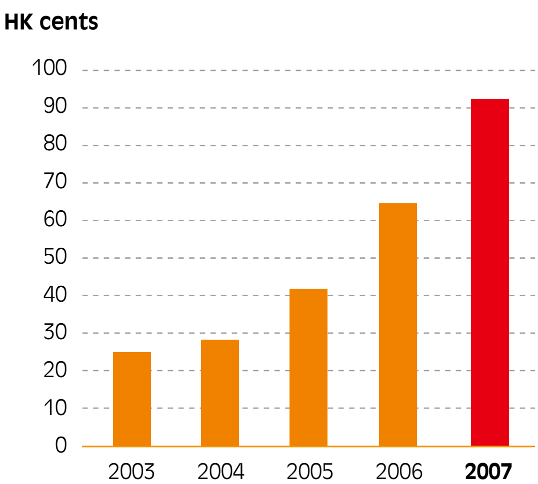


FIVE-YEAR FINANCIAL SUMMARY

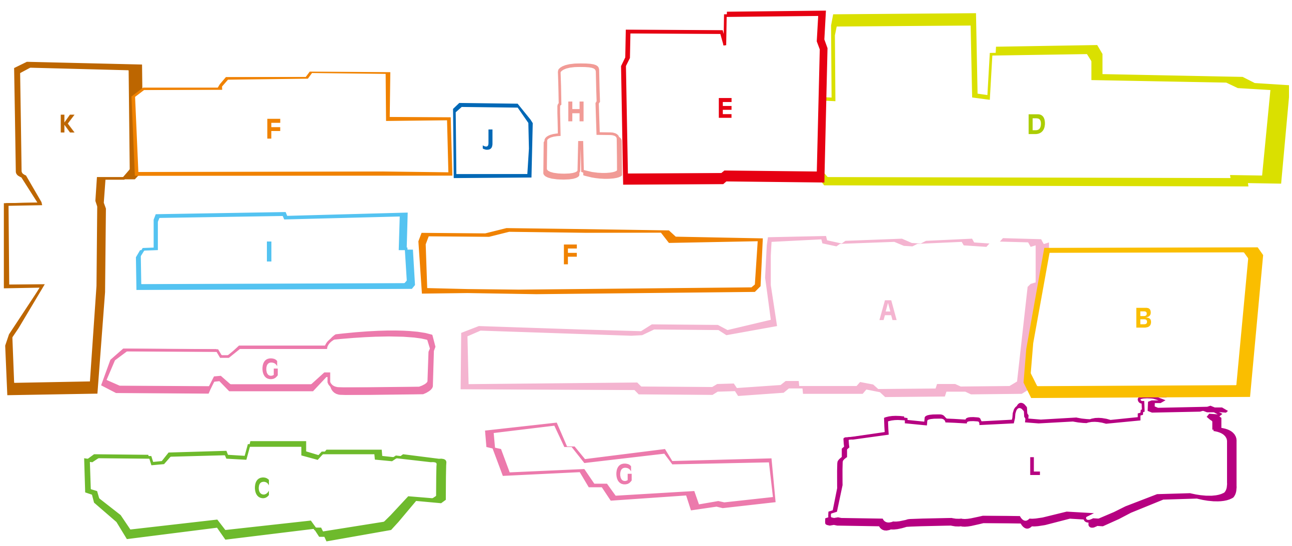
Consolidated Assets and Liabilities – as at 31 December

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Assets					
Property, plant and equipment	**2,552,478**	1,655,075	1,376,213	1,034,837	1,036,301
Construction-in-progress	**455,664**	387,560	246,659	100,522	34,212
Leasehold land and land use rights	**143,172**	63,529	47,554	50,173	51,405
Intangible assets	**454,663**	454,940	455,204	455,605	200,655
Deferred tax assets	**45,216**	59,825	32,457	17,681	8,062
Assets classified as held for sale/investments	**–**	–	53,157	23,054	23,054
Prepayment for non-current assets	**322,219**	175,153	63,886	–	–
Cash and cash equivalents	**2,160,031**	1,014,894	499,937	543,807	643,771
Other current assets	**2,450,057**	1,670,379	1,133,634	1,013,197	705,522
Total assets	**8,583,500**	5,481,355	3,908,701	3,238,876	2,702,982
Liabilities					
Long-term bank loans – unsecured	**85,227**	69,837	188,571	260,000	–
Convertible bonds	**1,562,833**	1,497,313	–	–	–
Deferred tax liabilities	**37,971**	12,239	19,975	12,476	12,956
Deferred income on government grants	**11,211**	10,166	11,386	9,001	3,440
Current liabilities	**1,348,952**	1,074,786	1,326,481	847,872	690,407
Total liabilities	**3,046,194**	2,664,341	1,546,413	1,129,349	706,803
Minority interests	**22,595**	23,787	24,497	24,558	168,291
Net assets	**5,514,711**	2,793,227	2,337,791	2,084,969	1,827,888

Earnings per Share




Banitore
PINO
PINO
PINO
优选
厨房纸巾
Banitore
Bandi Enema
便利通


K
F
J
H
E
D
I
F
A
B
G
C
G
L

- A "Anerle" sanitary napkins
- B "Anerle" pantiliners
- C "Anle" sanitary napkins
- D "Anerle" baby diapers
- E "ElderJoy" adult diapers
- F "Hearttex" box tissue papers
- G "Hearttex" wet tissues
- H "Hearttex" toilet rolls
- I "Hearttex" pocket handkerchiefs
- J "Hearttex" kitchen towels
- K "Banitore" first-aid products and Bendi enema
- L "MissMay" skin cleansing and care products

CHAIRMAN'S STATEMENT

Sze Man Bok
Chairman

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present the annual results of the Group for the year ended 31 December 2007. The Group achieved satisfactory growth in revenue and profit attributable to shareholders, thanks to the thriving economy and uplifting living standard in mainland China which boosted the continuous expansion of the personal hygiene product market. The Group launched a variety of quality products which widely gained popularity in the market and strengthened our leading position in the personal and household hygiene product industry in China.

During the year under review, the Group recorded encouraging growth in both revenue and profit attributable to shareholders. For the year ended 31 December 2007, the Group's revenue was approximately HK$5,686,972,000, representing an increase of approximately 38.2% from the previous year. Profit attributable to shareholders increased by approximately 44.4% to approximately HK$1,005,939,000. Earnings per share amounted to approximately HK92.2 cents per share (2006: HK64.5 cents). The Board of Directors recommended the payment of a final dividend of HK32 cents per share (2006: HK25 cents). Taking the interim dividend of HK28 cents per share (2006: HK18 cents) into account, the annual dividend amounted to HK60 cents per share (2006: HK43 cents).

CHAIRMAN'S STATEMENT

The Group is dedicated to enhancing shareholders' value and achieve a more promising return to shareholders by adopting relevant measures including a stable dividend policy and optimisation of financial structure. The Group placed 60,000,000 new shares in a top-up placement of existing shares in October 2007 and planned to use the net proceeds of approximately HK$1.797 billion for potential acquisitions, capacity expansion and general working capital. This placing of shares further strengthened the finanicial position of the Group. It also helped to drive the business development of the Group and enabled it to capture the opportunities effectively and efficiently in the personal and household hygiene products industry.

The Group received international recognition for its sound operation and sustainable profitability. Hengan International was ranked as one of the "Top Enterprises in China" by Forbes again during the year, and its ranking was raised to the 56th this year from the 70th last year, reflecting the increasing strength of the Group.

During the year, tissue paper business remained the major source of revenue of the Group, accounting for approximately 45.5% of the total revenue of the Group. The growth of disposable diaper and sanitary napkin businesses was also encouraging, accounting for approximately 27.1% and 23.9% of the total revenue of the Group respectively.

The Group has developed a wide range of tissue paper, sanitary napkin and disposable diaper products, so as to cater for different needs of customers. In addition, the Group continued to bring in new technology and technical talents to improve product quality, and develop more mid to high-end new products, building up a solid foundation for future development.

With our years of efforts, the Group has established a household brand name for its products. The Group's "Hearttex" tissue paper brand was accredited "China Renowned Trademark" and "China Top Brand" while the "Anerle" sanitary napkin brand was accredited "China Renowned Trademark" for many years. In 2007, "Anerle" disposable diaper brand and "Elderjoy" adult diaper brand were both awarded "National Inspection Exempted Quality Products" (國家免檢產品榮譽獎牌產品). These awards demonstrate the outstanding brand building strategies and work of the Group.

CHAIRMAN'S STATEMENT

Despite the continuous growth in the personal hygiene product market in mainland China, competition is very intense and raw material costs remained high. Many small and medium manufacturers experienced operation difficulties and some were even out of market. However, the Group continued to expand the production scale to achieve better economies of scale and increased internal production efficiency by improving the production process and reducing the wastage of raw materials, thus successfully mitigating the impact of buoyant raw material prices.

Looking forward, the personal hygiene product market still has plenty of room and potential to grow under the favourable condition of steady growing economy and better living standard in mainland China. As such, the Group will capture business opportunities by expanding distribution and sales network, strengthening market promotion, enhancing product portfolio, developing more advanced technology to upgrade products and striving to increase production capacity.

I would like to express my gratitude to every staff for their continuous effort and strong passion which underlined the success of Hengan International, and also to every shareholder for their support and recognition to the development strategies and future goals of the Group. To thank for the trust on us, Hengan International will be fully dedicated and give all our best to create fruitful return for shareholders.

REVENUE BY REGIONS IN MAINLAND CHINA

	2007	2006
NORTH-WESTERN		
Sales Value: (HK$ million)	**270**	187
Percentage of Total Sales:	**4.7%**	4.5%
NORTHERN		
Sales Value: (HK$ million)	**598**	446
Percentage of Total Sales:	**10.5%**	10.8%
NORTH-EASTERN		
Sales Value: (HK$ million)	**389**	278
Percentage of Total Sales:	**6.8%**	6.8%
SHANDONG		
Sales Value: (HK$ million)	**527**	369
Percentage of Total Sales:	**9.3%**	9.0%
EASTERN		
Sales Value: (HK$ million)	**890**	662
Percentage of Total Sales:	**15.6%**	16.1%

	2007	2006
CENTRAL		
Sales Value: (HK$ million)	**833**	616
Percentage of Total Sales:	**14.7%**	15.0%
FUJIAN AND GUANGDONG		
Sales Value: (HK$ million)	**1,112**	780
Percentage of Total Sales:	**19.6%**	19.0%
SOUTH-WESTERN		
Sales Value: (HK$ million)	**325**	248
Percentage of Total Sales:	**5.7%**	6.0%
SICHUAN		
Sales Value: (HK$ million)	**556**	412
Percentage of Total Sales:	**9.8%**	10.0%

Sze Man Bok
Chairman

Hong Kong, 18 March 2008

CHIEF EXECUTIVE OFFICER'S REPORT

Hui Lin Chit
Chief Executive Officer

Dear Shareholders,

OVERALL PERFORMANCE

The economy in mainland China maintained a robust growth in 2007. According to preliminary information published by the National Bureau of Statistics of China, Gross Domestic Products ("GDP") of mainland China rose approximately by 11.4% year-on-year to approximately RMB24,661.9 billion. It was the fifth year in a row that the GDP grew by 10% or above. The national economy maintained a steady and fast growth with the features of rapid economic growth, optimised structure, increased efficiency and improved livelihood of the people. Amid thriving economy and improving living standard, the demand for personal care and hygiene products and higher product quality mounted, thus propelling the development of the industry in mainland China.

For the year ended 31 December 2007, the Group's revenue amounted to approximately HK$5,686,972,000, representing an increase of approximately 38.2% compared to that of the previous year. The growth in revenue was mainly attributable to rising market demand for high quality personal care and hygiene products in mainland China, which in turn boosted the sales of tissue paper, disposable diaper and sanitary napkin products of the

Group. Despite the continuous increase in raw material prices and labour costs, the Group managed to mitigate the impact by proactively expanding production capacity to optimise economies of scale, and by adopting various cost control measures, such as increasing the staff productivity and streamlining the production process. In addition, the appreciation of Renminbi also helped partly offset the impact of the rising costs. As such, the profit attributable to shareholders increased by approximately 44.4% to approximately HK$1,005,939,000.

Moreover, benefited from economies of scale and the improvement of efficiency per capita, distribution costs and administrative expenses totally amounted to approximately 19.8% (2006: 21.3%) of the total revenue, representing a decrease of approximately 1.5%.

BUSINESS REVIEW

Tissue Papers

Demand for quality tissue paper products continued to surge as a result of the booming mainland China economy and rising income per capita, bringing a satisfactory growth in revenue of the Group. Revenue increased by approximately 44.5% in 2007 to approximately HK$2,585,105,000, accounting for approximately 45.5% of the overall sales revenue. The "Hearttex" brand, enjoying a high reputation, was the first choice quality tissue paper products among mainland China consumers. The Group also received positive market response to its "cartoon" and "skin soothing" series of tissue paper products and kitchen paper products, which were launched to the market during the year.

During the year, the Group continued to focus on manufacturing tissue paper products with higher gross profit margins, including box tissue papers, pocket handkerchiefs and wet tissues. The revenue of these products accounted for approximately 71.4% of the overall revenue of tissue paper products (2006: 71.3%).

To cope with the rapidly increasing market demand, the Group continued to expand its production capacity. The Shandong Phase II production base of the Group commenced operation in July 2007, lifting significantly its annual production capacity of raw papers to approximately 240,000 tons, which further enhanced the benefit of economies of scale.

During the year, the Group's gross profit margin of tissue paper products was approximately 31.5% (2006: 35.6%), representing a drop of approximately 4.1%, mainly due to the increase in production costs prompted by surging wood pulp prices.

On the environmental protection front, the mainland China government adopted various measures to curb pollution from different industrial sectors. Some small-to-medium-size manufacturers were instructed to stop production by the Central Government as they have not yet installed proper environmental protection facilities and had therefore generated serious pollution. This accelerates the consolidation of the tissue paper industry. The environmental protection measures and facilities of the Group attained both China's and international standard, which is beneficial to the Group.

CHIEF EXECUTIVE OFFICER'S REPORT

Sanitary Napkins

The rising living standard in mainland China has raised people's demand for high quality personal hygiene products, which in turn resulted in greater consumption for better quality products with brand names. In addition, the surge of raw material prices imposed operation pressure on some small-to-medium-size manufacturers, resulting in closure of these companies and consolidation of the market, which created a favourable business environment for large scale manufacturers.

As a leading large scale personal hygiene product manufacturer, the Group had achieved an encouraging result in its sanitary napkin business in 2007. The revenue reached approximately HK$1,538,889,000,

representing an increase of approximately 23.2% and accounting for approximately 27.1% of the Group's total revenue. The Group focused on producing mid-to-high-end products with "Anerle" and "Space 7" products continuing to gain popularity in the market. The two products, accounted for approximately 84.8% (2006: 80.3%) of the total revenue of sanitary napkin business of the Group.

While the price of petrochemical products, the major raw materials for manufacturing sanitary napkins, surged during the year, the Group reinforced its cost control measures and increased the proportion of products with high gross profit margins, bringing the gross profit margin to approximately 56.9% (2006: 55.3%).

Disposable Diapers

Although sales of disposable diapers in the first half of 2007 were adversely affected by the warm weather in mainland China, growth of revenue of the Group's diapers business in 2007 was still satisfactory as a result of the improvement in living standard and average income per capita, as well as increase in birth rate and large room for growth in market penetration rate of disposable diapers, thus helping the Group achieve satisfactory growth in the sales of disposable diapers. The sales revenue in 2007 reached approximately HK$1,360,913,000, representing an increase of approximately 42.6% and accounting for approximately 23.9% of the total revenue.

The price of petrochemical products and wood pulp, the major raw materials of disposable diapers, surged during the year. However, the Group's efforts on strengthening internal controls and increasing production capacity to optimise economies of scales benefit helped maintain a steady gross profit margin for disposable diapers business at approximately 33.3% (2006: 32.9%).

Skincare and Cleansing Products

Competition of skincare products was keen in mainland China. Sales of "MissMay" products amounted to approximately HK$30,462,000 (2006: HK$32,742,000). This business contributed approximately 0.5% of the Group's total revenue and has only negligible impact to the overall business of the Group.

First-Aid Products

Sales of the Group's first-aid products: "Banitore", "Bandi" and "Comfitore" in 2007 amounted to approximately HK$26,105,000 (2006: HK$24,922,000). This business accounted for approximately 0.5% of the Group's total revenue.

DISTRIBUTION AND MARKETING STRATEGIES

The Group has a nationwide distribution network for selling its broad range of personal hygiene products. To cope with the growing mainland China market, the Group not only proactively launched new products and enhanced production quality, but also set up appropriate development strategies to strengthen its brand promotion activities. Apart from expanding traditional sales channels, including local convenient stores and small shops, the Group also strengthened communication and cooperation with large supermarkets. Moreover, the Group recruited a number of sales and marketing professionals to promote its products in supermarkets and hypermarkets. During the year, distribution costs accounted for approximately 15.9% of the total revenue (2006: 16.8%), representing a decrease of approximately 0.9% due to economies of scale.

RESEARCH AND DEVELOPMENT OF PRODUCTS

The Group was devoted to improve quality of products and hence continued to apply more resources on research and development in order to enhance the quality of products, provide new personal hygiene products to customers and capture expanding opportunities in the market. To strengthen the research and development team, the Group appointed Mr. Paul S. Woon as the Chief Technology Officer in January 2008. Mr. Paul S. Woon is highly experienced in design, research and development of sanitary napkins, disposable diapers and hygienic materials. With Mr. Woon joining the Group, the Group is confident that his valuable experience in the industry will further strength the research and development team, and improve design and research and development capabilities in relation to new products and materials, solidifying the leading position of the Group in the personal hygiene products industry.

CHIEF EXECUTIVE OFFICER'S REPORT

HUMAN RESOURCES MANAGEMENT

As at 31 December 2007, the Group employed approximately 21,100 full-time and temporary staff. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

During the year, the Group placed 60,000,000 new shares in a top-up placement of existing shares and planned to use the net proceeds of approximately HK$1.797 billion for potential acquisitions, capacity expansion and general working capital purposes. The placing further enhanced the solid financial position of the Group. As at 31 December 2007, the Group's cash and cash equivalents and restricted bank deposits totally amounted to approximately HK$2,304,920,000 (2006: HK$1,020,669,000), convertible bonds liability portion was approximately HK$1,562,833,000 (2006: HK$1,497,313,000) and short-term and long-term bank loans amounted to approximately HK$332,037,000 (2006: HK$273,802,000). During the year, the Group's capital expenditure on the acquisition and installation of production facilities amounted to approximately HK$918,168,000, and the related prepayments made thereon amounted to approximately HK$322,219,000.

The convertible bonds were subject to a fixed interest rate of 4.7% semi-annually while the bank borrowings were subject to floating annual interest rates ranging from 3.2% to 6.4%. Apart from the bank deposits of approximately HK$144,889,000 (2006: HK$5,775,000) deposited in banks as collaterals, there were no other charges on the Group's assets for its bank loans. As at 31 December 2007, the Group's gross gearing ratio was approximately 34.4% (2006: 63.4%), which was calculated on the basis of the amount of borrowings as a percentage of the total shareholders' equity (not including minority interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and cash equivalents as a percentage of the total shareholders' equity (not including minority interests), was zero (2006: 26.9%). The decrease of gross gearing ratio and net gearing ratio was mainly due to the funds raised as mentioned above.

As at 31 December 2007, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISKS

A large portion of the Group's income is in Renminbi while most of the raw materials purchases are required to be settled in US dollar. The Group has never had 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 companies. As at 31 December 2007, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

FUTURE PROSPECTS

Alongside with the rapid economic growth and urbanisation, increasing market integration and growing population in mainland China, the Group remains optimistic to the prospects of personal care and hygiene product market. By leveraging on the current solid business foundation, the Group is confident in its ability to maintain the leading position in mainland China personal hygiene market.

Although China is the largest tissue paper consumption country in Asia, it is still an enormous market with immense growth potential when compared with the average rate of consumption of tissue paper in western countries. In order to cope with the market demand, the Group will continue to enhance its research and development efforts, and introduce more quality tissue paper products. The management team also decided to adjust the price of tissue paper products from March 2008, with an aim to offset inflating costs.

The Group's Fujian production base Phase II and Hunan production base Phase II are expected to commence operation in April and December 2008 respectively, which will further increase the total production capacity of the Group to approximately 360,000 tons per year.

With regard to sanitary napkin business, the Group will proactively produce more mid-to-high end products with higher gross profit margins and strengthen brand promotion activities in order to increase market share and mitigate the impact of intensive competition and cost pressure resulted from surging raw material prices and logistics costs.

The increase in average income per capita in mainland China and the change in consumption pattern of parents due to the advocacy of using disposable diapers resulted in significant increase in demand for diapers. Diapers market has entered into a fast growing stage. To seize the business opportunities, the Group will carry out technical revamp on existing production lines and add new production lines.

Looking forward, the raw materials prices are still on the rising trend in the coming year. The Group will minimise the impact by raising the proportion of higher gross profit margin products, implementing different cost control measures, enhancing production capacity, extending sales network, as well as strengthening promotion and marketing.

The Group expects that market consolidation will continue. As such, the Group will actively seek merger and acquisition opportunities with synergy effect offered at reasonable prices. The Group is dedicated to expanding market presence and improving business performance. The Group expects that its businesses will continue to grow in 2008 and is committed to increasing shareholders' value.

Hui Lin Chit
Chief Executive Officer

Hong Kong, 18 March 2008

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Sze Man Bok Mr. Hui Lin Chit Mr. Yeung Wing Chun Mr. Hung Ching Shan Mr. Xu Da Zuo Mr. Xu Chun Man Mr. Loo Hong Shing Vincent

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 58, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders of the Company.

Mr. Hui Lin Chit, aged 54, is the Deputy Chairman and Chief Executive Officer of the Group. He is responsible for strategic planning, human resources and the overall management of the Group. Mr. Hui is one of the founding shareholders of the Company. He is also a member of Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC") and is a member of the National Committee of the Chinese People's Political Consultative Conference, a deputy chairman of All-China Federation Of Industry and Commerce and also Political Consultative Conference in Quanzhou City. He is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association.

Mr. Yeung Wing Chun, aged 59, is responsible for the Group's overall corporate direction and business strategy. Mr. Yeung graduated from Fuzhou University and has the title of engineer in the PRC. He is one of the founding shareholders of Company.

Mr. Hung Ching Shan, aged 58, is responsible for supervising the Group's purchasing tender assignments. He has over 29 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Xu Da Zuo, aged 41, is the Group's Deputy Director of Finance and is responsible for overseeing and monitoring the accounting and finance functions of the Group. Joining the Group in 1985, Mr. Xu has over 23 years of experience in accounting and internal audit. He is a university graduate and has the title of senior accountant in the PRC. Mr. Xu is the vice-chairman of the Youth Trade Association and a standing member of an audit institution in the PRC. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group.

Mr. Xu Chun Man, aged 33, is the General Manager of Hengan (Shaanxi) Hygiene Products Co. Ltd and Hengan (Shannxi) Paper Products Co. Ltd., subsidiaries in Shaanxi Province. He is responsible for the overall management, business development and operations of the said subsidiary. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 15 years of experience in business development and customer service management.

Mr. Loo Hong Shing Vincent, aged 42, is the Chief Financial Officer, the Company Secretary and authorized representative of the Company. Before joining the Company in November 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Independent Non-Executive Directors

CHAN Henry, aged 42, is an Independent Non-Executive Director of the Company. Mr. Chan is also a member of both the Audit Committee and the Remuneration Committee.

Mr. Chan has over 21 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacture and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master's degree in Business Administration. He joined the Group in October 1998.

Mr. Chu Cheng Chung, aged 64, is an Independent Non-executive Director of the Company appointed in June 2002 and a member of the Audit Committee and Remuneration Committee of the Company. Presently, he is a chief business consultant. He has over 31 years of experience working in US corporations and 10 years of which were with Coca Cola Company Group in the US and China. Mr. Chu joined Thomas Group as the general manager in 2001 and later as the chief operating officer for Media Partners International Holdings Inc., an outdoor media company in Shanghai. He is an independent non-executive director of China Paradise Electronics Retail Limited, which was previously a listed (main board) company.

Mr. Chu obtained his Master of Science degree from Tuskegee Institute in Chemistry and MBA from Chicago Lake Forest Management Graduate School. During his time in Shanghai, he was twice awarded the Magnolia Award by the Shanghai Municipal Government.

Ms. Ada Ying Kay Wong, JP, aged 48, is an Independent Non-executive Director of the Company appointed in October 1998 and a member of the Audit Committee and Remuneration Committee.

Ms. Wong, a practising solicitor, is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors & Notaries. She was the Chairperson of the Wanchai District Council and an elected Councillor for Wan Chai's Broadwood Constituency. She was an elected member of the Urban Council from 1995 to 2000. Ms. Wong also participates actively in other public and education services. She is a Council Member of the Hong Kong Academy for Performing Arts, the Hong Kong Institute of Education and Hong Kong Shue Yan University respectively. Currently, she is an independent non-executive director of Pak Fah Yeow International Limited, a company listed on the Main Board of the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Senior Management

Mr. Cheng Yong, aged 44, is the Chief Operating Officer and responsible for the Group's daily operation management. Before joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 18 years of experience in operation management and specialise in production management and quality control. Mr. Cheng graduated with a bachelor degree in automation-control from the Harbin Engineering University and received a MBA from the Xiamen University. He has the title of electrical engineer in the PRC.

Mr. Xu Lian Pi, aged 47, is the Director of Administration. He is responsible for the Group's administration matters. Mr. Xu joined the Group in 1985 and has over 22 years of experience in marketing and sales of fast moving consumer products. He has the title of economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen.

Mr. Li Chang Yao, aged 45, is the Director of Diaper Products Development Department and Marketing Director of the Group. He is responsible for the overall management and business development of diaper products of the Group and the formulation of the Group's marketing and branding strategy, overall marketing logistics management. He joined the Group in 1999 and has over 20 years of experience in marketing and promotion. Mr. Li graduated from the Fudan University with a degree in world economy and the Xiamen University with a degree in business administration. He has the title of economist in the PRC.

Mr. Wang Xiang Yang, aged 39, is the Director of Supply Chain Management of the Group. He is responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang graduated from HuaQiao University with a degree in science. He holds the title of financial economist in the PRC.

Mr. Xu Shui Shen, aged 39, is the Director of Business Development Department. He is responsible for the development and implementation of the Group's sales strategy and business management. He joined the Group in 1985 and has over 23 years of experience in quality control management and business development. He graduated from business administration department in HuaQiao University and holds the title of economist in the PRC. Mr. Hui is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi.

Mr. Xu Wen Mo, aged 42, is the Director of Tissue Paper Products Development Department of the Group. He is responsible for the overall management and business development of paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 19 years of experience in management, marketing and sales of consumer products.

Mr. Xu Zi Dan, aged 41, is the Director of Napkin Products Development Department of the Group and is responsible for the overall management and business development of napkin products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 22 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of financial economist in the PRC.

Mr. Xie Gang Yi, aged 42, is the General Manager of the Internal Audit Department. Prior to joining the Group in August 2006, he was a supervisor of electronic banking department at Jinjiang branch of the Industrial and Commercial Bank of China. Mr. Xie has accumulated over 23 years of experience in finance and auditing. He graduated from Xiamen University with a degree in accounting and has the title of certified accountant and financial management economist in the PRC.

Ms. Liu Ying, aged 40, is the Vice-President of the Human Resources Department and responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 21 years of experiences in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of economist in the PRC.

Mr. Zhu Hong Bo, aged 46, is the Strategic Development Director of the Group and responsible for corporate development and investment. Before joining the Group in 2007, he worked as senior management in some listed companies and has over 24 years of experience in marketing promotion and corporate management. Mr. Zhu graduated from the Tianjin Normal University in 1984.

Mr. Paul S. Woon, aged 66, is the Chief Technology Officer of the Group. He joined the Goup in January 2008 and is responsible for research and development of products and materials of the Group. Mr. Woon is highly experienced in design, research and development of sanitary napkins, disposable diapers and hygienic materials. He was the research and development director and vice-president in Asia region of Kimberly-Clark Group. Graduated from The Ohio State University in Polymer Chemistry with a doctoral degree, Mr. Woon was the patentee of ten disposable diapers, sanitary napkins and non-woven fabric design and application in the United States. He was also listed on "Marquis Who's Who in the World" in 1997 for his outstanding achievements.

CORPORATE GOVERNANCE REPORT

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders' interests in general.

The Company has complied with the Code on Corporate Governance Practices (the "Code") throughout the year ended 31 December 2007.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") as its own code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board comprises ten members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), five Executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 18 to 21.

The Board is responsible for approving and monitoring the Group's strategies and policies, approval of annual budgets and business plans, revaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and considers the Independent Non-executive Directors to be independent.

The roles of the Chairman and the Chief Executive Officer are segregated in order to reinforce their independence and accountability. Mr. Xu Da Zuo, an Executive Director, is a cousin of Mr. Hui Lin Chit, the Chief Executive Officer and a substantial shareholder. Save as disclosed above, the Directors are not otherwise related to each other.

REMUNERATION COMMITTEE

The Remuneration Committee consists of a majority of Independent Non-executive Directors and its members are:

Mr. Hui Lin Chit ***(Chief Executive Officer)***
Mr. Chan Henry ***(Independent Non-executive Director) – Chairman of the Committee***
Mr. Chu Cheng Chung ***(Independent Non-executive Director)***
Ms. Ada Ying Kay Wong ***(Independent Non-executive Director)***

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the Non-executive Directors. In developing remuneration policies and making recommendations as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and key executives.

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. The detail terms of reference of the Committee are published on the Company's website.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2007 are showed in Note 13 to the accounts.

During the year, the Remuneration Committee had performed the following:

– reviewed the Group's remuneration policy and made recommendations to the Board;

– reviewed and approved the proposed 2008 overall salary increment of the Group; and

– reviewed the proposal of granting share options according to the Company's share option scheme, and made recommendations to the Board.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises three Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Chu Cheng Chung and Mr. Chan Henry.

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations. The detail terms of reference of the Audit Committee is published on the Company's website.

During the year, the Audit Committee has performed the following:

– met with the external auditor to discuss the general scope and findings of their annual audit and interim review work;

– reviewed and recommended to the Board for approval of the external auditor's remuneration;

– made recommendations to the Board on the re-appointment of the external auditor;

– reviewed the external auditor's independence, objectivity and the effectiveness of the audit process;

– reviewed the annual and interim reports and annual and interim announcements of the Company;

– discussed on auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval; and

– reviewed the connected transactions entered into by the Group.

All issues raised by the external auditor and the Audit Committee have been addressed by the senior management. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the senior management and the Board were of sufficient significance for disclosure in the annual report.

Directors' attendance at Board, Remuneration Committee and Audit Committee Meetings in 2007:

	Attendance/Number of Meetings Held		
Directors	**Full Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive Directors			
Mr. Sze Man Bok ***(Chairman)***	4/4	N/A	N/A
Mr. Hui Lin Chit ***(Vice-chairman and Chief Executive Officer)***	4/4	N/A	1/1
Mr. Yeung Wing Chun	3/4	N/A	N/A
Mr. Hung Ching Shan	4/4	N/A	N/A
Mr. Xu Da Zuo	4/4	N/A	N/A
Mr. Xu Chun Man	4/4	N/A	N/A
Mr. Loo Hong Shing Vincent	4/4	2/2*	1/1*
Independent Non-executive Directors			
Mr. Chan, Henry	4/4	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1
Mr. Chu Cheng Chung	4/4	2/2	1/1

* Being the secretary of the meetings.

NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with the Company's Articles of Association, not less than one-third of the Directors will retire from office at the Company's annual general meeting. Mr. Hui Lin Chit, Mr. Loo Hong Shing Vincent, Mr. Chan Henry and Ms. Ada Ying Kay Wong retire, and being eligible, offer themselves for re-election.

AUDITOR'S REMUNERATION

The Group was charged approximately HK$4,168,000 and HK$60,000 by external auditors for auditing and non-auditing services respectively for the year ended 31 December 2007. Non-auditing services included professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis and preliminary announcements of results during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the accounts of the Group. With the assistance of the accounting department, which is under the supervision of the Qualified Accountant of the Company, the Directors ensure that the accounts of the Group have been properly prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the accounts of the Group is in a timely manner.

A report of the independent auditor on the Group's accounts is set out in this annual report.

INTERNAL CONTROLS

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes, investment and business risks affecting the Group are identified and managed.

The Group has an independent and subjective internal audit department which critically reviews and monitors all critical aspects of the Group's authorities and its internal controls. The head of internal audit reports to the Board and the Audit Committee on a quarterly basis.

In 2006, an independent international professional accounting firm was appointed by the Group to conduct a review on its systems of internal controls and to provide recommendations on areas of improvement. In 2007, the internal audit department had performed a review to ensure that the recommendations made by the independent international accounting firm has been implemented accordingly and proper internal control policies, procedures and practices were in place.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) latest and key information of the Group are available on the website of the Company, (iv) regular press conferences and briefing meetings with investors, shareholders and analysts are set up from time to time on updated information of the Group, and (v) the Company's Registrars serve the shareholders respecting all share registration matters.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of the Company will be held at Salon 1-3, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 13 May 2008 (Tuesday) at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated accounts and the reports of the directors and auditors for the year ended 31 December 2007;

2. To declare a final dividend for the year ended 31 December 2007;

3. To re-elect directors and authorise the board of directors to fix their remuneration;

4. To re-appoint auditors and authorise the board of directors to fix their remuneration; and

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT**:

   (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company, and to make or grant offers, agreements and options which might require the exercise of such power, be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (aa) Rights Issue; or (bb) the exercise of rights of subscription or conversion under the terms of any warrants or other securities issued by the Company carrying a right to subscribe for or purchase shares of the Company; or (cc) the exercise of any option under any share option scheme of the Company adopted by its shareholders for the grant or issue to employees of the Company and/or any of its subsidiaries of options to subscribe for or rights to acquire shares of the Company; or (dd) any scrip dividend or other similar scheme implemented in accordance with the Articles of Association of the Company, shall not exceed 20% of the total aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period" means the period from the date of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

"Rights Issue" means an offer of shares or other securities open for a period fixed by the directors of the Company to holders of shares on the Register of Members of the Company on a fixed recorded date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements the directors of the Company may deem necessary or expedient in relation to fractional entitlements of having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT**:

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of HK$0.10 each in the capital of the Company be and is hereby generally and unconditionally approved;

(b) the aggregate nominal of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT** the general mandate referred to in Resolution No. 5 above be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company since the granting of the general mandate referred to in Resolution No. 6 above and pursuant to the exercise by the directors of the powers of the Company to purchase such shares provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution."

By order of the Board
Loo Hong Shing Vincent
Company Secretary

Hong Kong, 11 April 2008

Notes:

(i) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who must be an individual or individuals) to attend and vote instead of him. A proxy does not need to be a member of the Company.

(ii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney of authority, must be lodged with the Company's share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not less than 48 hours before the time appointed for holding the meeting and any adjourned meeting.

(iii) The Register of Members of the Company will be closed from 5 May 2008 to 13 May 2008, both days inclusive, during which no transfer of shares can be registered. To qualify for the final dividend (which will be payable on or around 22 May 2008) to be approved at the forthcoming Annual General Meeting, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 2 May 2008.

(iv) A circular containing details regarding resolution nos 3, 5 to 7 will be sent to shareholders together with the 2007 Annual Report.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and trading of personal hygienic products. The principal activities of the subsidiaries are manufacturing, distribution and sale of personal hygiene products, mainly in the People's Republic of China (the "PRC").

(1) An analysis of the Group's revenue and contribution to operating profit by business segment is as follows:

	2007		2006	
	Revenue HK$'000	**Contribution to operating profit HK$'000**	Revenue HK$'000	Contribution to operating profit HK$'000
Sanitary napkins	**1,538,889**	**557,483**	1,249,468	451,572
Disposable diapers	**1,360,913**	**244,057**	954,512	134,479
Tissue paper products	**2,585,105**	**301,546**	1,789,440	255,946
Skincare and cleansing products, hygiene materials and others	**202,065**	**78,223**	121,523	21,803
	5,686,972	**1,181,309**	4,114,943	863,800

(2) The geographical analysis of the Group's revenue is shown as follows:

	2007		2006	
	Revenue (HK$ million)	**Percentage of total revenue (%)**	Revenue (HK$ million)	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	**1,112**	**19.6**	780	19.0
North-western	**270**	**4.7**	187	4.5
South-western	**325**	**5.7**	248	6.0
Sichuan	**556**	**9.8**	412	10.0
North-eastern	**389**	**6.8**	278	6.8
Northern	**598**	**10.5**	446	10.8
Shandong	**527**	**9.3**	369	9.0
Eastern	**890**	**15.6**	662	16.1
Central	**833**	**14.7**	616	15.0
Overseas	**187**	**3.3**	117	2.8
	5,687	**100**	4,115	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 40.

The Directors have declared an interim dividend of HK28 cents per ordinary share, totalling HK$302,673,000, which was paid on 16 October 2007.

The Directors recommend the payment of a final dividend of HK32 cents per ordinary share, totalling HK$365,714,000.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in Note 32 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$2,014,546 (2006: HK$1,560,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 30 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2007, the reserves of the Company available for distribution to shareholders amounted to HK$3,540,851,000 (2006: HK$1,605,694,000), subject to the restrictions stated in Note 32(d) to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 4 and 5 respectively.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of the Company's shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Yeung Wing Chun
Mr. Hung Ching Shan
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Loo Hong Shing Vincent

Non-Executive Director

Mr. Zhang Shi Pao (resigned on 19 July 2007)

Independent Non-Executive Directors

Mr. Chan Henry
Mr. Chu Cheng Chung
Ms. Ada Ying Kay Wong

In accordance with Article 116 of the Company's Articles of Association, Mr. Hui Lin Chit, Mr. Loo Hong Shing Vincent, Mr. Chan Henry and Ms. Ada Ying Kay Wong retire, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each Executive Director has entered into a service contract with the Company for an initial term of three years and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party.

Independent Non-Executive Directors were appointed for a 3-year term expiring on 14 December 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 18 to 21.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed under the Continuing Connected Transactions below, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

The following transactions are regarded as continuing connected transactions under the Rules Governing the Listing of Securities ("Listing Rules"), and are disclosed in accordance with Main Board Chapter 14A of the Listing Rules. These continuing connected transactions between certain connected parties (as defined in the Listing Rules) and the Group also constituted related party transactions as disclosed in note 38 to the consolidated accounts.

	2007	2006
	HK$'000	HK$'000
Purchases from Weifang Power		
– electricity energy	**43,049**	13,133
– heat energy	**18,589**	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"), 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.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed – Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported this factual findings for the selected samples based on the agreed procedures to the Board of Directors that the aforesaid continuing connected transactions for the year ended 31 December 2007 (a) have been approved by the Board; (b) were in accordance with the pricing policies of the Company if transactions involved provision of goods and services by the Group; (c) were carried out in accordance with the terms of the relevant agreements governing them; and (d) did not exceed the respective applicable annual caps disclosed in our announcement dated 12 July 2006.

Having reviewed the auditor's report and the continuing connected transactions, the independent Non-Executive Directors, have also made confirmations that they were entered into (i) by the Group in the ordinary and usual course of the business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN THE SHARES AND SHARE OPTIONS OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2007, the interests of each Director in the shares and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

	Number of ordinary shares			Number of unlisted shares (Note(1))		
Name of Directors	**Personal interests**	**Family interests**	**Corporate interests**	**Personal interests**	**Total**	**Approximate percentage of shareholding**
Mr. Sze Man Bok	225,573,505	–	–	20,000	225,593,505	19.76%
Mr. Hui Lin Chit	23,674,000	–	200,945,751 (Note (3))	180,000	224,799,751	19.69%
Mr. Yeung Wing Chun	38,344,257	45,619 (Note (2))	–	20,000	38,409,876	3.36%
Mr. Hung Ching Shan	7,550,000	–	–	20,000	7,570,000	0.67%
Mr. Xu Da Zuo	20,270,135 (Note (2))	–	–	130,000	20,400,135	1.79%
Mr. Xu Chun Man	16,493,445 (Note (2))	–	–	20,000	16,513,445	1.45%
Mr. Loo Hong Shing Vincent	100,000	30,000	–	170,000	300,000	0.3%

Notes:

(1) Unlisted shares are share options granted to the Directors pursuant to the share option scheme of the Company and details of which are set out on pages 34 to 36.

(2) These interests were held by Hengan International Investments Limited, a nominee company holding shares of the Company on behalf of certain Directors and senior management of the Group and their family members.

(3) An Ping Holdings Limited ("An Ping Holdings") holds 200,945,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited, the shares of which are wholly owned by Credit Suisse Trust Limited, the trustee of The Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of The Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of The Hui Family Trust in the Company.

(4) Interests in shares and share options were long position.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SHARE OPTION SCHEME

(1) The terms of the share option scheme of the Company ("Scheme") are summarised as follows:

(i) Purpose of the Scheme

The purpose of the Scheme is to enable employees of the Group to acquire ownership interests in the Company and to encourage employees to work towards enhancing the value of the Company for the benefit of shareholders.

(ii) Eligible Persons

The Board shall have power at any time within the Scheme period to make an offer to any employee (including Directors), as the Board may at its absolute discretion determine and select subject to terms and conditions of the Scheme.

The basis of eligibility of any of the employees to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(iii) Subscription Price

The subscription price for the shares of the Company under the Scheme is to be determined by the Board provided with reference to the highest of:

(a) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the date of offer (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the employee), which must be a business day;

(b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and

(c) the nominal value of a share.

(iv) Maximum Number of Shares Available for Issue

The maximum number of shares available for issue after considering the share options already granted is 88,531,200, representing approximately 7.75% of the issued share capital of the Company as at the date of this report.

(v) Maximum Entitlement of Each Employee

The maximum number of shares issued and to be issued upon exercise of options granted under the Scheme of the Company to any employee (including both exercised and outstanding options) in any 12-month period from the date of grant shall not exceed 1% of the shares in issue. Any further grant of option in excess of such 1% limit in any 12 month period upto and including the date of such further grant shall be subject to the issue of a circular to the shareholders of the Company and the approval by shareholders with such employee and his associates abstaining from voting.

(vi) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing on the date on which the employee complies in full with the requirements of the Board for the acceptance of the offer and expiring at the close of business on the last date of the 10-year period or the end of the Scheme period, whichever is the earlier subject to the provisions of early termination thereof.

(vii) Acceptance of Offer

An offer for the grant of options must be accepted not less than 30 days after the offer date and must be accompanied by payment of the option price.

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 2 May 2013.

(2) Movement of Share Options

11,000,000 options had been granted under the Scheme as at 31 December 2007. The table below sets out movements in the share options granted under the Scheme during the year.

	Number of share options							
Eligible person	Balance as at 01/01/2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31/12/2007	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors								
Mr. Sze Man Bok	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Hui Lin Chit	–	90,000	–	–	90,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	90,000	–	–	90,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Yeung Wing Chun	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Hung Ching Shan	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Da Zuo	–	65,000	–	–	65,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	65,000	–	–	65,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Chun Man	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Loo Hong Shing Vincent	–	85,000	–	–	85,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	85,000	–	–	85,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Zhang Shi Pao (resigned on 19 July 2007)	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	10,000	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Employees	–	5,210,000	–	–	5,210,000	25.05	12/07/2007	12/07/2010–02/05/2013
	–	5,210,000	–	–	5,210,000	25.05	12/07/2007	12/07/2011–02/05/2013

No options lapsed or were cancelled during the year.

The Company has used the Binomial Model for assessing the fair value of the share options granted during the year ended 31 December 2007. It is an appropriate model to estimate the fair value of an option that can be exercised before the expiry of the option period. The assumptions adopted in the calculation are:

	Options granted to Directors	**Options granted to employees**
Risk free rate	4.64% per annum	4.64% per annum
Expected volatility	35% per annum	35% per annum
Expected dividend yield	2.5% per annum	2.5% per annum
Trigger price multiple	2 times	1.5 times
Expected turnover rate	0% per annum	15% per annum

According to the Binomial Model, the market value of the option granted on 12 July 2007 and 18 July 2007 for employees and Directors were approximately HK$73,754,000 and HK$4,405,000 respectively, out of which approximately HK$10,150,000 and HK$587,000 were related to the year ended 31 December 2007 and were charged to the profit and loss account for the year accordingly.

It should be noted that the value of an option varies with different variables of certain subjective assumptions; any change in variables so adopted may materially affect the fair value estimate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2007, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	Note	**Capacity**	**Number of ordinary shares beneficially held**	**Approximate percentage of shareholding**
An Ping Holdings	(1)	Beneficial owner	200,945,751	17.60%
An Ping Investments	(1) & (2)	Trustee	200,945,751	17.60%
Seletar Limited	(1) & (2)	Trustee	200,945,751	17.60%
Serangoon Limited	(1) & (2)	Trustee	200,945,751	17.60%
Credit Suisse Trust Limited	(2)	Trustee	200,945,751	17.60%
Baring Asset Management Limited and its associates	(3)	Investment manager	59,384,000	5.20%

Notes:

(1) An Ping Holdings, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments. An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited, the shares of which are wholly owned by Credit Suisse Trust Limited, the trustee of The Hui Family Trust.

(2) Credit Suisse Trust Limited as trustee of The Hui Family Trust is deemed to be interested in the 200,945,751 shares held by this trust.

(3) Baring Asset Management Limited and its various wholly-owned subsidiaries held the following shares on behalf of the accounts they managed:

Name of subsidiary	Aggregate long position in shares
Baring International Investment Management Holdings Limited	59,384,000
Baring International Investment Management Limited	59,384,000
Baring Asset Management UK Holdings Limited	59,384,000
Baring Asset Management (Asia) Holdings Limited	59,384,000
Baring Asset Management (Asia) Limited	59,384,000

(4) Interests in shares were long position.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases of goods and services for the year attributable to the Group's major suppliers are approximately as follows:

– the largest supplier	10.0%
– five largest suppliers combined	31.1%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 18 March 2008.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Sze Man Bok
Chairman

Hong Kong, 18 March 2008

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HENGAN INTERNATIONAL GROUP COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated accounts of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 102, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**5,686,972**	4,114,943
Cost of goods sold	7	**(3,410,728)**	(2,394,256)
Gross profit		**2,276,244**	1,720,687
Other gains – net	6	**103,395**	74,619
Distribution costs	7	**(902,467)**	(691,791)
Administrative expenses	7	**(221,367)**	(185,393)
Operating profit		**1,255,805**	918,122
Interest income		**21,707**	14,559
Finance costs	8	**(95,016)**	(63,796)
Profit before income tax		**1,182,496**	868,885
Income tax expense	9	**(175,555)**	(171,773)
Profit for the year		**1,006,941**	697,112
Attributable to:			
Shareholders of the Company	10	**1,005,939**	696,624
Minority interests		**1,002**	488
		1,006,941	697,112
Earnings per share for profit attributable to shareholders of the Company – basic and diluted	11	**HK92.2 cents**	HK64.5 cents
Dividends	12	**668,387**	464,730

The notes on pages 47 to 102 are an integral part of the consolidated accounts.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**2,552,478**	1,655,075
Construction-in-progress	15	**455,664**	387,560
Leasehold land and land use rights	16	**143,172**	63,529
Intangible assets	17	**454,663**	454,940
Deferred income tax assets	33	**45,216**	59,825
Prepayment for non-current assets	20	**322,219**	175,153
		3,973,412	2,796,082
Current assets			
Inventories	21	**1,329,120**	1,094,259
Trade receivables	24	**594,455**	412,494
Other receivables, prepayments and deposits		**381,593**	157,851
Restricted bank deposits	25	**144,889**	5,775
Cash and cash equivalents	26	**2,160,031**	1,014,894
		4,610,088	2,685,273
Total assets		**8,583,500**	5,481,355
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	30	**114,162**	108,077
Other reserves	32	**4,040,849**	1,688,062
Retained earnings	32		
– Proposed dividend	12	**365,714**	270,192
– Unappropriated retained earnings		**993,986**	726,896
		5,514,711	2,793,227
Minority interests		**22,595**	23,787
Total equity		**5,537,306**	2,817,014

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	**2007** **HK$'000**	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans – unsecured	28	**85,227**	69,837
Convertible bonds	29	**1,562,833**	1,497,313
Deferred income tax liabilities	33	**37,971**	12,239
Deferred income on government grants		**11,211**	10,166
		1,697,242	1,589,555
Current liabilities			
Trade and bills payables	27	**672,830**	443,930
Other payables and accrued charges		**370,850**	328,576
Deferred income on government grants		**1,981**	1,622
Taxation payable		**56,481**	96,693
Trust receipt bank loans	28	**3,602**	1,433
Current portion of long-term bank loans – unsecured	28	**114,465**	61,981
Short-term bank loans – unsecured	28	**10,000**	140,551
Short-term bank loans – secured	28	**118,743**	–
		1,348,952	1,074,786
Total liabilities		**3,046,194**	2,664,341
Total equity and liabilities		**8,583,500**	5,481,355
Net current assets		**3,261,136**	1,610,487
Total assets less current liabilities		**7,234,548**	4,406,569

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 47 to 102 are an integral part of the consolidated accounts.

BALANCE SHEET

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	18	**4,842,729**	3,424,911
Prepayment for non-current assets	20	**–**	27,664
		4,842,729	3,452,575
Current assets			
Trade receivables	24	**84,698**	–
Due from subsidiaries	22	**3,904**	7,557
Other receivables, prepayments and deposits		**63,638**	23
Cash and cash equivalents	26	**363,674**	2,058
		515,914	9,638
Total assets		**5,358,643**	3,462,213
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	30	**114,162**	108,077
Other reserves	32	**3,145,681**	1,327,030
Retained earnings	32		
– Proposed dividend	12	**365,714**	270,192
– Unappropriated retained earnings		**62,712**	31,220
Total equity		**3,688,269**	1,736,519

BALANCE SHEET
As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	29	**1,562,833**	1,497,313
Due to subsidiaries	23	**20,090**	162,648
		1,582,923	1,659,961
Current liabilities			
Trade and bills payables	27	**73,530**	–
Other payables and accrued charges		**2,633**	733
Taxation payable		**1,288**	–
Short-term bank loans – unsecured	28	**10,000**	65,000
		87,451	65,733
Total liabilities		**1,670,374**	1,725,694
Total equity and liabilities		**5,358,643**	3,462,213
Net current assets/(liabilities)		**428,463**	(56,095)
Total assets less current liabilities		**5,271,192**	3,396,480

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 47 to 102 are an integral part of the consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

		Attributable to the Company's shareholders					
	Note	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2006		108,077	1,719,325	510,389	2,337,791	24,497	2,362,288
Transfer of depreciation on buildings	32(b)	–	(1,795)	1,795	–	–	–
Reversal of deferred taxation associated with property revaluation in previous years	32(b)	–	480	–	480	–	480
Disposal of available-for-sale financial assets	32(b)	–	(22,124)	–	(22,124)	–	(22,124)
Net profit/(expense) recognised directly in equity		–	(23,439)	1,795	(21,644)	–	(21,644)
Profit for the year		–	–	696,624	696,624	488	697,112
Total recognised income and expense for 2006		–	(23,439)	698,419	674,980	488	675,468
2005 final dividends paid		–	–	(172,923)	(172,923)	(697)	(173,620)
2006 interim dividends paid	12	–	–	(194,538)	(194,538)	(1,033)	(195,571)
Appropriation to statutory reserves	32(b)	–	44,259	(44,259)	–	–	–
Convertible bonds – equity component	29	–	20,941	–	20,941	–	20,941
Translation of subsidiaries' accounts	32(b)	–	126,976	–	126,976	532	127,508
Transfer		–	(200,000)	200,000	–	–	–
		–	(7,824)	(211,720)	(219,544)	(1,198)	(220,742)
Balance at 31 December 2006		108,077	1,688,062	997,088	2,793,227	23,787	2,817,014
Balance at 1 January 2007		108,077	1,688,062	997,088	2,793,227	23,787	2,817,014
Transfer of depreciation on buildings	32(b)	–	(1,795)	1,795	–	–	–
Reversal of deferred taxation associated with property revaluation in previous years	32(b)	–	480	–	480	–	480
Revaluation of buildings	14	–	136,290	–	136,290	753	137,043
Net profit rocognised directly in equity		–	134,975	1,795	136,770	753	137,523
Profit for the year		–	–	1,005,939	1,005,939	1,002	1,006,941
Total recognised income and expense for 2007		–	134,975	1,007,734	1,142,709	1,755	1,144,464
2006 final dividends paid		–	–	(270,244)	(270,244)	(1,458)	(271,702)
2007 interim dividends paid	12	–	–	(302,821)	(302,821)	(1,524)	(304,345)
Issue of new shares	30	6,000	1,791,579	–	1,797,579	–	1,797,579
Appropriation to statutory reserves	32(b)	–	72,057	(72,057)	–	–	–
Conversion of convertible bonds	29	85	16,335	–	16,420	–	16,420
Share option scheme – value of services provided	13	–	10,737	–	10,737	–	10,737
Translation of subsidiaries' accounts	32(b)	–	327,104	–	327,104	35	327,139
		6,085	2,217,812	(645,122)	1,578,775	(2,947)	1,575,828
Balance at 31 December 2007		114,162	4,040,849	1,359,700	5,514,711	22,595	5,537,306

The notes on pages 47 to 102 are an integral part of the consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash flow generated from operations	34	**1,104,838**	831,102
PRC income tax paid		**(205,788)**	(143,364)
Net cash generated from operating activities		**899,050**	687,738
Cash flows from investing activities			
Purchase of property, plant and equipment		**(827,148)**	(528,390)
Purchase of leasehold land and land use rights		**(77,520)**	(19,333)
Sale of property, plant and equipment		**4,569**	19,953
Sale of available-for-sale financial assets		**–**	53,157
Increase in prepayment for non-current assets		**(147,066)**	(111,267)
(Increase)/decrease in restricted bank deposits		**(139,114)**	24,864
Government grants received		**3,022**	–
Interest received		**21,707**	14,559
Net cash used in investing activities		**(1,161,550)**	(546,457)
Cash flows from financing activities			
Proceeds from bank borrowings		**1,119,928**	341,984
Repayment of bank borrowings		**(1,061,452)**	(1,025,780)
Net proceeds from issuance of ordinary shares		**1,797,579**	–
Proceeds from issuance of convertible bonds		**–**	1,468,011
Interest paid		**(26,817)**	(24,074)
Dividends paid		**(573,065)**	(367,461)
Dividends paid by subsidiaries to their minority shareholders		**(2,982)**	(1,730)
Net cash generated from financing activities		**1,253,191**	390,950
Net increase in cash and cash equivalents		**990,691**	532,231
Cash and cash equivalents at 1 January		**1,014,894**	469,298
Effect of foreign exchange rate changes		**154,446**	13,365
Cash and cash equivalents at 31 December		**2,160,031**	1,014,894

The notes on pages 47 to 102 are an integral part of the consolidated accounts.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

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 provinces 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 18 March 2008.

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.

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 below.

Standards, amendment and interpretations effective in 2007 and relevant to the Group

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) – Int 8, 'Scope of HKFRS 2', 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 in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's accounts for 2007.

HK(IFRIC) – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's accounts for 2007.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

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

(a) Basis of preparation *(continued)*

Standards, amendments and interpretations effective in 2007 but not relevant to the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'.
- HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods, and the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of accounts when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.
- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. It is not expected to have an impact on the Group's accounts, as the Group has already chosen the allowed alternative treatment to capitalise borrowing costs attributable to qualifying assets under the original HKAS 23.
- HKFRS 8, 'Operating segments ' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact to the Group is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will remain the same.

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

(a) Basis of preparation *(continued)*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group ***(continued)***

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions' (effective from 1 March 2007). (IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's accounts.

- HK(IFRIC) – Int 12, 'Service concession arrangements' (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

(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 interests represent 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)(i)). 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 (Note 2 (h)). 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.

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 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.

(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 accumulated 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.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs 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 directly attributable interest expenses 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 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. Leasehold land and land use rights are amortised using the straight-line method over the period of the land use rights.

(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) Patents and trademarks

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

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

(h) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets 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 of an impairment at each reporting date.

(i) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recongnition.

(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 those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as 'trade receivables', 'other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2 (k) and 2(l)).

(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 from 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. Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value. 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.

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

(i) Financial assets *(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 and other 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 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit and loss account. When a trade receivable is uncollectible, it is written off against the allowance account or trade receivables. Subsequent recoveries of amounts previously written off are credited against 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.

(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 and bill payables

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

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

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, and 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 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 income tax effects.

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) Current and deferred income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 2007

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

(q) Employee benefits

The Group participates in defined contribution retirement schemes administered by local government in various provinces 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 while forfeited contributions are written back. There were no forfeited contributions in the years ended 31 December 2007 and 2006. The Group has no further payment obligations once the contributions have been made.

The Group also operates a share-based compensation plan. The fair value of the employee services received in exchange for the grant of options to purchase shares of the Company is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(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) Financial guarantees liabilities

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. Subsequent to initial recognition, such contracts are measured at the higher of: (i) the present value of the best estimate of the expenditure required to settle the present obligation; and (ii) the amount initially recognised less cumulative amortisation.

Financial guarantee liabilities are derecongised from the balance sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and service in the ordinary course 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.

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

(u) 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.

(v) 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.

(w) 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.

(x) 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: market risk (including foreign currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity 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) Market risk

(I) Foreign currency risk

The Company's functional currency is Hong Kong dollar and majority of its subsidiaries' functional currency is Renminbi. Foreign exchange risk arises from future commercial transactions of purchases from overseas by its subsidiaries and recognised assets or liabilities, such as cash and cash equivalent, trade payables and bank borrowing held by its subsidiaries, which are denominated in United States dollar. The Group never experienced any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to their overseas holding companies. As at 31 December 2007, the Group had not hedged its foreign exchange rate risk since the exposure was considered not significant.

The Group considers the risk of movements in exchange rates between Hong Kong dollar and United States dollar to be insignificant as Hong Kong dollar and United States dollar are pegged.

At 31 December 2007, if Hong Kong dollar and United States dollar had weakened/strengthened by 10% against the Renminbi with all other variables held constant, profit for the year would have been HK$1,407,000 (2006: HK$6,561,000) higher/lower. There is no impact on equity.

(II) Price risk

As at 31 December 2007 and 2006, the Group did not hold any equity securities and was not exposed to significant price risk.

(III) Cash flow and fair value interest rate risk

Except for restricted bank deposits (Note 25) and cash and cash equivalents (Note 26), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk arises from borrowings. Borrowings include bank borrowings (Note 28) and convertible bonds (Note 29). Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Notes 28 and 29.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

(III) Cash flow and fair value interest rate risk (continued)

As at 31 December 2007 and 2006, if interest rates on bank borrowings had been 150 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed as a result of the change in interest expenses on floating rate borrowings. Details of the changes are as follows:

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
Post-tax profit increase / (decrease)		
– Higher 150 basis points higher	**(7,149)**	(10,350)
– Lower 150 basis points lower	**7,149**	10,350

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, cash and cash equivalents, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank deposits, cash and cash equivalents, trade receivables and other receivables included in the consolidated accounts represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2007 and 2006, all restricted bank deposits and cash and cash equivalents were deposited in highly reputable and sizable banks without significant credit risk. The table below shows the balances with the three major counterparties as at 31 December 2007 and 2006:

		As at 31 December	
		2007	2006
Counterparty	**Rating**	**HK$'000**	HK$'000
China Construction Bank*	A-	**742,915**	363,276
China Merchants Bank**	AA-	**366,668**	10,126
Industrial and Commercial Bank of China*	A-	**329,261**	340,426
		1,438,844	713,828

* Based on the rating of "Standard and Poor's"

** Based on the rating of "Xinhua Far East China Credit Ratings"

Management does not expect any losses from non-performance of these counterparties.

Majority of the Group's sales are settled in cash or by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has polices in place to ensure that trade receivables are followed up on a timely basis.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	**Between 1 and 2 years** HK$'000	**Between 2 and 5 years** HK$'000
Group			
At 31 December 2007			
Bank borrowings	246,810	59,318	25,909
Convertible bonds	–	–	1,874,724
Trade and bill payables	672,830	–	–
Other payables	370,850	–	–
At 31 December 2006			
Bank borrowings	203,965	62,337	7,500
Convertible bonds	–	–	1,892,190
Trade and bills payables	443,930	–	–
Other payables	328,576	–	–
Company			
At 31 December 2007			
Bank borrowings	10,000	–	–
Convertible bonds	–	–	1,872,724
Trade and bills payables	73,530	–	–
Other payables	2,633	–	–
At 31 December 2006			
Bank borrowings	65,000	–	–
Convertible bonds	–	–	1,892,190
Other payables	733	–	–

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) 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, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital and reserves as shown in the consolidated balance sheet. Total borrowings included bank borrowings (Note 28) and convertible bonds (Note 29) as shown in the consolidated balance sheet.

During 2007, the Group's strategy was to maintain a gearing ratio within 50% to 70%. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 **HK$'000**	2006 HK$'000
Total borrowings	**1,894,870**	1,771,115
Total equity excluding minority interests	**5,514,711**	2,793,227
Gearing ratio	**34.4%**	63.4%

The decrease in the gearing ratio resulted primarily from the issue of new shares during the year ended 31 December 2007 (Note 30) after considering the cost of capital under the prevailing market situation and future capital requirements of the Group.

(v) Fair value estimation

The carrying amounts of the Group's current financial assets (including cash and cash equivalents, trade receivables, other receivables) and current financial liabilities (including trade and bills payables, other payables and bank borrowings) approximated to their fair values due to their short maturities.

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 any of the key assumptions would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

(b) 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.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

5. REVENUE AND SEGMENT INFORMATION

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

	2007 **HK$'000**	2006 HK$'000
Sales of goods:		
Sanitary napkins	**1,538,889**	1,249,468
Disposable diapers	**1,360,913**	954,512
Tissue paper products	**2,585,105**	1,789,440
Skin care and cleansing products, hygiene materials and others	**202,065**	121,523
	5,686,972	4,114,943

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

(i) sanitary napkins;

(ii) disposable diapers;

(iii) tissue paper products; and

(iv) skin care 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 payable 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 revenue and less than 10% of the consolidated trading results of the Group are attributable to markets outside the PRC.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

	Sanitary napkins 2007 HK$'000	Disposable diapers 2007 HK$'000	Tissue paper products 2007 HK$'000	Skin care and cleansing products, hygiene materials and others 2007 HK$'000	Group 2007 HK$'000
Segment revenue	1,648,455	1,368,406	2,636,245	342,652	5,995,758
Inter-segment sales	(109,566)	(7,493)	(51,140)	(140,587)	(308,786)
Revenue of the Group	1,538,889	1,360,913	2,585,105	202,065	5,686,972
Segment results	557,483	244,057	301,546	78,223	1,181,309
Unallocated costs					(28,899)
Other gains – net					103,395
Operating profit					1,255,805
Interest income					21,707
Finance costs					(95,016)
Profit before income tax					1,182,496
Income tax expense					(175,555)
Profit for the year					1,006,941
Minority interests					(1,002)
Profit attributable to shareholders of the Company					1,005,939
Segment assets	1,374,254	1,232,997	4,338,044	567,995	7,513,290
Deferred income tax assets					45,216
Unallocated assets					1,024,994
Total assets					8,583,500
Segment liabilities	196,500	254,807	821,658	37,262	1,310,227
Deferred income tax liabilities					37,971
Taxation payable					56,481
Unallocated liabilities					1,641,515
Total liabilities					3,046,194
Capital expenditure	87,324	78,213	746,169	6,462	918,168
Deprecation	57,408	21,226	117,058	6,232	201,924
Amortisation charge	2,505	90	2,158	628	5,381

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

5. REVENUE 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 revenue	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)
Revenue 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)
Other gains – net					74,619
Operating profit					918,122
Interest income					14,559
Finance costs					(63,796)
Profit before income tax					868,885
Income tax expense					(171,773)
Profit for the year					697,112
Minority interests					(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 income 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 income 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
Deprecation	41,757	17,643	95,106	5,508	160,014
Amortisation charge	3,554	616	1,016	464	5,650

6. OTHER GAINS – NET

	2007 HK$'000	2006 HK$'000
Gains on disposal of available-for-sale financial assets	–	29,929
Government grant income (Note)	100,089	37,546
Loss on disposal/write-off of property, plant and equipment	(1,594)	(819)
Dividend income	–	597
Amortisation of deferred income on government grants	1,436	1,144
Others	3,464	6,222
	103,395	74,619

Note:

During the year ended 31 December 2007, the Group obtained and recognised as income government subsidies of HK$20,373,000 (2006: HK$29,674,000) from certain PRC municipal governments as an encouragement of the Group's investments, and government grants of HK$79,716,000 (2006: nil) for reinvestment of profits earned by certain PRC subsidiaries of the Group.

7. EXPENSES BY NATURE

Expenses included in cost of goods sold, distribution costs and administrative expenses were analysed as follows:

	2007 HK$'000	2006 HK$'000
Raw materials and consumables used	3,106,380	2,064,992
Changes in inventories of work-in progress and finished goods	95,078	202,624
Marketing and advertising expenses	429,416	310,801
Transportation and packaging expenses	238,531	185,248
Net exchange (gains)/losses	(591)	4,299
Depreciation (Note 14)	201,924	160,014
Amortisation of leasehold land and land use rights, recognised in administrative expenses (Note 16)	4,909	5,283
Amortisation of intangible assets, recognised in administrative expenses (Note 17)	472	367
Staff costs including Directors' emoluments (Note 13)	333,015	259,575
Share option expenses (Notes 13 and 31)	10,737	–
Operating leases rental in respect of factory premises and sales liaison offices	22,420	15,733
Repairs and maintenance expenses	31,742	26,642
Auditor's remuneration	4,168	3,500
Provision for impairment of trade receivables (Note 24)	2,235	2,762
Loss on revaluation of buildings	223	–
Provision for impairment of inventories/inventories written off	6,382	16,389
Others	47,521	13,211
Total	4,534,562	3,271,440

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

8. FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Interest expenses:		
Trust receipt bank loans	**147**	830
Short-term bank loans	**14,312**	8,163
Long-term bank loans wholly repayable within five years	**10,198**	13,336
Convertible bonds wholly repayable within five years (Note 29)	**81,940**	50,243
Other finance charges	**1,919**	1,745
Total borrowing costs incurred	**108,516**	74,317
Less: borrowing costs capitalised in buildings and machinery under construction-in-progress	**(13,500)**	(10,521)
	95,016	63,796

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 3.2% to 6.4% (2006: 1.66% to 5.34%) per annum.

9. INCOME TAX EXPENSE

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

	2007 **HK$'000**	2006 HK$'000
Hong Kong profits tax	**2,319**	1,208
PRC income tax	**158,627**	197,933
Deferred taxation (Note 33)	**14,609**	(27,368)
Income tax expense	**175,555**	171,773

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits 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.

9. INCOME TAX EXPENSE *(continued)*

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:

	2007 **HK$'000**	2006 HK$'000
Profit before income tax	**1,182,496**	868,885
Taxation calculated at tax rates applicable to profits of the Group's companies	**388,851**	285,669
Deferred tax benefit arising from tax losses not recognised	**1,579**	1,990
Income not subject to taxation	**(27,624)**	(1,388)
Expenses not deductible for taxation purposes	**–**	422
Tax exemption on the profit of certain subsidiaries	**(193,381)**	(115,551)
Under-provision in prior years	**6,130**	631
Income tax expense	**175,555**	171,773

The weighted average applicable tax rate was 32.9% (2006: 32.9%).

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"), which will be effective from 1 January 2008. According to the new CIT Law, the PRC income tax for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a PRC income tax rate lower than 25% may continue to enjoy the lower PRC income tax rate and gradually transfer to the new PRC income tax rate within five years after the effective date of the new CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$700,079,000 (2006: HK$ 273,515,000).

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

11. EARNINGS PER SHARE – BASIC AND DILUTED

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$1,005,939,000 (2006: HK$696,624,000) and the weighted average number of 1,090,492,475 (2006: 1,080,766,355) ordinary shares in issue during the year. Dilutive earnings per share is not presented as the convertible bonds and share options issued do not have any dilutive effect on the earnings per share.

12. DIVIDENDS

	2007 **HK$'000**	2006 HK$'000
Interim, paid, HK28 cents (2006: HK18 cents) per ordinary share	**302,673**	194,538
Final, proposed, HK32 cents (2006: HK25 cents) per ordinary share	**365,714**	270,192
	668,387	464,730

At a meeting held on 18 March 2008, the Directors proposed a final dividend of HK32 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 2008.

13. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2007 **HK$'000**	2006 HK$'000
Wages and salaries	**316,096**	250,376
Retirement benefit costs	**16,919**	9,199
Share options granted to Directors and employees (Note 31)	**10,737**	–
	343,752	259,575

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

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Housing allowance	Share options benefit	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Director							
Mr. SZE Man Bok	60	412	–	–	20	12	504
Mr. HUI Lin Chit	60	460	560	444	182	12	1,718
Mr. YEUNG Wing Chun	60	62	10	–	20	6	158
Mr. HUNG Ching Shan	60	130	21	–	20	9	240
Mr. XU Da Zuo	60	272	182	–	133	3	650
Mr. XU Chun Man	60	54	14	–	20	3	151
Mr. LOO Hong Shing Vincent	60	1,144	400	156	172	12	1,944
Non-Executive Director							
Mr. ZHANG Shi Pao (Note)	24	66	10	–	20	–	120
Independent Non-Executive Director							
Mr. CHAN Henry	120	–	–	–	–	–	120
Mr. CHU Cheng Chung	120	–	–	–	–	–	120
Ms. Ada Ying Kay WONG	120	–	–	–	–	–	120

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

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 2006 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Housing allowance	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	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	60	1,027	300	65	12	1,464
Non-Executive Director						
Mr. ZHANG Shi Pao (Note)	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

Note:

Mr. Zhang Shi Po was re-designated from an Executive Director to Non-Executive Director on 4 July 2006. Mr. Zhang resigned as a Non-Executive Director on 19 July 2007.

None of the Directors waived any emoluments during the years ended 31 December 2007 and 2006.

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 (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**993**	517
Bonuses	**870**	622
	1,863	1,139

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands (in HK dollar)		
Nil – HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	2	2

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT

			Group		
	Buildings	Plant and machinery	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006					
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)
Deprecation for the year (Note 7)	(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
Year ended 31 December 2007					
Opening net book amount	357,700	1,255,855	36,799	4,721	1,655,075
Exchange differences	27,381	104,727	3,246	6,650	142,004
Additions	14,230	61,068	12,855	6,570	94,723
Transfer from construction-in-progress (Note 15)	299,201	391,993	15,364	–	706,558
Disposals	(217)	(3,319)	(2,245)	(382)	(6,163)
Depreciation for the year (Note 7)	(26,373)	(158,367)	(11,375)	(5,809)	(201,924)
Revaluation of buildings (Notes (b))	162,205	–	–	–	162,205
Closing net book amount	834,127	1,651,957	54,644	11,750	2,552,478
At 31 December 2007					
Cost or valuation	834,127	2,598,705	119,123	23,410	3,575,365
Accumulated depreciation	–	(946,748)	(64,479)	(11,660)	(1,022,887)
Net book amount	834,127	1,651,957	54,644	11,750	2,552,478

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) The analysis of cost or valuation at 31 December 2007 of the above assets is as follows:

			Group		
	Buildings HK$'000	**Plant and machinery HK$'000**	**Office equipment, furniture and fixtures HK$'000**	**Motor vehicles HK$'000**	**Total HK$'000**
At cost	**–**	**2,598,705**	**119,123**	**23,410**	**2,741,238**
At 2007 professional valuation (note (b))	**834,127**	**–**	**–**	**–**	**834,127**
At 31 December 2007	**834,127**	**2,598,705**	**119,123**	**23,410**	**3,575,365**

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	–	1,994,492	91,527	17,825	2,103,844
At 2004 professional valuation (note (b))	457,864	–	–	–	457,864
At 31 December 2006	457,864	1,994,492	91,527	17,825	2,561,708

(b) According to the Group's accounting policy, buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. The Group's buildings were last revalued on 31 December 2007 by The University Assets Appraisal Co., Ltd. of Xiamen and Sallmans (Far East) Limited, independent firms of chartered surveyors in the PRC and Hong Kong, respectively, at open market value based on their existing uses. The revaluation surplus net of applicable deferred income taxes was credited to property revaluation reserve in shareholders' equity (Note 32).

(c) Had these buildings not been revalued, the carrying amount of buildings as at 31 December 2007 would have been HK$634,395,000 (2006: HK$314,882,000), being costs of HK$769,880,000 (2006: HK$402,440,000) less accumulated depreciation of HK$135,485,000 (2006: HK$87,558,000).

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

15. CONSTRUCTION-IN-PROGRESS

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**387,560**	246,659
Exchange differences	**28,737**	8,889
Additions	**745,925**	422,686
Transfer to property, plant and equipment (Note 14)	**(706,558)**	(290,674)
At 31 December	**455,664**	387,560

During the year ended 31 December 2007, finance costs capitalised in construction-in-progress amounted to HK$13,500,000 (2006: HK$10,521,000) (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	
	2007	2006
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases between 10 to 50 years	**5,610**	6,050
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**134,810**	53,270
Leases over 50 years	**2,752**	4,209
	143,172	63,529
Opening	**63,529**	47,554
Exchange differences	**7,032**	1,925
Additions	**77,520**	19,333
Amortisation of prepaid operating lease payments (Note 7)	**(4,909)**	(5,283)
	143,172	63,529

17. INTANGIBLE ASSETS

		Group	
	Goodwill	Patents and trademarks	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2006			
Cost	452,030	4,782	456,812
Accumulated amortisation	–	(1,608)	(1,608)
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	452,030	4,885	456,915
Accumulated amortisation	–	(1,975)	(1,975)
Net book amount	452,030	2,910	454,940
Year ended 31 December 2007			
Opening net book amount	452,030	2,910	454,940
Exchange differences	–	195	195
Amortisation charge (Note 7)	–	(472)	(472)
Closing net book amount	452,030	2,633	454,663
At 31 December 2007			
Cost	452,030	5,355	457,385
Accumulated amortisation	–	(2,722)	(2,722)
Net book amount	452,030	2,633	454,663

Note:

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2007 and have concluded that no impairment is required. For the purposes of impairment testing, goodwill of HK$439,385,000 and HK$12,645,000 are allocated to the tissue paper products and hygiene material products segments acquired in 2003 and 2004, the Group's cash-generating units ("CGUs") are identified according to business segment respectively.

The recoverable amount of a CGU is determined based on value-in-use calculations.

Tissue paper products segment
The calculation uses cash flow projections based on financial estimates made by management covering a period of three year, with reference to prevailing market conditions and an estimated gross profit margin and growth rate of 31.5% and 8%, respectively. The cash flows beyond the three-year period are extrapolated with reference to the production capacity of the CGU acquired. The cash flow projections are discounted appropriately at a pre-tax discount rate 8%.

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

17. INTANGIBLE ASSETS *(continued)*

Note: *(continued)*

Hygiene material products segment

The calculation uses cash flow projections based on financial estimates made by management covering a period of three year, with reference to prevailing market conditions and an estimated gross profit margin and growth rate of 26% and 10%, respectively. The cash flow projections are discounted appropriately at a pre-tax discount rate 8%.

Management determined estimated gross profit margin and growth rate based on past performance and its expectations for the market development. The estimated gross profit margin and growth rate do not exceed the long term average rates for the market in which the Group operates. The discount rate used reflects the cost of capital and specific risks relating to the relevant segments.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**3,965,636**	3,020,656
Due from subsidiaries	**877,093**	404,255
	4,842,729	3,424,911

The balances due from subsidiaries are unsecured, interest-free and with no fixed terms of repayment.

The particulars of the Company's principal subsidiaries are set out in note 39 to the accounts.

19. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

(a) Assets

	Loans and receivables			
	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note 24)	**594,455**	412,494	**84,698**	–
Other receivables	**33,450**	32,151	**35,793**	–
Due from subsidiaries (Note 22)	**–**	–	**3,904**	7,557
Restricted bank deposits (Note 25)	**144,889**	5,775	**–**	–
Cash and cash equivalents (Note 26)	**2,160,031**	1,014,894	**363,674**	2,058
Total	**2,932,825**	1,465,314	**488,069**	9,615

19. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

(b) Liabilities

	Financial liabilities measured at amortised cost			
	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables (Note 27)	**672,830**	443,930	**73,530**	–
Other payables	**129,601**	128,581	**17**	118
Bank borrowings (Note 28)	**332,037**	273,802	**10,000**	65,000
Convertible bonds (Note 29)	**1,562,833**	1,497,313	**1,562,833**	1,497,313
Due to subsidiaries (Note 23)	**–**	–	**20,090**	162,648
Total	**2,697,301**	2,343,626	**1,666,470**	1,725,079

20. PREPAYMENT FOR NON-CURRENT ASSETS

The balance represented prepayment for purchase of property, plant and equipment and prepayment for land use rights.

21. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Finished goods	**655,065**	547,921
Work-in-progress	**30,256**	42,322
Raw materials	**578,974**	450,546
Spare parts and consumables	**64,825**	53,470
	1,329,120	1,094,259

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$3,410,728,000 (2006: HK$2,394,256,000).

The Group recognised a loss of HK$16,389,000 and HK$6,382,000, for the year ended 31 December 2006 and 2007, respectively, in respect of the loss on obsolete inventories. These amounts have been included in cost of goods sold in the consolidated profit and loss account (Note 7).

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

22. DUE FROM SUBSIDIARIES – COMPANY

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

23. DUE TO SUBSIDIARIES – COMPANY

The balances are unsecured, bearing interest at a rate of 4.87% (2006: 5.34%) per annum and not repayable within twelve months from the balance sheet date.

24. TRADE RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**625,388**	452,155	**84,698**	–
Less: provision for impairment	**(30,933)**	(39,661)	**–**	–
	594,455	412,494	**84,698**	–

The majority of the Group's sales is on open accounts with credit terms ranging from 30 to 90 days. At 31 December 2007, the ageing analysis of the trade receivables was as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
1 – 30 days	**235,076**	214,982	**84,698**	–
31 – 180 days	**332,785**	186,127	**–**	–
181 – 365 days	**14,816**	6,145	**–**	–
Over 365 days	**11,778**	5,240	**–**	–
	594,455	412,494	**84,698**	–

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 approximated their fair value as at the balance sheet dates.

The credit quality of the trade receivables that are neither past due nor impaired amounting to HK$465,903,000 (2006: HK$344,711,000) can be assessed by reference to their payment history and current financial position. These receivables relate to a whole range of customers for whom there was no recent history of default.

Management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable.

24. TRADE RECEIVABLES *(continued)*

As of 31 December 2007, trade receivables of HK$128,552,000 (2006: HK$67,783,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
1 – 30 days	**–**	–	**–**	–
31 – 180 days	**117,616**	61,308	**–**	–
181 – 365 days	**5,227**	3,685	**–**	–
Over 365 days	**5,709**	2,790	**–**	–
	128,552	67,783	**–**	–

As of 31 December 2007, trade receivables of HK$30,933,000 (2006: HK$39,661,000) were impaired. The amount of the provision was HK$30,933,000 as of 31 December 2007 (2006: HK$39,661,000). The individually impaired receivables mainly relate to supermarkets and distributors, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
1 – 30 days	**–**	622	**–**	–
31 – 180 days	**45**	2,023	**–**	–
181 – 365 days	**549**	118	**–**	–
Over 365 days	**30,339**	36,898	**–**	–
	30,933	39,661	**–**	–

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

24. TRADE RECEIVABLES *(continued)*

Movements in the provision for impairment of trade receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**39,661**	35,717	**–**	–
Exchange differences	**2,457**	1,319	**–**	–
Provision for receivable impairment (Note 7)	**2,235**	2,762	**–**	–
Receivables written off during the year as uncollectible	**(13,420)**	(137)	**–**	–
As 31 December	**30,933**	39,661	**–**	–

The creation and release of provision for impaired receivables have been included in the profit and loss account (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**566,326**	397,133	**–**	–
Other currencies	**28,129**	15,361	**84,698**	–
	594,455	412,494	**84,698**	–

25. RESTRICTED BANK DEPOSITS

The balance comprised bank deposits of HK$130,468,000 placed as securities for short-term bank loans amounting to HK$118,743,000 (Note 28) (2006: nil). The deposits, carrying floating interest rates ranging from 2.79% to 3.33% (2006: nil) per annum, will mature within one year from the balance sheet date.

In addition, approximately HK$14,421,000 (2006: HK$5,775,000) of the bank balances and cash is restricted to be drawn down until certain of the bills payables of the Group are settled.

26. CASH AND CASH EQUIVALENTS

The effective interest rate on short-term bank deposits was approximately 1.28% (2006: 1.67%).

The Group's cash and cash equivalents 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.

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong Dollar	**1,013,297**	24,700	**352,259**	2,024
Renminbi	**1,060,812**	882,446	**–**	–
United States Dollar	**85,689**	106,916	**11,415**	34
Others	**233**	832	**–**	–
	2,160,031	1,014,894	**363,674**	2,058

27. TRADE AND BILLS PAYABLES

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Trade payables	**646,601**	410,571	**73,530**	–
Bills payables	**26,229**	33,359	**–**	–
	672,830	443,930	**73,530**	–

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

27. TRADE AND BILLS PAYABLES *(continued)*

At 31 December 2007, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
1-30 days	**418,946**	301,226	**69,674**	–
31 – 180 days	**202,519**	100,602	**–**	–
181 – 365 days	**17,710**	7,287	**–**	–
Over 365 days	**7,426**	1,456	**–**	–
	646,601	410,571	**69,674**	–

Bills payables of approximately HK$26,229,000 (2006: HK$33,359,000) of the Group are normally with maturity periods within 180 days.

The carrying amounts of the trade and bills payables are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**–**	–	**3,355**	–
Renminbi	**430,184**	372,229	**–**	–
United States Dollar	**224,890**	67,205	**70,175**	–
Others	**17,756**	4,496	**–**	–
	672,830	443,930	**73,530**	–

28. BANK BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans – unsecured	**85,227**	69,837	**–**	–
Current				
Trust receipt bank loans	**3,602**	1,433	**–**	–
Current potion of long-term bank loans				
– unsecured	**114,465**	61,981	**–**	–
Short-term bank loans – unsecured	**10,000**	140,551	**10,000**	65,000
Short-term bank loans – secured (Note 25)	**118,743**	–	**–**	–
	246,810	203,965	**10,000**	65,000
Total	**332,037**	273,802	**10,000**	65,000

As at 31 December 2007, the average effective interest rate of the bank borrowings was approximately 4.87% (2006: 5.34%).

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**213,294**	273,802	**10,000**	65,000
United States Dollar	**118,743**	–	**–**	–
	332,037	273,802	**10,000**	65,000

At 31 December 2007, the Group's long-term bank loans were repayable as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 1 year	**114,465**	61,981
Between 1 and 2 years	**59,318**	62,337
Between 2 and 5 years	**25,909**	7,500
Wholly repayable within 5 years	**199,692**	131,818

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

28. BANK BORROWINGS *(continued)*

As all the bank borrowings were at floating interest rates, the carrying amounts of the borrowings approximated their fair values as at the balance sheet dates.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
6 months or less	**99,956**	169,224	**10,000**	65,000
7 – 12 months	**146,854**	34,741	**–**	–
1 – 5 years	**85,227**	69,837	**–**	–
Over 5 years	**–**	–	**–**	–
	332,037	273,802	**10,000**	65,000

29. 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 (adjusted to HK$19.09 on 24 October 2007). 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 reserves.

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

	2007	2006
	HK$'000	HK$'000
Face value of convertible bonds issued on 16 May 2006	**1,500,000**	1,500,000
Issuing expenses	**(31,989)**	(31,989)
Equity component (Note 32(b))	**(20,941)**	(20,941)
Liability component on initial recognition on 16 May 2006	**1,447,070**	1,447,070
Accumulated finance costs	**132,183**	50,243
Right of conversion exercised by bond holders (Notes 30 and 32(b))	**(16,420)**	–
Liability component	**1,562,833**	1,497,313

29. CONVERTIBLE BONDS – COMPANY AND GROUP *(continued)*

The fair value of the liability component of the convertible bonds as at 31 December 2007 amounted to approximately HK$1,564,207,000 (2006: HK$1,511,979,000). The fair value is calculated using cash flows discounted at rate a based on the borrowing rate of 5.3% (2006: 4.82%) per annum.

For the year ended 31 December 2007 and subsequent to 31 December 2007, bond holders had served conversion notices and convertible bonds with face values of HK$16,420,000 and HK$23,500,000 had been converted to 858,553 and 1,231,010 ordinary shares of the Company respectively.

30. SHARE CAPITAL

	Authorised share capital Ordinary shares of HK$0.1 each Number of shares	HK$'000
At 31 December 2007 and 31 December 2006	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	1,080,766,355	108,077
Issue of new shares (Note)	60,000,000	6,000
Conversion of convertible bonds into shares (Note 29)	858,553	85
At 31 December 2007	1,141,624,908	114,162

Note:

On 5 November 2007, the Company issued 60,000,000 shares of HK$0.10 each at a price of HK$30.47 per share, raising approximately HK$1,797,579,000 (Note 32(b)) (net of transaction costs) for financing potential acquisitions, capacity expansion and for general working capital purposes.

31. SHARE OPTION SCHEME

580,000 and 10,420,000 share options were granted to Directors and selected employees in July 2007 respectively. The exercise prices of the granted options are equal to the market prices of the shares on the grant dates. 50% of the options are exercisable after three years from the grant dates while the remaining 50% are exercisable after four years from the grant dates. The options granted will be cancelled if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash. No option was granted in previous years.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

31. SHARE OPTION SCHEME *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Average exercise price per share HK$	**No. of share options (thousands)**	Average exercise price per share HK$	No. of share options (thousands)
At 1 January	**–**	**–**	–	–
Granted	**25.06**	**11,000**	–	–
At 31 December	**25.06**	**11,000**	–	–

Share options outstanding (in thousands) at the end of the year will expire on 3 May 2013 and have the following exercise prices:

	Number of share options (thousands)	
Exercise price per share option	**2007**	2006
HK$25.30	**580**	–
HK$25.05	**10,420**	–
	11,000	–

No share option was exerciable as at 31 December 2007.

The weighted average fair value of options granted during the year determined using the Binomial Model was HK$ 7.105 dollar per option. The significant inputs into the model were share prices at the grant dates, the exercise prices shown above, volatility of 35%, dividend yield of 2.5%, and annual risk-free interest rate of 4.64%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last two years. The total amount of the fair value of share options granted to Directors and selected employee is expensed over the resting period. The share option expense for the year ended 31 December 2007 amounted to HK$10,737,000 (Notes 7 and 13).

In accordance with the share option scheme approved by the shareholders of the Company on 2 May 2003, the Company may grant upto 99,531,200 share options within 10 years from its adoption date.

32. RESERVES

(a) The reserves of the Group and the Company at 31 December 2007 are analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Retained earnings				
Proposed final dividend (Note 12)	**365,714**	270,192	**365,714**	270,192
Unappropriated retained earnings	**993,986**	726,896	**62,712**	31,220
	1,359,700	997,088	**428,426**	301,412
Other reserves	**4,040,849**	1,688,062	**3,145,681**	1,327,030
Total reserves	**5,400,549**	2,685,150	**3,574,107**	1,628,442

(b) Group

	Share premium account (Note (d))	Capital reserve (Note (e))	Capital redemption reserve	Property revaluation reserve	Available-for-sale financial assets reserve	Convertible bonds – equity component reserve	Statutory reserves (Note (f))	Share option reserve	Exchange reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	919,282	517,705	1,807	32,640	22,124	–	178,387	–	47,380	510,389	2,229,714
Profit for the year	–	–	–	–	–	–	–	–	–	696,624	696,624
2005 final dividends paid	–	–	–	–	–	–	–	–	–	(172,923)	(172,923)
2006 interim dividends paid	–	–	–	–	–	–	–	–	–	(194,538)	(194,538)
Appropriation to statutory reserves	–	–	–	–	–	–	44,259	–	–	(44,259)	–
Transfer of depreciation on buildings	–	–	–	(1,795)	–	–	–	–	–	1,795	–
Reversal of deferred taxation associated with property revaluation in previous years (Note 33)	–	–	–	480	–	–	–	–	–	–	480
Disposal of available-for-sale financial assets	–	–	–	–	(22,124)	–	–	–	–	–	(22,124)
Convertible bonds-equity component (Note 29)	–	–	–	–	–	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

32. RESERVES *(continued)*

(b) Group *(continued)*

	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$'000	Convertible bonds – equity component reserve HK$'000	Statutory reserves (Note (f)) HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2007	719,282	517,705	1,807	31,325	–	20,941	222,646	–	174,356	997,088	2,685,150
Profit for the year	–	–	–	–	–	–	–	–	–	1,005,939	1,005,939
2006 final dividends paid	–	–	–	–	–	–	–	–	–	(270,244)	(270,244)
2007 interim dividends paid	–	–	–	–	–	–	–	–	–	(302,821)	(302,821)
Appropriation to statutory reserves	–	–	–	–	–	–	72,057	–	–	(72,057)	–
Transfer of depreciation on buildings	–	–	–	(1,795)	–	–	–	–	–	1,795	–
Reversal of deferred taxation associated with property revaluation in previous years (Note 33)	–	–	–	480	–	–	–	–	–	–	480
Issue of new shares (Note 30)	1,791,579	–	–	–	–	–	–	–	–	–	1,791,579
Conversion of convertible bonds (Note 29)											
– equity component	229	–	–	–	–	(229)	–	–	–	–	–
– conversion into shares	16,335	–	–	–	–	–	–	–	–	–	16,335
Share option scheme – value of services provided (Note 13)	–	–	–	–	–	–	–	10,737	–	–	10,737
Translation of subsidiaries' accounts	–	–	–	–	–	–	–	–	327,104	–	327,104
Revaluation of buildings (Note 14)	–	–	–	136,290	–	–	–	–	–	–	136,290
At 31 December 2007	2,527,425	517,705	1,807	166,300	–	20,712	294,703	10,737	501,460	1,359,700	5,400,549

32. RESERVES *(continued)*

(c) Company

	Share premium account (note (d))	Capital redemption reserve	Convertible bonds – equity component reserve	Share option reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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 bonds-equity component (Note 29)	–	–	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
At 1 January 2007	**1,304,282**	**1,807**	**20,941**	**–**	**301,412**	**1,628,442**
Profit for the year	**–**	**–**	**–**	**–**	**700,079**	**700,079**
2006 final dividends paid	**–**	**–**	**–**	**–**	**(270,244)**	**(270,244)**
2007 interim dividends paid	**–**	**–**	**–**	**–**	**(302,821)**	**(302,821)**
Issue of new shares (Note 30)	**1,791,579**	**–**	**–**	**–**	**–**	**1,791,579**
Conversion of convertible bonds (Note 29)						
– equity component	**229**	**–**	**(229)**	**–**	**–**	**–**
– conversion into shares	**16,335**	**–**	**–**	**–**	**–**	**16,335**
Share option reserve - value of services provided (Note 13)	**–**	**–**	**–**	**10,737**	**–**	**10,737**
At 31 December 2007	**3,112,425**	**1,807**	**20,712**	**10,737**	**428,426**	**3,574,107**

(d) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(e) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration for share exchange on merger in previous years.

(f) Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiary companies in the PRC.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

33. 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 income tax liabilities

	Reserve on revaluation of buildings and available-for-sale financial assets	
	2007	2006
	HK$'000	HK$'000
At 1 January	**12,239**	19,975
Credited to property revaluation reserve (Note 32(b))	**(480)**	(480)
Disposal of available-for-sale financial assets reserve	**–**	(7,256)
Increase due to revaluation of buildings during the year (Note 14)	**25,385**	–
Others	**827**	–
At 31 December	**37,971**	12,239

Deferred income tax assets

	Unrealised profit on inventories	
	2007	2006
	HK$'000	HK$'000
At 1 January	**59,825**	32,457
(Charged)/credited to the profit and loss account (Note 9)	**(14,609)**	27,368
At 31 December	**45,216**	59,825

33. DEFERRED TAXATION – GROUP *(continued)*

Deferred income tax assets *(continued)*

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$2,147,000 (2006: HK$1,706,000) in respect of losses amounted to HK$13,368,000 (2006: HK$6,985,000) that can be carried forward against future taxable income. The unrecognised tax losses expire in the following years:

	2007 HK$'000	2006 HK$'000
2008	**–**	–
2009	**4,281**	4,046
2010	**2,097**	2,009
2011	**980**	930
2012	**6,010**	–
	13,368	6,985

34. CASH GENERATED FROM OPERATIONS

	2007 HK$'000	2006 HK$'000
Profit before income tax	**1,182,496**	868,885
Depreciation (Note 14)	**201,924**	160,014
Amortisation of leasehold land and land use rights (Note 16)	**4,909**	5,283
Amortisation of patents and trademarks (Note 17)	**472**	367
Losses on disposal/write-off of property, plant and equipment (Note 6)	**1,594**	819
Gains on disposal of available-for-sale financial assets (Note 6)	**–**	(29,929)
Share option expenses (Note 7)	**10,737**	–
Amortisation of deferred income on government grants (Note 6)	**(1,436)**	(1,144)
Loss on revaluation of buildings (Note 7)	**223**	–
Interest income	**(21,707)**	(14,559)
Finance Cost (Note 8)	**95,016**	63,796
Operating profit before working capital changes	**1,474,228**	1,053,532
Increase in inventories	**(234,861)**	(342,587)
Increase in trade receivables, other receivables, prepayments and deposits	**(405,703)**	(155,074)
Increase in trade and bills payables, other payables and accrued charges	**271,174**	275,231
Net cash inflow generated from operations	**1,104,838**	831,102

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

34. CASH GENERATED FROM OPERATIONS *(continued)*

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

	2007	2006
	HK$'000	HK$'000
Net book value (Note 14)	**6,163**	20,772
Losses on disposal / write-off of property, plant and equipment (Note 6)	**(1,594)**	(819)
Proceeds from sale of property, plant and equipment	**4,569**	19,953

35. FINANCIAL GUARANTEE

	Company	
	2007	2006
	HK$'000	HK$'000
Guarantees for bank loans of subsidiaries	**350,000**	410,000

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

36. CONTINGENT LIABILITIES

At 31 December 2007, the Group had no material contingent liabilities (2006 : nil).

37. COMMITMENTS

At 31 December 2007, the Group had the following commitments:

(a) Capital commitments

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	**146,221**	363,802
Land and buildings	**60,870**	68,785
	207,091	432,587

At 31 December 2007, the Company had no capital commitment (2006: nil).

37. COMMITMENTS *(continued)*

(b) Commitments under operating leases

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group					
	Land and buildings		Others		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Not later than 1 year	**11,722**	7,390	**3,083**	2,927	**14,805**	10,317
Later than 1 year and not later than 5 years	**2,962**	3,959	**–**	–	**2,962**	3,959
	14,684	11,349	**3,083**	2,927	**17,767**	14,276

At 31 December 2007, the Company had no commitment under operating lease (2006: nil).

38. RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2007, the Company paid interest of approximately HK$16,716,000 (2006: HK$18,160,000) to a wholly-owned subsidiary (Note 23).

(b) During the year ended 31 December 2007, the Group had carried out the following related party transactions:

	2007	2006
	HK$'000	HK$'000
Purchases from Weifang Power		
– electricity energy	**43,049**	13,133
– heat energy	**18,589**	9,770

Pursuant to an agreement 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 2007 and 2006 and for the two years then ended.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

39. SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2007 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 %
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 (China) Investment Co., Ltd.	PRC, wholly foreign-owned enterprise	Investment holding in PRC, Trading and procurement in the PRC	RMB800,000,000	100
Hengan Mega Jumbo Investments Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$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 Pharmacare Co., Ltd.	Hong Kong, limited liability company	Trading and procurement in Hong Kong	10,000 ordinary shares of HK$1 each	70
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
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

39. 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 %
Indirect subsidiaries: *(continued)*				
Hengan (Binyang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$686,000	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
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	HK$6,958,000	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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

39. 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 %
Indirect subsidiaries: *(continued)*				
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, distribution and sale of personal hygiene materials in the PRC	US$10,000,000	100
Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB11,100,000	90.1
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

39. 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 %
Indirect subsidiaries: *(continued)*				
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	Trading in the PRC	RMB100,000,000	100
Hunan Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$39,980,000	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
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, 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 Co.,Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100

NOTES TO THE CONSOLIDATED ACCOUNTS
For the year ended 31 December 2007

39. 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 %
Indirect subsidiaries: *(continued)*				
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$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, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$35,880,000	100
Hengan (Jiangxi) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$20,000,000	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 (China) Hygiene 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 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

39. 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 %
Indirect subsidiaries: *(continued)*				
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
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
Hengan (Shaanxi) Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$9,980,000	100

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2007

39. 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 %
Indirect subsidiaries: *(continued)*				
Hengan (Hubei) Household Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB33,600,000	100
Hengan (Hefei) Living Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene paper products in the PRC	RMB114,300,000	100

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2007.

40. COMPARATIVES

The Group previously disclosed interest income within "other gains – net". Management believes that separate disclosure in the consolidated profit and loss account is a fairer representation of the Group's activities.