

**Important:**

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.



## Hengan International Group Company Limited

恒安國際集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

### Placing and New Issue

**Number of Placing Shares:** 225,000,000 Shares, subject to adjustment  
**Number of New Issue Shares:** 25,000,000 Shares, subject to adjustment  
**Issue price:** HK\$2.80 per Share  
**Nominal value:** HK\$0.10 each

**Global Coordinator, Lead Manager and Joint Sponsor**

**BNP PRIME PEREGRINE**

#### Joint Sponsors



**Jardine Fleming Securities Limited**



**China Everbright Capital Limited**

#### Joint Lead Managers



**Jardine Fleming Securities Limited**



**China Everbright Securities (HK) Limited**

#### Co-Lead Manager

**BOCI Asia Limited**

#### Co-Underwriters

**Oriental Patron Asia Limited**  
**Celestial Securities Limited**  
**Core Pacific-Yamaichi International (H.K.) Limited**  
**OCBC Securities (Hong Kong) Limited**  
**Shenyin Wanguo Capital (H.K.) Limited**

**CEF Capital Limited**  
**CLSA Global Emerging Markets**  
**First Shanghai Capital Limited**  
**Pacific Challenge Capital Limited**  
**South China Securities Limited**

*The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.*

*A copy of this prospectus, together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.*

\* For identification purposes only

27th November, 1998

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## EXPECTED TIMETABLE

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Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms	12:00 noon on Wednesday, 2nd December, 1998
Application lists open <sup>(1)</sup>	11:45 a.m. on Wednesday, 2nd December, 1998
Application lists close	12:00 noon on Wednesday, 2nd December, 1998
Indication of interests in the Placing and the results and basis of allotment of New Issue Shares to be published in the South China Morning Post, Hong Kong Economic Times and Hong Kong Economic Journal on or before	Friday, 4th December, 1998
Share certificates in respect of wholly or partially successful applications to be despatched on or before <sup>(2)</sup>	Friday, 4th December, 1998
Refund cheques in respect of wholly or partially unsuccessful applications to be despatched on or before <sup>(2)</sup>	Saturday, 5th December, 1998
Dealings in Shares on the Stock Exchange to commence on	Tuesday, 8th December, 1998

*Notes:*

- 1. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force on 2nd December, 1998, the application lists will not open on that day. See the paragraph headed "Effect of bad weather on the opening of the application lists" in the section headed "How to Apply for the New Issue Shares" in this prospectus.*
- 2. Applicants who apply for 200,000 New Issue Shares or more and indicate in their Application Forms their wish to do so may collect refund cheque and, where applicable, share certificates in person on the day as described in the paragraph headed "Collection/posting of share certificates/refund cheque and deposit of certificates into CCASS" in the section headed "How to Apply for the New Issue Shares" in this prospectus.*

For details of the structure of the Share Offer, including conditions of the New Issue, see the section headed "Structure of the Share Offer" in this prospectus.

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## CONTENTS

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*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Global Coordinator, the Sponsors, the Underwriters, the directors of any of them, or any other person involved in the Share Offer.*

	<i>Page</i>
<b>Summary</b> .....	1
<b>Definitions</b> .....	9
<b>Risk factors</b> .....	15
<b>Information about this prospectus and the Share Offer</b> .....	21
<b>Directors and parties involved in the Share Offer</b> .....	25
<b>Corporate information</b> .....	31
<b>Overview of the PRC sanitary napkin and disposable baby diaper markets</b> .....	32
<b>Business of the Group</b>	
History and development .....	38
Group structure .....	43
Description of the business .....	44
Products .....	46
Sales, distribution and marketing .....	47
Production processes .....	53
Raw materials .....	56
Quality control .....	58
Research and development .....	59
Production facilities .....	60
Maintenance .....	63
Management information system .....	63
Competition .....	64
Insurance .....	67
Intellectual property .....	68
Relationship with the Founding Shareholders .....	68
Connected transactions .....	69

---

## CONTENTS

---

	<i>Page</i>
<b>Directors, senior management and staff</b>	
Directors . . . . .	75
Senior management . . . . .	77
Staff . . . . .	78
<b>Substantial shareholders</b> . . . . .	80
<b>Share capital</b> . . . . .	81
<b>Financial information</b>	
Indebtedness . . . . .	83
Liquidity, financial resources and capital structure . . . . .	84
Trading record . . . . .	85
Taxation . . . . .	89
Properties . . . . .	90
Profit forecast, dividends and working capital . . . . .	91
Distributable reserves . . . . .	92
Adjusted net tangible assets . . . . .	93
No material change . . . . .	93
<b>Future plans</b>	
Future prospects and plans . . . . .	94
Use of proceeds . . . . .	96
<b>Underwriting</b>	
Underwriters . . . . .	97
Underwriting arrangements and expenses . . . . .	97
<b>Structure of the Share Offer</b>	
Share Offer . . . . .	101
Price payable on application . . . . .	103
Conditions of the New Issue . . . . .	103
<b>How to apply for the New Issue Shares</b> . . . . .	104
<b>Appendices</b>	
<b>I. Accountants' report</b> . . . . .	111
<b>II. Profit forecast</b> . . . . .	129
<b>III. Property valuation</b> . . . . .	132
<b>IV. Summary of the constitution of the Company     and Cayman Islands Company Law</b> . . . . .	162
<b>V. Summary of relevant PRC laws and regulations</b> . . . . .	184
<b>VI. Taxation</b> . . . . .	194
<b>VII. Statutory and general information</b> . . . . .	199
<b>VIII. Documents delivered to the Registrar of Companies     in Hong Kong and available for inspection</b> . . . . .	247

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the New Shares.*

### THE GROUP'S BUSINESS

The Group is principally engaged in the manufacture and sale of personal hygiene products currently comprising sanitary napkins and disposable baby diapers mainly in the PRC. For the year ended 31st December, 1997 and the six months ended 30th June, 1998, the Group's sales of sanitary napkins accounted for approximately 96 per cent. and 94 per cent., respectively, of the Group's total sales, whereas the sale of disposable baby diapers accounted for approximately three per cent. and four per cent., respectively, for the corresponding periods. All these products of the Group are sold under the Group's own brand names, namely *Anerle* (安爾樂) for winged sanitary napkins and pantliners, *Anle* (安樂) for ordinary sanitary napkins and *Anerle* (安兒樂) for disposable baby diapers. In addition, the Group sells to third parties some of its excess materials which it produces in-house including polyethylene film, hot melt glue and non-woven fabric. The Group also sells as a non-exclusive agent packaged tissue paper products such as facial tissue paper, paper napkins and toilet rolls under the *Hearttex* (心相印) brand name.

Based on information provided by CNSAHP, the Group was the largest manufacturer of sanitary napkins in the PRC in 1997 (with an estimated market share (based on production volume) of approximately 18 per cent.) and it is one of the major manufacturers of disposable baby diapers in the PRC. The Group's sales are currently conducted through 136 sales liaison offices, sales offices and sales franchises covering 30 provinces, autonomous regions and direct administrative cities in the PRC and through its direct sales representatives. The Group sells its products almost entirely in the PRC with only approximately 0.5 per cent. and 0.3 per cent. of the Group's total sales for the year ended 31st December, 1997 and the six months ended 30th June, 1998, respectively, being exported overseas.

The Group has 17 PRC subsidiaries and employs about 8,800 people in the PRC. Each of these subsidiaries has a production facility. They are located in 14 provinces, direct administrative cities or autonomous regions in the PRC. The Group currently has a total of 115 production lines for sanitary napkins and pantliners with an estimated aggregate annual production capacity of 6,800 million pieces of ordinary sanitary napkins, 1,900 million pieces of winged sanitary napkins and 650 million pieces of pantliners. It has two production lines for disposable baby diapers with an estimated aggregate annual production capacity of 150 million pieces of disposable baby diapers. Besides its own production facilities, the Group has sub-contracting arrangements with eight PRC enterprises which manufacture ordinary sanitary napkins exclusively for the Group. The Group is in the process of installing a management information system to enable better management control over its nationwide operations and more efficient responses to changing market environment.

The Directors believe that the Group's principal strengths are:

- its leading position in the sanitary napkin market in the PRC;
- its extensive nationwide sales and distribution network supported by strategically located production facilities across the country;

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## SUMMARY

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- its position in the PRC sanitary napkin and disposable baby diaper markets which have strong growth potential with relatively low penetration rates as compared to those of developed countries;
- its experienced and entrepreneurial management, which is familiar with the PRC market;
- its ability to produce a wide range of sanitary napkin and disposable baby diaper products with a view to meeting changing market demand and improving the sales revenue and profit margin of the Group;
- its emphasis on quality control; and
- its cost effective production achieved through vertical integration, economies of scale and improvement in production technology.

## FUTURE PROSPECTS AND PLANS

The Directors believe that the PRC personal hygiene product market has good development prospects and that there is significant growth potential in the PRC sanitary napkin and disposable baby diaper markets (which have relatively lower penetration rates as compared to those of developed countries). The Group's main goals are to strengthen its leading position in the PRC sanitary napkin market and to continue to develop its diaper business. The Directors consider that, given its experienced management, the well recognised brandnames of its products and its wide sales and distribution network, the Group is well positioned to capitalise on the future growth of the PRC personal hygiene product market.

The Group plans to achieve the above goals through:—

- **Widening its sales network** - increasing the number of its sales liaison offices in the PRC, particularly in small and medium cities, which have relatively low sanitary napkin market penetration rates, so as to extend the coverage of its sales network. The Group also plans to increase its efforts on advertising and marketing in order to promote further consumer awareness of its brands and products and so as to increase its market share.
- **Increasing its production capacity** - (i) purchasing four production lines for new types of sanitary napkins, (ii) purchasing two production lines for disposable baby diapers and (iii) installing 16 production lines for winged sanitary napkins and pantliners to be assembled by the Group. In addition, the Group plans to upgrade its existing sanitary napkin production lines in order to increase the capacity of these lines and to improve the quality of its products.
- **Introducing new products** - increasing its investment on developing new products. By doing so, the Group seeks to satisfy different market demand by offering a wide range of sanitary napkin (in particular, high end sanitary napkins) and diaper products. For example, the Group plans to produce and sell adult diapers and a new form of disposable baby diapers.

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## SUMMARY

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- **Enhancing vertical integration** - by the end of 1999, the Group plans to enhance the vertical integration of its production process through the manufacture of materials such as breathable film, release paper and packaging tapes.
- **Improving product quality** - improving its product quality through introducing new production technology and manufacturing equipment, upgrading its existing production equipment, using high quality raw materials, achieving ISO 9002 accreditation for its major production facilities and providing further quality control training to staff.
- **Strengthening management system** - it is expected that the computerised management information system which will connect the Group's head office with its PRC subsidiaries and its main sales liaison offices (as far as practicable) will be fully operational by the end of 1999. The Group also plans to employ more professional staff and improve staff training in order to improve management efficiency.
- **Developing new markets** - seeking opportunities to enter into new personal hygiene product markets and gain additional benefits from its wide sales and distribution network.

### REASONS FOR THE SHARE OFFER AND THE USE OF THE PROCEEDS

The Directors believe that the net proceeds of the Share Offer will strengthen the Group's capital base, assist the Group to continue the process of upgrading its existing products, increase its production capacity, expand its sales network, further diversify its range of products and increase its profile further.

The net proceeds of the Share Offer, after deducting related expenses, are estimated to amount to approximately HK\$652 million (assuming the Over-Allotment Option will not be exercised). If the Over-Allotment Option is exercised in full, the net proceeds will increase to approximately HK\$721 million. The Directors presently intend that the net proceeds will be applied as follows:

- approximately HK\$179 million for (i) the purchase of new production lines for the manufacture of new types of sanitary napkins and disposable baby diapers and new production facilities for the manufacture of adult diapers and a new type of disposable baby diapers, (ii) the installation of additional production lines for winged sanitary napkins and pantliners to be assembled by the Group and (iii) for research and development of new products and production technology;
- approximately HK\$88 million for the expansion of the Group's sales and distribution network and for the advertising and marketing of the Group's products;
- approximately HK\$75 million for the construction and refurbishment of production plants, staff quarters and their ancillary facilities;
- approximately HK\$57 million for the purchase of new machinery and equipment for the production of materials including breathable film, release paper and packaging tapes;

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## **SUMMARY**

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- approximately HK\$41 million for the upgrading and replacement of existing production equipment and its ancillary facilities;
- approximately HK\$39 million for the completion of the installation of the computerised management information system and for the purchase of office equipment such as fax machines, photocopiers and typewriters; and
- the balance for working capital purposes.

In the event that the net proceeds of the Share Offer are not immediately used for the above purposes, the Company intends to place the net proceeds on deposits with banks or use a portion of the net proceeds for repayment of short term loans.

## SUMMARY

### TRADING RECORD

The following table, which summarises the combined audited results of the Group for the three years ended 31st December, 1997 and for the six months ended 30th June, 1998, has been extracted from the Accountants' Report set out in Appendix I to this prospectus. The summary has been prepared as if the current structure of the Group had been in existence throughout the relevant period.

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sanitary napkins				
Ordinary sanitary napkins	401,220	497,863	592,913	395,950
Winged sanitary napkins	49,785	74,772	171,747	185,504
Pantliners <sup>(1)</sup>	—	—	—	18,680
Disposable baby diapers <sup>(2)</sup>	—	4,809	21,737	28,852
Others <sup>(3)</sup>	3,949	7,074	7,609	12,640
	<u>454,954</u>	<u>584,518</u>	<u>794,006</u>	<u>641,626</u>
Cost of goods sold	<u>(356,671)</u>	<u>(425,570)</u>	<u>(527,217)</u>	<u>(394,603)</u>
Gross profit	98,283	158,948	266,789	247,023
Operating expenses				
Selling and administration expenses	(57,595)	(68,444)	(94,671)	(81,626)
Finance expenses, net	<u>(5,246)</u>	<u>(5,264)</u>	<u>(8,194)</u>	<u>(6,102)</u>
Profit before taxation	35,442	85,240	163,924	159,295
Taxation	<u>(5,276)</u>	<u>(9,395)</u>	<u>(18,745)</u>	<u>(19,179)</u>
Profit after taxation	30,166	75,845	145,179	140,116
Minority interests	<u>(258)</u>	<u>(523)</u>	<u>(879)</u>	<u>(917)</u>
Net profit attributable to shareholders	<u>29,908</u>	<u>75,322</u>	<u>144,300</u>	<u>139,199</u>
Dividends	<u>6,755</u>	<u>62,033</u>	<u>157,172</u>	<u>150,713</u>
<b>Financial analysis:</b>	%	%	%	%
Gross profit margin	21.6	27.2	33.6	38.5
Profit before taxation margin	7.8	14.6	20.6	24.8
Net profit margin	6.6	12.9	18.2	21.7

*Notes:*

(1) The Group commenced the sale and production of pantliners in January 1998.

(2) The Group commenced the sale of disposable baby diapers in July 1996.

(3) These comprise mainly the sales of materials including polyethylene film, hot melt glue and non-woven fabric.

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## SUMMARY

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### DIVIDENDS

The Group declared and paid dividends of approximately HK\$7 million, HK\$62 million and HK\$157 million for each of the three years ended 31st December, 1997 to its then existing shareholders. The payment of the dividends was made in cash and the Directors believe that a majority of such dividends paid were re-invested into the Group's then existing PRC subsidiaries. For the six months ended 30th June, 1998, the Group declared approximately HK\$151 million dividends, of which approximately HK\$71 million has been paid in cash before 31st August, 1998 and the remainder is expected to be paid in cash by the end of February 1999 from the Group's internal resources. Of the HK\$71 million dividends paid, approximately HK\$60 million has been re-invested into Hengan Hygiene Material and Hengan Articles as contribution to their registered capital.

### PROFIT FORECAST FOR THE YEAR ENDING 31ST DECEMBER, 1998

Combined profit after taxation and minority interests  
but before extraordinary items <sup>(1)</sup> ..... not less than HK\$280 million

#### Earnings per Share

— weighted average <sup>(2)</sup> ..... HK\$0.364

— pro forma fully diluted <sup>(3)</sup> ..... HK\$0.310

#### Notes:

1. *The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix II to this prospectus. It assumes that the current structure of the Group had been in existence throughout the year ending 31st December, 1998. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31st December, 1998.*
2. *The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31st December, 1998 and on the weighted average number of 769,178,082 Shares expected to be in issue throughout the year ending 31st December, 1998.*
3. *The calculation of the forecast earnings per Share on a pro forma diluted basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31st December, 1998 assuming that the Company had been listed since 1st January, 1998 and that a total of 1,000,000,000 Shares had been in issue throughout the year ending 31st December, 1998. For the purpose of calculating the forecast earnings per Share on a pro forma fully diluted basis, the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31st December, 1998 has been adjusted to take into account the interest income (net of tax) that would have been earned if the proceeds from the Share Offer (based on the Issue Price) had been received on 1st January, 1998 and had been deposited at an interest rate of five per cent. per annum (net of tax), between that date and the expected date of receipt of the net proceeds of the Share Offer.*

*The calculation of forecast earnings per Share takes no account of any Shares which may fall to be issued upon the exercise of the Over-Allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix VII to this prospectus. If the Over-Allotment Option is exercised in full, the number of Shares in issue would be 1,025,000,000 and the forecast earnings per Share on the pro forma fully diluted basis mentioned above would be approximately HK\$0.306.*

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## SUMMARY

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### STATISTICS OF THE SHARE OFFER <sup>(1)</sup>

Issue Price	HK\$2.80
Market capitalisation	HK\$2,800 million
Prospective price earnings multiple	
— weighted average <sup>(2)</sup>	7.69 times
— pro forma fully diluted <sup>(3)</sup>	9.03 times
Prospective annual dividend yield <sup>(4)</sup>	5.36 per cent.
Adjusted net tangible asset value per Share <sup>(5)</sup>	HK\$1.36

*Notes:*

- 1. The statistics of the Share Offer have been prepared on the assumption that the Over-Allotment Option will not be exercised. The Issue Price does not include the one per cent. brokerage and the 0.011 per cent. Stock Exchange transaction levy.*
- 2. The prospective price earnings multiple on a weighted average basis is calculated on the basis of forecast earnings per Share on a weighted average basis for the year ending 31st December, 1998 of approximately HK\$0.364 and the Issue Price, and based on the assumption set out in note 2 to the paragraph headed "Profit forecast for the year ending 31st December, 1998" in this section.*
- 3. The prospective earnings multiple on a pro forma fully diluted basis is calculated on the basis of forecast earnings per Share on a pro forma fully diluted basis for the year ending 31st December, 1998 of approximately HK\$0.310 and the Issue Price, and based on the assumption set out in note 3 to the paragraph headed "Profit forecast for the year ending 31st December, 1998" in this section.*
- 4. The prospective annual dividend yield is based on the total dividend HK\$0.15 per Share which would have been paid if the Company had been a listed company throughout the year ending 31st December, 1998 and is arrived at on the basis set out in the paragraph headed "Profit forecast, dividends and working capital" in the section of this prospectus headed "Financial information" and on the Issue Price.*
- 5. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under the heading "Adjusted net tangible assets" in the section of this prospectus headed "Financial information" and 1,000,000,000 Shares expected to be in issue immediately following the completion of the Share Offer, but taking no account of any Shares which may fall to be issued upon the exercise of the Over-Allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix VII to this prospectus. If the Over-Allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share would be approximately HK\$1,431 million and HK\$1.40, respectively.*

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## SUMMARY

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### RISK FACTORS

The Directors consider that there are certain risks involved in the operations of the Group. They can be categorised into (i) risk factors which apply specifically to the Group; (ii) general risk factors in relation to the PRC; and (iii) a general risk factor which are set out in the section headed “Risk factors” in this prospectus as follows:—

Risk factors which apply specifically to the Group (pages 15 to 18)

- Reliance on the PRC market
- Competition
- Limited lines of product
- Exposure to fluctuations in fluff pulp’s prices and reliance on fluff pulp suppliers
- Limited insurance coverage
- Government control of currency conversion on exchange rate
- Business arrangements
- Tax incentives
- Dividends
- PRC export/local sales ratio

General risk factors in relation to the PRC (pages 19 to 20)

- Political and economic considerations
- Legal and regulatory considerations
- Intellectual property protection

General risk factor (page 20)

- Asian economic situation

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:—*

“Application Form(s)”	<b>WHITE</b> Application Form(s) and <b>YELLOW</b> Application Form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	articles of association of the Company
“BNP Prime Peregrine”	BNP Prime Peregrine Capital or BNP Prime Peregrine Securities, as the context may require
“BNP Prime Peregrine Capital”	BNP Prime Peregrine Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“BNP Prime Peregrine Securities”	BNP Prime Peregrine Securities Limited acting as the Global Coordinator of the Share Offer, a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CCCQM”	China Certification Committee for Quality Mark - Quality Certification Centre, an accreditation unit of the National Certification Committee established with the approval of the State Bureau of Quality and Technical Supervision (國家質量技術監督局), the Chinese quality system certification body
“Changde Paper”	Changde Hengan Paper Products Co., Ltd. (常德恒安紙業有限公司), a sino-foreign equity joint venture established in the PRC on 19th February, 1997 in which the Founding Shareholders have a 94 per cent. interest
“China Everbright”	China Everbright Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“CNSAHP”	China National Specialised Association for Household Paper (中國生活用紙委員會), a national association under the China Paper Association (中國造紙協會) which is directly under the State Light Industry Bureau (國家輕工業局) of the PRC Government
“Companies Law”	the Companies Law (1998 Revision) of the Cayman Islands

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## DEFINITIONS

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“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended)
“Company”	Hengan International Group Company Limited, a company incorporated in the Cayman Islands with limited liability
“Director(s)” or “Board”	the director(s) of the Company
“Foundation Development”	Foundation Development Limited, a company incorporated in Hong Kong on 23rd April, 1992, the shares of which are legally owned by Mr. Sze Man Bok and his spouse (an investment vehicle for the Founding Shareholders and senior employees of the Group prior to the Reorganisation)
“Founding Shareholders”	Messrs. Sze Man Bok, Hui Chi Lin, Hung Ching Shan and Yeung Wing Chun
“Global Coordinator”	BNP Prime Peregrine Securities
“Group”	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them
“Hengan Anxiang”	Hengan (Anxiang) Hygiene Products Co., Ltd. (恒安集團(安鄉)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 24th July, 1998 and a wholly owned subsidiary within the Group
“Hengan Articles”	Hengan (Fujian) Articles for Women and Children Use Co., Ltd. (恒安(福建)婦幼用品有限公司), a sino-foreign equity joint venture established in the PRC on 3rd March, 1993 in which the Group owns a 98.96 per cent. interest
“Hengan Binyang”	Hengan (Binyang) Hygiene Products Co., Ltd. (恒安(賓陽)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 31st August, 1998 and a wholly owned subsidiary within the Group
“Hengan Chongqing”	Hengan Chongqing Hygiene Supplies Co., Ltd. (恒安(重慶)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 31st January, 1991 and a wholly owned subsidiary within the Group
“Hengan Fujian”	Fujian Hengan Holding Co., Ltd. (福建恒安集團有限公司), a sino-foreign equity joint venture established in the PRC on 16th March, 1985 in which the Group owns a 98.32 per cent. interest

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## DEFINITIONS

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“Hengan Fushun”	Hengan (Fushun) Sanitary Products Co., Ltd. (恒安(撫順)衛生用品有限公司), a sino-foreign co-operative joint venture established in the PRC on 18th September, 1998 in which the Group owns a 51 per cent. interest
“Hengan Hefei”	Hefei Hengan Hygiene Products Factory (合肥恒安衛生用品廠), a joint operation enterprise established in the PRC on 12th March, 1998 in which the Group owns a 99.98 per cent. interest
“Hengan Hygiene Material”	Jinjiang Hengan Hygiene Material Co., Ltd. (晉江市恒安衛生材料有限公司), a wholly foreign owned enterprise established in the PRC on 16th March, 1998 and a wholly owned subsidiary within the Group
“Hengan Hygiene Products”	Hengan (Jinjiang) Hygiene Products Co., Ltd. (恒安集團(晉江)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 3rd July, 1995 and a wholly owned subsidiary within the Group
“Hengan Jiangxi”	Hengan (Jiangxi) Hygiene Products Co., Ltd. (恒安(江西)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 6th August, 1998 and a wholly owned subsidiary within the Group
“Hengan Linying”	Hengan (Luoke Linying) Hygiene Products Co., Ltd. (恒安(漯河臨潁)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 15th November, 1993 and a wholly owned subsidiary within the Group
“Hengan Shangyu”	Shangyu City Hengan Hygiene Products Co. (上虞市恒安衛生用品公司), a joint operation enterprise established in the PRC on 23rd May, 1989 which the Group owns a 99.99 per cent. interest
“Hengan Shaanxi”	Hengan (Shaanxi) Hygiene Products Co., Ltd. (恒安(陝西)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 1st September, 1998 and a wholly owned subsidiary within the Group
“Hengan Sichuan”	Hengan (Sichuan) Hygienic Products Co., Ltd. (恒安(四川)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 25th August, 1998 and a wholly owned subsidiary within the Group
“Hengan Tianjin”	Hengan (Tianjin) Hygiene Supplies Co., Ltd. (恒安(天津)衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 13th May, 1997 and a wholly owned subsidiary within the Group

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## DEFINITIONS

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“Hengan Weifang”	Hengan (Weifang) Hygienic Products Co., Ltd. (恒安 (潍坊) 衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 9th September, 1998 and a wholly owned subsidiary within the Group
“Hengan Xiaogan”	Hengan (Xiaogan) Hygiene Products Co., Ltd. (恒安 (孝感) 衛生用品有限公司), a wholly foreign owned enterprise established in the PRC on 23rd July, 1998 and a wholly owned subsidiary within the Group
“HIIL”	Hengan International Investments Limited, a company incorporated in the British Virgin Islands on 6th May, 1998
“HK\$” or “HK dollars” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Issue Price”	HK\$2.80 per Share
“Jardine Fleming”	Jardine Fleming Securities Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Issue”	the issue of new Shares to the public in Hong Kong by way of an offer for subscription at the Issue Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms
“New Issue Shares”	the 25,000,000 Shares initially being offered for subscription in Hong Kong pursuant to the New Issue (subject to adjustment as described in the section headed “Structure of the Share Offer” in this prospectus)
“New Issue Underwriters”	BNP Prime Peregrine Securities, Jardine Fleming, China Everbright Securities (HK) Limited, BOCI Asia Limited, Oriental Patron Asia Limited, CEF Capital Limited, Celestial Securities Limited, Credit Lyonnais Securities (Asia) Limited, Core Pacific-Yamaichi International (H.K.) Limited, First Shanghai Capital Limited, OCBC Securities (Hong Kong) Limited, Pacific Challenge Capital Limited, Shenyn Wanguo Capital (H.K.) Limited and South China Securities Limited
“New Shares”	the New Issue Shares and the Placing Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-Allotment Option

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## DEFINITIONS

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“Over-Allotment Option”	the option granted by the Company to the Placing Underwriters pursuant to the Underwriting Agreement (exercisable by the Global Coordinator for and on behalf of the Placing Underwriters) whereby the Company may be required to issue up to an aggregate of 25,000,000 additional Shares at the Issue Price to cover over-allocations in the Placing
“Placing”	the conditional placing of the Placing Shares, as further described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 225,000,000 Shares being offered pursuant to the Placing (subject to adjustment as described in the section headed “Structure of the Share Offer” in this prospectus)
“Placing Underwriters”	BNP Prime Peregrine Securities, Jardine Fleming, China Everbright Securities (HK) Limited, Bank of China International (UK) Ltd and Oriental Patron Asia Limited
“PRC” or “China”	the People’s Republic of China, which for the purpose of this prospectus only, excluding Hong Kong, Macau and Taiwan
“Reorganisation”	the reorganisation of the group of companies now comprised within the Group, completed on 10th November, 1998 (see “Reorganisation” in Appendix VII to this prospectus)
“Renminbi” or “RMB”	the lawful currency of the PRC in units of yuan
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong (as amended)
“Securities Ordinance”	the Securities Ordinance, Chapter 333 of the Laws of Hong Kong (as amended)
“Share(s)”	share(s) of HK\$0.10 nominal value each in the capital of the Company
“Share Offer”	the Placing and the New Issue
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 10th November, 1998, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix VII to this prospectus
“Share Purchase Agreement”	the agreement dated 10th November, 1998 entered into between, inter alios, the Company and Mr. Sze Man Bok relating to the sale and purchase of the entire issued share capital of Hengan International Holdings Limited

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## DEFINITIONS

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“Sponsors”	BNP Prime Peregrine Capital, Jardine Fleming and China Everbright
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tin Lee”	Tin Lee Trading Company, a sole proprietorship established by Mr. Sze Man Bok in Hong Kong which commenced business on 20th December, 1982
“Underwriter(s)”	the New Issue Underwriter(s) and the Placing Underwriter(s)
“Underwriting Agreement”	the underwriting agreement dated 26th November, 1998 between, inter alios, the Company and the Underwriters
“United Wealth”	United Wealth International (Holdings) Limited, a company incorporated in the Cayman Islands on 6th January, 1997, the shares of which are legally owned by the Founding Shareholders (except Mr. Hung Ching Shan) (an investment vehicle for the Founding Shareholders and senior employees of the Group prior to the Reorganisation)
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America
“US Securities Act”	the United States Securities Act of 1933, as amended
“ <b>WHITE</b> Application Form(s)”	application form(s) for application of New Issue Shares issued in the applicant’s own name
“ <b>YELLOW</b> Application Form(s)”	application form(s) for applicant(s) who want(s) the New Issue Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to his/its/their investor participant stock account(s) or the stock account(s) of his/its/their designated CCASS participant(s) maintained in CCASS

*For the purpose of this prospectus, unless otherwise indicated:—*

- (i) In this prospectus, translations of RMB into HK dollars for the financial results of the Group have been calculated at the rates of exchange ruling at the relevant balance sheet date. For figures relating to the 1995 financial year, the exchange rate was RMB1.076: HK\$1. For figures relating to the 1996 financial year, the exchange rate was RMB1.0719: HK\$1. For figures relating to the 1997 financial year, the exchange rate was RMB1.0681: HK\$1. For figures relating to the six months ended 30th June, 1998, the exchange rate was RMB1.068: HK\$1.*
- (ii) References to a financial year in this prospectus are to the year ended 31st December of the year stated.*
- (iii) In this prospectus, the English names of enterprises established in the PRC are translations of their Chinese names.*
- (iv) References in this prospectus to a percentage shareholding of the issued share capital of the Company are based on the expected number of issued Shares on the basis of the Share Offer becoming unconditional (1,000,000,000 Shares), assuming that the Over-Allotment Option and the options granted under the Share Option Scheme are not exercised and that no Shares will be issued or repurchased by the Company pursuant to the mandates referred to in Appendix VII to this prospectus.*
- (v) In this prospectus, all references and information relating to the sanitary napkin and disposable baby diaper markets (in the PRC or overseas) are provided by CNSAHP.*
- (vi) References in this prospectus to the Group’s sales network includes the sales liaison offices, sales offices, sales franchises and direct sales representatives.*

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## **RISK FACTORS**

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*In evaluating an investment in the New Shares, prospective investors should consider carefully all the information contained in this prospectus including that set out below.*

### **(I) RISK FACTORS WHICH APPLY SPECIFICALLY TO THE GROUP**

#### **Reliance on the PRC market**

All of the Group's manufacturing operations are in the PRC and almost all of the Group's revenue derives from sales in the PRC. This is unlikely to change in the foreseeable future. As a result, the Group is exposed to the conditions of the PRC economy. There can be no assurance that changes in the PRC's economic, political or social conditions will not adversely affect the future profitability or performance of the Group. Details of certain general risk factors in relation to the PRC are set out in the paragraph headed "General risk factors in relation to the PRC" below.

#### **Competition**

The market for the Group's principal products is very competitive, particularly in major cities with faster economic development such as Guangzhou, Shanghai and Beijing. Since the late 1980s and the early 1990s, many domestic and overseas companies have begun to enter the PRC sanitary napkin market for production and sales. This has led to intense competition and decrease in prices in this market. Competitors include manufacturers of international brands in the personal hygiene product market such as *Procter & Gamble*, *Kimberly-Clark*, *Kao* and *Johnson and Johnson*. The relatively low market penetration rates of personal hygiene products in the PRC market may attract more companies to enter the PRC market and may intensify the competition in this market. This may adversely affect the future profitability of the Group.

Further information regarding competition is set out in the paragraph headed "Competition" under the section headed "Business of the Group" in this prospectus.

#### **Limited lines of product**

Sales of sanitary napkins accounted for approximately 96 per cent. and 94 per cent. of the Group's total revenue for the year ended 31st December, 1997 and the six months ended 30th June, 1998, respectively. The Group's revenue may therefore be materially affected by any changes in the demand or price of this product and any increase in competition.

#### **Exposure to fluctuations in fluff pulp's prices and reliance on fluff pulp suppliers**

A principal raw material for the Group's winged and ordinary sanitary napkin and disposable baby diaper products is fluff pulp. The Group's purchases of fluff pulp for the year ended 31st December, 1997 and the six months ended 30th June, 1998 amounted to approximately HK\$143 million and HK\$73 million, respectively, representing approximately 28 per cent. and 22 per cent. of the Group's total raw material purchases for the corresponding periods. All of the Group's purchases of fluff pulp are in US Dollars and substantially all of the Group's revenue is in RMB. As a result, should the US Dollar appreciate in value against the RMB and/or if the price of fluff pulp increases, the profit margins of the Group's principal products would be adversely affected.

The Group currently sources fluff pulp from suppliers based in the U.S. As a result, if all such suppliers are unable to supply fluff pulp to the Group at the same time, the Group's operations may be adversely affected.

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## **RISK FACTORS**

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### **Limited insurance coverage**

Although the Group has taken out general insurance cover in respect of damage to existing properties, inventories and facilities and maintains insurance policies on its motor vehicles, it does not have any product liability insurance, business interruption insurance or any third party liability insurance. Accordingly, there may be circumstances in which the Group will not be fully covered or compensated for such losses, damage and liabilities which may in turn result in the interruption of its business and loss of revenue. These events would adversely affect the Group. Further information in relation to the Group's insurances is set out in the paragraph headed "Insurance" in the section headed "Business of the Group" in this prospectus.

### **Government control of currency conversion and exchange rate**

Substantially all of the Group's revenues and operating expenses are denominated in Renminbi, while a portion of its expenditures (such as the purchase of fluff pulp, machinery and spare parts) are denominated in US Dollars and other currencies.

The People's Bank of China and the State Administration of Foreign Exchange ("SAFE") (under the authority of the People's Bank of China) regulate the conversion of Renminbi into foreign currency. Pursuant to the Regulations on the Administration of Foreign Exchange Settlement, Payment and Sale (結匯、售匯及付匯管理規定), effective on 1st July, 1996, foreign exchange required for the payment of dividends that are payable in foreign currencies under applicable regulations, such as dividends payable to the Company by its foreign investment enterprises ("FIEs"), may be purchased from designated foreign exchange banks upon presentation of board resolutions authorising the distribution of profits or dividends of the company concerned. Pursuant to the Regulations on Administration of Foreign Exchange Accounts in China (境內外匯帳戶管理規定), effective on 15th October, 1997, the PRC subsidiaries within the Group are permitted to maintain accounts at designated PRC foreign exchange banks.

Currently, the Company's PRC subsidiaries are able to purchase foreign exchange for settlement of "current account transactions" (as defined in the applicable regulations), including payment of dividends, without the approval of the SAFE. However, there can be no assurance that the current authorisations for such subsidiaries to retain or purchase foreign exchange to satisfy exchange liabilities under current account transactions will not be limited or eliminated. Furthermore, there can be no assurance that the Company's PRC subsidiaries will be able to obtain sufficient foreign exchange to pay dividends or satisfy their foreign exchange requirements in the future. Foreign exchange transactions under the "capital account" (as defined in the applicable regulations) continue to be subject to limitations and required approvals of the SAFE, which could affect the receipt and payments of foreign exchange by the PRC subsidiaries within the Group for loans, capital contributions, purchase of fixed assets and other capital account transactions.

The value of the Renminbi is subject to changes in the PRC government policies and to international economic and political developments. During the few years prior to 1994, the Renminbi experienced a devaluation against most major currencies. Since 1994, the official exchange rate for the conversion of Renminbi to US Dollars has been stable. However, there can be no assurance that the Renminbi will not become volatile against other currencies or that the Renminbi will not be devalued against U.S. Dollars. Because the Group may not be able to hedge effectively against Renminbi devaluations, there can be no assurance that future movements in the exchange rate of Renminbi and other currencies would not have an adverse effect on the Group's operational results and financial conditions.

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## **RISK FACTORS**

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### **Business arrangements**

A portion of the Group's business is carried on through a co-operative joint venture, equity joint ventures or joint operation enterprises with PRC partners. Hengan Articles and Hengan Fujian are equity joint ventures, Hengan Fushun is a co-operative joint venture and Hengan Hefei and Hengan Shangyu are joint operation enterprises. The Group has over 98 per cent. interests in each of these enterprises (except for Hengan Fushun in which the Group holds a 51 per cent. interest). The total registered capital of these five entities amounts to approximately HK\$386.2 million, out of which HK\$374.8 million has been contributed by the Group. Such arrangements involve certain risks such as disagreements or disputes between the Group and its partners which may hinder the smooth operation of the business. However, the Group has a substantial majority interest in most of these entities and is able to control all of their management. To date, the Group has not experienced any significant problems with its joint venture or joint operation partners.

Part of the Group's sales network has been operated under sales offices which were established by the Group as branch offices without legal person status. The Group has entered into sub-contracting arrangements with independent third parties relating to the operation of these sales offices. Under the sub-contracting agreements, all rights and liabilities arising out of the operation of the sales offices are borne by the sub-contractors. However, as the sales offices belong to the Group, there is a risk that the Group will be liable for actions undertaken by the sub-contractors in the name of the sales offices. To date, the Group has not experienced any problems in relation to these sales offices. For further details, please see "Business of the Group — Sales, distribution and marketing" in this prospectus.

### **Tax incentives**

15 of the Company's PRC subsidiaries are FIEs. As FIEs, they enjoy certain preferential tax treatments including exemption from profits tax payments for the first two years from the year when the enterprise starts to make profit and a 50 per cent. tax exemption for the next three years. FIEs are generally not required to pay value added tax and import tax on imported machinery and facilities which form part of the enterprise's total investment unless the FIE was approved and established between 1st April, 1996 and 31st December, 1997 and the machinery and facilities were imported within that period, in which case such machinery and facilities would be subject to value added tax and import duty. Hengan Tianjian was the only FIE within the Group which was established between 1st April, 1996 and 31st December, 1997.

Two of the Company's PRC subsidiaries are welfare enterprises. Under current PRC law, these welfare enterprises are fully exempted from income tax and are entitled to full refund of value added tax paid during a financial year, subject to the satisfaction of certain requirements. For further details, please refer to Appendix VI to this prospectus.

There can be no assurance that these preferential tax treatments will not be changed in the future, which could have an adverse effect on the Group's results and financial position.

For information relating to the tax treatment of each PRC subsidiary within the Group, please see "Financial information — Taxation" in this prospectus.

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## **RISK FACTORS**

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### **Dividends**

The Group declared and paid dividends of approximately HK\$7 million, HK\$62 million and HK\$157 million for each of the three years ended 31st December, 1997 to its then existing shareholders. The payment of the dividends was made in cash and the Directors believe that a majority of such dividends paid were re-invested into the Group's then existing PRC subsidiaries. For the six months ended 30th June, 1998, the Group declared approximately HK\$151 million dividends, of which approximately HK\$71 million has been paid in cash before 31st August, 1998 and the remainder is expected to be paid in cash by the end of February 1999 from the Group's internal resources. Of the HK\$71 million dividend paid, approximately HK\$60 million has been re-invested into Hengan Hygiene Material and Hengan Articles as contribution to their registered capital.

However, payment of the above dividends may not be repeated and should not be used as a reference for the Company's future dividend policy. Further details on the dividend policy of the Company are set out in "Financial information — Dividends" on pages 91 and 92 of this prospectus.

### **PRC export/local sales ratio**

Almost all of the Group's products are sold within the PRC. Three of the Company's subsidiaries, namely Hengan Hygiene Material, Hengan Weifang and Hengan Hygiene Products, were required under their articles of association and/or approval documents to export a portion of their products. Their annual export ratios were respectively 40 per cent., 25 per cent. and 30 per cent. of their respective total production. These entities had not complied with such requirement. In relation to Hengan Weifang and Hengan Hygiene Material, they are newly established in September 1998 and March 1998, respectively, and have not exported any of their products since their respective establishment. Hengan Weifang was previously a domestic enterprise prior to the Reorganisation and was not subject to any local/export sales ratio requirement. Regarding Hengan Hygiene Products, it was established in July 1995 and for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, its exports accounted for nil per cent., four per cent., seven per cent. and one per cent. of its total sales. For the corresponding periods, sales of Hengan Hygiene Products accounted for approximately nil per cent., 0.8 per cent., 2.7 per cent. and 4.5 per cent. of the Group's total sales. These three subsidiaries (save for Hengan Weifang which only needed to seek approval for change of the local/export sales ratio originally approved by the relevant PRC authority) have amended their articles of association and (i) Hengan Hygiene Material and Hengan Hygiene Products and (ii) Hengan Weifang obtained on 21st and 22nd October, 1998, respectively, the relevant PRC approval so that all of their products can be sold within the PRC. To date, the Group has not been penalised by any relevant authorities in the PRC for such non-compliance. However, there can be no assurance that the relevant subsidiaries would not be sanctioned by the relevant PRC authorities regarding such non-compliance.

The Founding Shareholders and HIIL have undertaken to indemnify the Group against any liabilities, losses, expenses, fines or penalties which it may suffer as a result of the above non-compliance pursuant to the deed of indemnity entered into between the Company, HIIL and the Founding Shareholders.

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## **RISK FACTORS**

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### **(II) GENERAL RISK FACTORS IN RELATION TO THE PRC**

#### **Political and economic considerations**

Since late 1970s, the PRC government has undertaken substantial economic reform measures in order to transform the PRC economy into a more market-oriented “socialist market economy”. These reforms have resulted in rapid economic growth in the PRC and an increased emphasis on the utilisation of market forces. The PRC economy has experienced high inflation and rapid economic growth at the same time. Although the current inflation rate is lower than it was in 1995, there can be no assurance that the inflation rate will not increase in the future or that measures aimed at curbing inflation will not be re-instituted by the PRC government in the future. In addition, although economic growth in the PRC is generally expected to continue there can be no assurance that all the economic reform measures will continue or will continue to be effective.

The business of the Group may also be adversely affected by changes in the PRC political and social conditions and by changes in the policies of the PRC government such as changes in laws and regulations (or their interpretation), taxation policies and foreign exchange controls; and the imposition of taxes, levies and fees. Although the Group’s business has benefited from the PRC economic reforms so far, there can be no assurance that any future changes will be favourable to the Group’s operations and business or that the PRC government will continue to pursue such policies or that such policies may not be significantly altered.

The PRC government’s desire to become a member of the WTO will probably result in the need to conform with the uniform tariffs under the WTO. This may lead to a loosening of import restrictions and a lowering of import tariffs on foreign manufactured personal hygiene products. Such opening of the PRC market to foreign importers may have an adverse effect upon domestic manufacturers of personal hygiene products in the form of increased foreign competition.

#### **Legal and regulatory considerations**

Since 1979, many laws and regulations governing economic matters have been promulgated in the PRC. However, the PRC system of laws is still not comprehensively established. The interpretation of PRC laws may be influenced by policy changes reflecting domestic political and social changes. In addition, the enforcement of PRC laws may be uncertain and sporadic. It may also be difficult to enforce a foreign judgement in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the National People’s Congress amended the constitution to authorise foreign investment, has been to enhance significantly the protection afforded to foreign investment enterprises in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Group.

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## **RISK FACTORS**

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The Group imports raw materials, machinery and spare parts. For the year ended 31st December, 1997 and the six months ended 30th June, 1998, the Group's import of machinery and spare parts amounted to HK\$52.2 million and HK\$6.6 million, respectively. Any adverse changes to the laws and regulations relating to the ability of manufacturers such as the Group to import or any increase in import duties or tariffs may have an adverse effect on the Group's business.

### **Intellectual property protection**

The personal hygiene product market in the PRC is very competitive and the Group's strengths are its established brand names and its early entrance in the PRC sanitary napkin market. The Directors believe that the Group has established its reputation through the use of its trademarks and therefore puts strong emphasis on the protection of these trademarks.

Counterfeiting is a problem in the PRC. There have been reports of the manufacture and sale of counterfeit personal hygiene goods in the PRC. In 1997, the PRC Criminal Law was amended to impose more severe penalties for counterfeiting activities. The Government Work Report passed by the 9th National People's Congress at its first meeting in March 1998 stated the PRC government's determination to combat counterfeiting activities in the PRC. Although there are indications that the PRC government intends to introduce further legislative and administrative measures to combat counterfeiting activities, there can be no assurance that the problem of counterfeiting activities could be solved in the near future.

The Group's principal products have been the subject of counterfeiting due to its established brands (13, 12, 11 and six cases were reported by the Group to the relevant government authorities for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, respectively). The Group combats counterfeiting activities through reporting them to the relevant government and judicial authorities (including the Public Security Bureau (公安局), the relevant People's Court (人民法院), local Technology Inspection Bureau (地方技術監督局) and the Administration of Industry and Commerce (工商行政管理局)) which then take appropriate actions against the offenders. There can be no assurance that the Group will be able to prevent counterfeit products bearing its brand names from continuing to appear in the market.

### **(III) GENERAL RISK FACTOR**

#### **Asian economic situation**

Since mid-1997, capital markets in Asia have experienced significant levels of volatility due to the regional financial turbulence mainly resulting from the currency turmoil. Slow and negative economic growth have since occurred in Asia and general economic conditions in Asia may adversely affect the PRC economy and therefore adversely affect the business of the Group.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **Directors' responsibility for the contents of this prospectus**

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

### **Fully underwritten**

The Share Offer is an offer by the Company of 250,000,000 New Shares of which 25,000,000 Shares, subject to adjustment, are New Issue Shares and 225,000,000 Shares, subject to adjustment, are Placing Shares. The New Issue Shares are being offered in Hong Kong for public subscription at the Issue Price. The Placing Shares are being placed (subject to selling restrictions stated below) with professional and institutional investors in Hong Kong, the United States, Europe and other countries at the Issue Price. Details of the structure of the Share Offer are described in the section headed "Structure of the Share Offer" in this prospectus.

This prospectus is published in connection with the New Issue and, together with the Application Forms, sets out the terms and conditions of the New Issue.

The Share Offer is sponsored by the Sponsors. The New Issue is fully underwritten by the New Issue Underwriters. The Placing is fully underwritten by the Placing Underwriters. For full information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.

### **Selling restrictions**

No action has been taken to permit any public offering of the New Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. In particular, but without limitation to the above:—

#### *Cayman Islands*

No invitation may be made to the public in Cayman Islands to subscribe for any of the New Shares.

#### *United States*

The New Shares have not been and will not be registered under the US Securities Act and may not be offered or sold in the United States except in a transaction not subject to, or in accordance with, an applicable exemption from the registration requirements thereof. Accordingly, the New Shares are being offered and sold within the United States only (i) with respect to Placing

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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Underwriters through their respective United States affiliates to persons they reasonably believe to be qualified institutional buyers (as defined in Rule 144A under the US Securities Act (“Rule 144A”)) in accordance with Rule 144A, and (ii) in offshore transactions pursuant to Regulation S under the US Securities Act (“Regulation S”).

In addition, until 40 days after the commencement of the offering of the New Shares, any offer or sale of the New Shares within the United States by any dealer (whether or not participating in the offering of the New Shares) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### *United Kingdom*

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The New Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, as principal or agent, for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. In addition, no person may issue or pass on to any person in the United Kingdom any document received by it in connection with the Share Offer unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

### *Singapore*

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies in Singapore and the Placing Shares will be offered in Singapore pursuant to an exemption invoked under Division 5A of Part IV of the Companies Act, Chapter 50 (the “Singapore Act”). This prospectus may not be issued, circulated or distributed in Singapore, nor may the New Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for or to purchase any New Shares be made, to (i) persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of New Shares to the public in Singapore; or (ii) the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 5A of Part IV of the Singapore Act, and to persons to whom the New Shares may be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the New Shares to the public in Singapore.

### *Japan*

This prospectus has not been and will not be registered under the Securities and Exchange Law in Japan (the “Securities and Exchange Law”). The New Shares which are being offered may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an applicable exemption from the registration requirements of the Securities and Exchange Law and any other applicable Japanese law.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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Each person acquiring New Shares in the Share Offer will be required to, or deemed by its acquisition of the New Shares to, confirm that it is aware of the restrictions on offers and sales of the New Shares in this prospectus.

### **Stabilisation**

In connection with the Share Offer, the Global Coordinator, on behalf of the Underwriters, may over-allocate up to an aggregate of 25,000,000 additional Shares (such over-allocations may be covered by exercising the Over-Allotment Option in full or in part, at any time up to 30 days from the date of this prospectus or by purchasing Shares in the secondary market), and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the New Shares, they will be done at the direction and the absolute discretion of the Global Coordinator.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong, the stabilisation price will not be higher than the Issue Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

In order to facilitate the settlement of over-allocation in connection with the Placing, the Global Coordinator may choose to borrow Shares from shareholders of the Company under stock borrowing arrangements pending exercise of the Over-Allotment Option, or the acquisition of a sufficient number of Shares from other sources. Such stock borrowing arrangements may include arrangements agreed in principle between the Global Coordinator and Mr. Hui Chi Lin (one of the Founding Shareholders) as described in “Further information about Directors, management and staff — Agency fees or commissions received” in Appendix VII to this prospectus. A waiver has been granted by the Stock Exchange to Mr. Hui Chi Lin from strict compliance with Rule 10.07(1) of the Listing Rules which restricts the disposal of shares by controlling shareholders following a new listing, in order to allow Mr. Hui Chi Lin to enter into such stock borrowing arrangements. The waiver is granted subject to the condition that any Shares which may be made available to the Global Coordinator pursuant to such arrangements will be on the terms that the same number of Shares must be returned to Mr. Hui Chi Lin or his nominees (as the case may be) no later than three business days following (i) the last date for exercising the Over-Allotment Option, (or if earlier) (ii) the date on which the Over-Allotment Option is exercised in full. Mr. Hui Chi Lin will not receive any payment or benefit in respect of such stock borrowing arrangements. Any stock borrowing arrangements entered into will be conducted in accordance with all applicable laws and regulatory requirements.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **Application for listing on the Stock Exchange**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including the New Shares, Shares to be allotted pursuant to (i) the exercise of the options granted under the Share Option Scheme and (ii) the general mandate as described in Appendix VII to this prospectus). No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal on any other stock exchange.

### **Professional tax advice recommended**

If you are unsure about the taxation implications of subscribing for the New Shares, or about purchasing, holding or dealing in them, you should consult an expert.

The Company, the Global Coordinator, the Sponsors and the Underwriters, all of their respective directors, agents or advisers or any other person involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, or purchasing, holding or disposing of the New Shares.

### **Stamp duty**

Dealings in shares registered on the Company's register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. For further information, please refer to the information set out in Appendix VI to this prospectus.

### **Procedure for application for New Issue Shares**

The procedure for applying for New Issue Shares is set out in the section headed "How to apply for the New Issue Shares" in this prospectus and on the relevant Application Form.

### **Structure of the Share Offer**

Details of the structure of the Share Offer, including conditions of the New Issue, are set out in the section headed "Structure of the Share Offer" in this prospectus.

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**DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER**

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**Directors**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive directors</i>		
Sze Man Bok	Flat A, 10/F, Block 7 7 Lung Ping Road Beacon Heights Kowloon Hong Kong	Hong Kong
Hui Chi Lin	Room 4A, Block 8 Provident Centre North Point Hong Kong	Hong Kong
Yeung Wing Chun	Room 2, 3/F, Block A Scenery Garden A 21, Sui Wo Road Fo Tan, Shatin Hong Kong	Hong Kong
Hung Ching Shan	Room 504, Block 20 Hengan Residential District Hong Jiang Zhong Road Anhai Town, Jinjiang Fujian, PRC	Hong Kong
Zhang Shi Pao	Room 503, Hengan Jinhai Building Qiaotou Industrial District Anhai Town, Jinjiang Fujian, PRC	Chinese
Wu Shi Jie	Room A501, Hengan Dormitory Building, Qiaotou Industrial District Anhai Town, Jinjiang Fujian, PRC	Chinese
Xu Da Zuo	Room B19, Hengan Dormitory Building, Qiaotou Industrial District Anhai Town, Jinjiang Fujian, PRC	Chinese

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**DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER**

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<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Xu Chun Man	Room 502, Hengan Building Qiaotou Industrial District Anhai Town, Jinjiang Fujian, PRC	Chinese
Yue Wai Leung, Stan	Flat 10, 3/F. 5-7 Homantin Street Kowloon Hong Kong	British
<i>Independent non-executive directors</i>		
Henry Chan	21-B, Block 8 Cavendish Heights 33 Perkins Road Jardines Lookout Hong Kong	Canadian
Guan Tao	No.12, Nan Dai Street Xi Zhi Men Beijing PRC	Chinese
Ada Wong	Flat C14 Woodland Heights 2 Wong Nai Chung Gap Road Hong Kong	Chinese
<b>Global Coordinator</b>	BNP Prime Peregrine Securities Limited 23rd Floor, New World Tower 16-18 Queen's Road Central Hong Kong	
<b>Joint Sponsors</b>	BNP Prime Peregrine Capital Limited 23rd Floor, New World Tower 16-18 Queen's Road Central Hong Kong  Jardine Fleming Securities Limited 45th Floor, Jardine House 1 Connaught Place Central Hong Kong  China Everbright Capital Limited 36th Floor, Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong	

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### **New Issue Underwriters**

BNP Prime Peregrine Securities Limited  
23rd Floor, New World Tower  
16-18 Queen's Road Central  
Hong Kong

Jardine Fleming Securities Limited  
46th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

China Everbright Securities (HK) Limited  
36th Floor, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

BOCI Asia Limited  
35th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

Oriental Patron Asia Limited  
42nd Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

CEF Capital Limited  
2nd Floor, China Building  
29 Queen's Road Central  
Hong Kong

Celestial Securities Limited  
22nd Floor, The Center  
99 Queen's Road Central  
Hong Kong

Credit Lyonnais Securities (Asia) Limited  
33rd Floor, Tower 2  
Lippo Centre  
89 Queensway  
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited  
30th Floor, Two Pacific Place  
88 Queensway  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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First Shanghai Capital Limited  
19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

OCBC Securities (Hong Kong) Limited  
10th Floor, New World Tower II  
18 Queen's Road Central  
Hong Kong

Pacific Challenge Capital Limited  
2201-3, 22nd Floor, Worldwide House  
19 Des Voeux Road Central  
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited  
28th Floor, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

South China Securities Limited  
28th Floor, Bank of China Tower  
1 Garden Road  
Hong Kong

### **Placing Underwriters**

BNP Prime Peregrine Securities Limited  
23rd Floor, New World Tower  
16-18 Queen's Road Central  
Hong Kong

Jardine Fleming Securities Limited  
46th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

China Everbright Securities (HK) Limited  
36th Floor, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

Bank of China International (UK) Ltd  
34th Floor, One Canada Square  
London E14 5AA  
United Kingdom

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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Oriental Patron Asia Limited  
42nd Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

**Hong Kong legal advisers**

*To the Company:*  
Livasiri & Co.  
7th and 19th Floors  
Nine Des Voeux Road West  
Hong Kong

*To the Underwriters:*  
Slaughter and May  
27th Floor  
Two Exchange Square  
Central  
Hong Kong

**PRC legal advisers**

*To the Company:*  
Jingtian Associates  
Suite 323, Towercrest Plaza  
3 Maizidian Xilu, Beijing 100016  
PRC

**US legal advisers**

*To the Underwriters:*  
Davis Polk & Wardwell  
The Hong Kong Club Building  
18th Floor, 3A Chater Road  
Central  
Hong Kong

**Cayman Islands legal advisers**

*To the Company:*  
Maples and Calder Asia  
Suite 1002, 10th Floor  
One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**Auditors and reporting  
accountants**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor  
Prince's Building  
Central  
Hong Kong

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**DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER**

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**Property valuers**

Chesterton Petty Limited  
16th Floor  
CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**Receiving bank**

Bank of China, Hong Kong Branch  
Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Ugland House South Church Street P.O. Box 309, George Town Grand Cayman, Cayman Islands British West Indies
<b>Head office</b>	Hengan Industrial Centre Anhai Town, Jinjiang Fujian, PRC
<b>Place of business in Hong Kong</b>	Unit 502A, 503 and 503A, 5th Floor Admiralty Centre, Tower 2 18 Harcourt Road Hong Kong
<b>Company secretary</b>	Yue Wai Leung, Stan <i>AHKSA</i>
<b>Authorised representatives</b>	Yue Wai Leung, Stan Hui Chi Lin
<b>Principal bankers</b>	<i>PRC</i>  Bank of China, Jinjiang, Anhai Branch No.126-132, Fei Qian Road Dong Dai Street Anhai Town, Qianzhou City Fujian, PRC  China Construction Bank, Jinjiang Branch Jianhang Building Qing Yang Zeng Lin District Jinjiang City Fujian Province, PRC  <i>Hong Kong</i>  Hua Chiao Commercial Bank Limited No. 42-46, Yu Chau Street, Shamshuipo Kowloon, Hong Kong
<b>Share registrar and transfer office</b>	Abacus Share Registrars Limited 10th Floor Caroline Centre 28 Yun Ping Road Causeway Bay Hong Kong

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## OVERVIEW OF THE PRC SANITARY NAPKIN AND DISPOSABLE BABY DIAPER MARKETS

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*This prospectus contains information relating to the international and PRC sanitary napkin and disposable baby diaper markets as well as information about the Group's competitors in the PRC and other PRC statistical information derived from various government and industry sources. The Group cannot and does not guarantee the accuracy of such information. Such information may not be consistent with other information compiled within or outside the PRC. Due to possible flawed or ineffective collection methods and other problems, the statistics in this prospectus may be inaccurate and should not be unduly relied upon. In addition, the market conditions in the PRC and overseas since the dates to which the relevant information were compiled may have changed significantly.*

### General overview of the PRC market

In the past 20 years, the PRC economy has undergone significant changes due to the “open-door” and various other economic reform policies adopted by the PRC government, aiming to transform the PRC economy from a “centrally planned economy” into a more market-oriented “socialist market economy”. These reforms have resulted in rapid economic growth. The continued reform of state-owned enterprises and the increase in foreign trade and investment have allowed greater utilisation of market forces in the allocation of resources in the PRC and a greater autonomy for enterprises in their operations.

The table below sets out the GDP growth rate, the inflation rate, the average annual income per capita of urban households and the average annual living expenditure per capita of urban households in the PRC for 1985, 1990 and 1993 to 1996.

<b>Year</b>	<b>1985</b>	<b>1990</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
GDP growth rate <i>(as compared with the preceding year)</i>	13.5%	3.8%	13.5%	12.6%	10.5%	9.6%
Inflation rate	9.3%	3.1%	14.7%	24.1%	17.1%	8.3%
Urban households average annual income per capita <i>(RMB)</i>	749	1,523	2,583	3,502	4,288	4,845
Urban households average annual living expenditure per capita <i>(RMB)</i>	673	1,279	2,111	2,851	3,537	3,920

*Source: PRC Year Book 1997/98 and China Statistical Yearbook 1997*

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## OVERVIEW OF THE PRC SANITARY NAPKIN AND DISPOSABLE BABY DIAPER MARKETS

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Following the development of the PRC economy, the PRC consumer market has grown rapidly. In particular, it has led to the development of a consumer group with relatively strong purchasing power by PRC standards. Retail sales of consumer goods increased from RMB2,061.5 billion (approximately HK\$1,915.9 billion) in 1995 to RMB2,461.4 billion (approximately HK\$2,296.3 billion) in 1996, representing an increase of 19.4 per cent. The economic growth in the PRC in the past decade has created a strong growth in the demand for consumer products (the Directors believe that they include personal hygiene products) as well as a greater demand for products of a higher standard and better quality.

The PRC has the world's largest population. During the period from 1986 to 1996, the population grew at a compound annual rate of approximately 1.3 per cent. The total population in the PRC increased from 1,075 million in 1986 to 1,224 million in 1996.

### The PRC sanitary napkin market

The production of sanitary napkins in the PRC is believed to have commenced in the early 1980s. Since then, with the increase in income of some PRC consumers, the PRC sanitary napkin market experienced rapid growth and development. The total consumption of sanitary napkins in the PRC grew from an estimated one billion pieces in 1985 to approximately 25.5 billion pieces in 1997, representing a compound annual growth rate of 31 per cent. The estimated penetration rate of sanitary napkins in the PRC also increased from two per cent. in 1985 to approximately 41.8 per cent. in 1997 (see the table below). The Directors estimate that by the end of 1997, there were over 1,000 sanitary napkin manufacturers. According to CNSAHP, at the end of 1997, there were approximately 1,000 production lines for the production of ordinary sanitary napkin products (that is, sanitary napkins without side tabs), 300 production lines for the production of winged sanitary napkin products and 60 production lines for the production of pantliners in the PRC.

The table below sets out the estimated female population in the PRC aged between 15 and 49, estimates for the total consumption and market penetration rate for sanitary napkins in 1985, 1990 and 1993 to 1997.

<b>Year</b>	<b>1985</b>	<b>1990</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Female population in the PRC aged between 15 and 49 ( <i>million</i> )	278.0	311.1	321.5	327.2	330.0	336.2	338.7
Total consumption of sanitary napkins ( <i>billion pieces</i> )	1.0	2.8	12.5	15.2	18.6	23.0	25.5
Market penetration rate (%) <sup>*</sup>	2	5	21.6	25.8	31.3	38	41.8

Source: CNSAHP

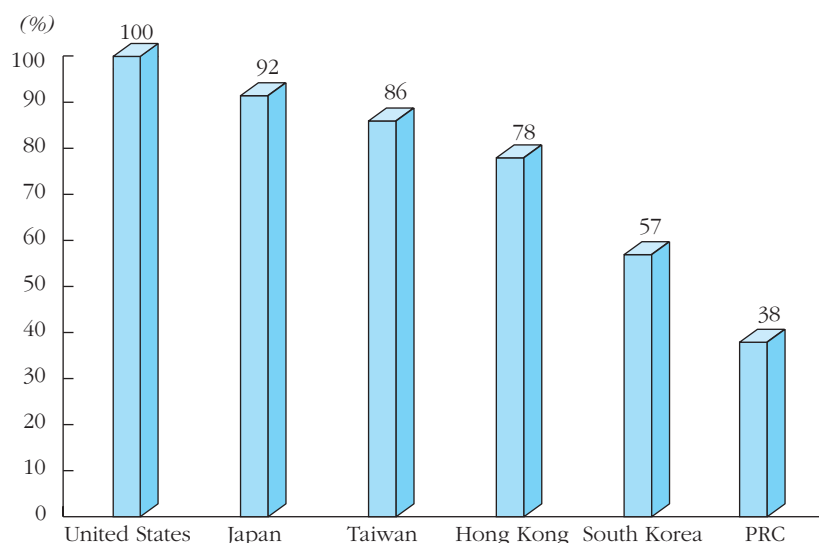
Note: <sup>\*</sup> Calculation has been based on the assumption that each woman between the age of 15 and 49 uses on average 180 sanitary napkins per year.

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## OVERVIEW OF THE PRC SANITARY NAPKIN AND DISPOSABLE BABY DIAPER MARKETS

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The chart below shows the estimated penetration rates for sanitary napkins for various countries and territories in 1996.



Source: CNSAHP

Note: The estimated penetration rates for countries and territories set out above have not been independently verified by the Company and may have been calculated on different bases.

Since the PRC has the world's largest population, of which women aged between 15 and 49 in the PRC accounted for approximately 28 per cent. of the total PRC population in 1997 and sanitary napkin products are consumer products for many such women, the Directors believe that the PRC sanitary napkin market has the potential to become one of the largest sanitary napkin markets in the world.

The Directors believe that the following are some of the main characteristics of the PRC sanitary napkin market.

### *Domestic production and sales*

Sanitary napkins are light in weight and relatively bulky in size, therefore the transportation cost of importing such products is relatively high, which could affect its profit margin. In addition, the import of sanitary napkins into the PRC is currently subject to a tariff of 25 per cent. and a value added tax of 17 per cent. on the value of the products (including the import tariff payable). As a result, imported products account for a very small proportion of the PRC sanitary napkin market. Based on statistics produced by the PRC Customs Bureau and CNSAHP, imported sanitary napkins accounted for only less than one per cent. of the total sanitary napkins consumed in the PRC in 1997. Based on the above, the Directors believe that a vast majority of the international branded sanitary napkins being sold in the PRC is produced within the PRC.

### *Market fragmented in regions*

Because the level of economic development in cities, rural areas and coastal and inland areas differ significantly, sales prices, product mix, and sales methods of sanitary napkins in the PRC are different in different areas. The Directors believe that sanitary napkin manufacturers in the PRC with small production scale generally sell their products in the region near their manufacturing bases.

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## OVERVIEW OF THE PRC SANITARY NAPKIN AND DISPOSABLE BABY DIAPER MARKETS

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### *Dispersed distribution channels*

Sanitary napkin manufacturers in the PRC generally distribute sanitary napkins through many channels which include, among others, wholesalers, distributors, retailers and convenience stores. The Directors believe that currently there is not a specific distribution channel for personal hygiene products in the PRC which covers the entire national market.

### *Market segmented by product categories*

Sanitary napkin products in the PRC can currently be divided into three categories: (i) winged sanitary napkin products, (ii) ordinary sanitary napkin products and (iii) pantliners.

- (i) Winged sanitary napkin products are high-end products sold at higher prices. The production of these products in the PRC is believed to have commenced in the early 1990s and sales of these products are currently mainly concentrated in cities and in coastal areas with higher household income levels. In 1997, the total production of winged sanitary napkin products reached approximately four billion pieces and accounted for approximately 16 per cent. of the total sanitary napkins produced in the PRC.
- (ii) Ordinary sanitary napkin products are sanitary napkins without the side tabs. They are generally sold at lower prices as compared to winged sanitary napkin products. The production of ordinary sanitary napkin products accounted for approximately 83 per cent. of the total sanitary napkins produced in the PRC in 1997.
- (iii) Pantliners are high-end products (the production of which in the PRC is believed to have commenced in 1992) and are mainly used by consumers in cities with higher household income and higher personal hygiene awareness. In 1997, the total production of pantliners accounted for less than one per cent. of total sanitary napkins produced in the PRC.

The Directors believe that consumers in cities with higher income will increase their demand for winged sanitary napkin products and pantliners. The demand for ordinary sanitary napkin products by consumers in counties, towns and rural areas, where the population accounts for approximately 70 per cent. of the total population in the PRC, will gradually increase with their increase in personal hygiene awareness and living standards. As a result, the Directors believe that the life cycle for ordinary sanitary napkin products will be prolonged due to this special characteristic in the PRC sanitary napkin market.

For further information in relation to these three products, see the paragraph headed "Competition" in the section headed "Business of the Group" in this prospectus.

### *Market segmented between cities and rural areas*

As demonstrated by the table below, the PRC sanitary napkin market penetration rate and consumers' choice of types of products are different depending on the location of the market. Firstly, the market penetration rate is higher in cities than in rural areas mainly due to higher personal hygiene awareness and higher income levels in cities as compared to those in rural

## OVERVIEW OF THE PRC SANITARY NAPKIN AND DISPOSABLE BABY DIAPER MARKETS

areas. The market for sanitary napkin products are still at an early stage of development in rural areas. In addition, winged sanitary napkin products and better quality ordinary sanitary napkin products are more popular in economically developed areas (such as cities and coastal areas) than in rural areas mainly due to differences in income level.

	estimated number of women between the age of 15 to 49 1997 (million)	estimated sanitary napkin penetration rate 1997	estimated annual household income 1997 (RMB)	estimated proportion of sale sanitary napkin/volume (in billion pieces)		
				ordinary	winged 1997	pantliners
Cities	101.3	85%	4,485	50%/10.69	98%/3.92	100%/0.08 to 0.1
Rural areas	237.4	25%	1,926	50%/10.73	2%/0.08	nil
Total	338.7	N/A	N/A	100%/21.42	100%/4.00	100%/0.08 to 0.1

Source: CNSAHP

As shown above, the Directors believe that the development of the PRC sanitary napkin market is segmented in regions and by income brackets. The special characteristics of the PRC market have resulted in the need to sell through a variety of channels and to produce products which suit the particular needs of consumers in different income brackets.

### The PRC disposable baby diaper market

The baby diaper market in the PRC is still at an early stage of development. In 1997, CNSAHP estimated that there were approximately 22 baby diaper production lines, with 20 manufacturers in the PRC. The major manufacturers in terms of total production in 1997 and their brands include Dongguan Chungnan Paper Co., Ltd. (*BB Bao* BB寶), the Group (*Anerle* 安兒樂), Nanhai Xiqiao Baby Products Co., Ltd (*Dierbao* 帝兒寶), Disposable Soft Goods Company Limited (Zhongshan) Ltd (*FITTI, PETPET*) and Quanermei Industrial (Shanghai) Co., Ltd. (*Xuxule* 嘯嘯樂). Kimberly-Clark (*Huggies* 好奇) produces disposable baby diapers in the PRC.

The table below sets out the estimated number of babies between the age of 0 and two in the PRC, estimates for total consumption and market penetration rate for disposable baby diapers between 1993 and 1997.

Year	1993	1994	1995	1996	1997
Babies aged between 0 and two (million)	47.5	48.1	48.8	48.90	49.4
Total consumption (billion pieces)	0.04	0.1	0.15	0.28	0.40
Market penetration rate (%)*	0.04	0.1	0.15	0.30	0.40

Source: CNSAHP

\* Calculation was based on the assumption that each baby aged between 0 and two uses 5.6 pieces of disposable baby diapers per day.

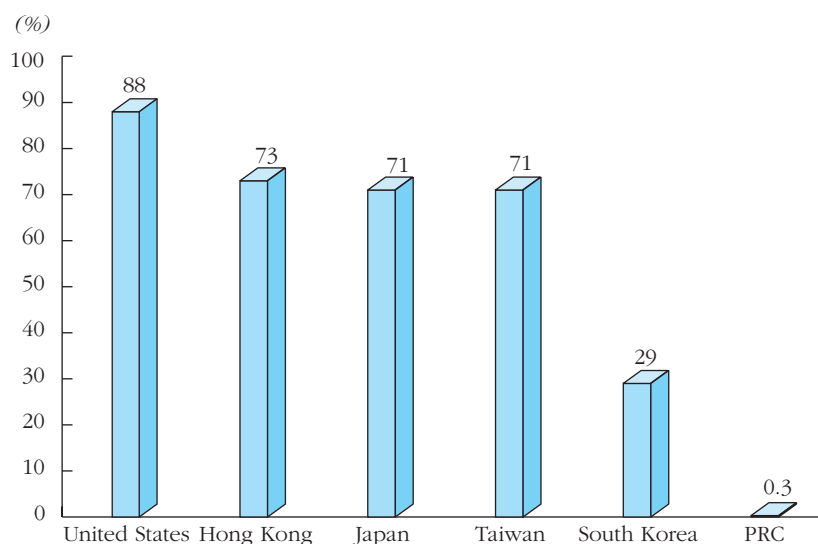
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## OVERVIEW OF THE PRC SANITARY NAPKIN AND DISPOSABLE BABY DIAPER MARKETS

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The total consumption of disposable baby diapers increased at an annual compound growth rate of 78 per cent. between 1993 and 1997.

The chart below shows the estimated penetration rates for disposable baby diapers for various countries and territories in 1996. As illustrated below, the estimated penetration rate of disposable baby diapers in the PRC is very low when compared with certain other countries/territories:



Source: CNSAHP

Note: The estimated penetration rates for countries and territories set out above have not been independently verified by the Company and may have been calculated on different bases.

The Directors believe that purchasers of disposable baby diapers are currently mainly concentrated in big cities where the income per household is relatively higher than elsewhere in the PRC. With respect to medium-sized and smaller cities and rural areas, disposable baby diapers are not widely used as they are regarded as expensive consumer products.

According to CNSAHP, there are approximately 20 million new born babies in the PRC each year, therefore the Directors believe the PRC baby product market, including disposable baby diapers, has significant growth potential. The Directors believe that the one child policy adopted by the PRC government has meant that parents in the PRC are devoting greater attention and spending more money on their children. Together with the recent economic growth and recent improvement in living standards in the PRC, the Directors believe that all these factors will facilitate the rapid growth of the PRC baby diaper market in the future.

The import of disposable baby diapers in the PRC is currently subject to a tariff at the rate of 25 per cent. and a value added tax at a rate of 17 per cent. on the value of the products (including the import tariff payable).

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## BUSINESS OF THE GROUP

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### HISTORY AND DEVELOPMENT

Hengan Fujian, a sino-foreign equity joint venture, was the first subsidiary within the Group established in the PRC. In 1985, (i) Tin Lee, (ii) Fujian Province Jinjiang City Anhai Garment Industrial Co. (福建省晉江市安海服裝工業公司) (an enterprise established and controlled by the Anhai Town government (“Garment Co.”)) and (iii) Liu Yuen Hong (燎原行) (an independent third party), established Hengan Fujian (Tin Lee, Garment Co. and the independent third party had a 33.09 per cent., 33.82 per cent. and 33.09 per cent. interest, respectively on establishment) in Fujian. Tin Lee held interests in Hengan Fujian from time to time on behalf of the Founding Shareholders and certain senior employees of the Group. At that time, the PRC sanitary napkin market was still at an early stage of development. The Directors believe that the Group was one of the earliest foreign investment enterprises in the PRC to engage in the manufacture and sale of sanitary napkins. The Group started its production operation with one ordinary sanitary napkin production line and approximately 100 employees and produced ordinary sanitary napkins under the *Anle* (安樂) brand. This trademark was registered in the PRC in May 1987 by Hengan Fujian. At that time, sales were mainly concentrated in Fujian and Guangdong Provinces. In order to capitalise on the growing demand in the PRC for sanitary napkins, the Group installed six additional production lines in its Fujian production facilities between 1987 and 1990.

The Group began to expand the sale of its sanitary napkins to other areas outside Fujian and Guangdong Provinces at the end of 1980s. In 1990, the first sales liaison office was established. Details in relation to the sales liaison offices are set out in the paragraph headed “Sales, distribution and marketing” in this section. In order to reduce production and transportation costs and so improve competitiveness, in 1991, the Group started to establish manufacturing facilities in its major markets outside Fujian Province. In that year, the Group established four production facilities (one in each of Chongqing City, Anxiang County in Hunan Province, Shangyu City in Zhejiang Province and Fushun City in Liaoning Province) with a total of five production lines.

The Group established its first sales office in 1992. Details in relation to the sales offices are set out in the paragraph headed “Sales, distribution and marketing” in this section. Between 1992 and 1994, as the PRC sanitary napkin market grew, the Group further expanded its operations and established another four production facilities, located in Dongxiang County in Jiangxi Province, Binyang County in Guangxi Zhuangzu Autonomous Region, Linying County in Henan Province and Weifang City in Shandong Province. Within this period, the Group imported from Japan two new production lines for the production of winged sanitary napkins and equipment for the production of hot air penetrated non-woven fabric and casting polyethylene film, which are raw materials necessary for the production of the Group’s sanitary napkins. During this period, the Group also commenced the manufacture of hot melt glue which is a raw material required for the production of sanitary napkins. The Group also commenced the production of plastic packaging bags in this period. Through the manufacture of these materials, the Group began to achieve a degree of vertical integration. During this period, the Group was one of the few manufacturers in the PRC capable of producing winged sanitary napkins. The Group started using the trademark *Anerle* (安爾樂) for its winged sanitary napkins in 1994.

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## BUSINESS OF THE GROUP

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In 1995, the Group established a production facility in Hefei City in Anhui Province. In this year, the Group imported from Italy a winged sanitary napkin production line for Hengan Articles. The *Anerle* (安爾樂) trademark (for the Group's winged sanitary napkin and pantiliner products) was registered in the PRC in February 1995. In this year, the Group also imported from Italy one production line for disposable baby diapers in its Fujian manufacturing premises.

In 1996, the Group established two plants in Xian City in Shaanxi Province and Xiaogan City in Hubei Province. In this year, the Group imported four winged sanitary napkin production lines from Japan for Hengan Articles and installed two winged sanitary napkin production lines in its production facility in Xiaogan City. In addition, the Group imported five production lines from Japan and Italy for the manufacture of 3-D winged sanitary napkins and one production line from Japan for disposable baby diapers in its Fujian manufacturing premises. The Group commenced the sale of disposable baby diapers in July 1996.

ISO 9002 Quality System Certifications were awarded by CCCQM to Hengan Fujian and Hunan Anxiang Hengan Hygienic Products Co., Ltd. (which has now been renamed as Hengan Anxiang in the Reorganisation) in 1996 and 1998, respectively.

In 1997, the Group established two manufacturing plants in Chengdu City and Tianjin City each with two winged sanitary napkin production lines and imported one production line for pantliners at its Fujian manufacturing premises. The *Anerle* (安兒樂) trademark (for the Group's disposable baby diaper products) was registered in the PRC in 1997. By the end of 1997, 78 sales liaison offices and 20 sales offices had been established.

The Group started its sales of pantliners in January 1998. It imported one additional pantiliner production line for its Fujian manufacturing facility in 1998. In June 1998, Hengan Industrial (Hong Kong) Limited was established in Hong Kong. This company is mainly responsible for the purchase of machinery and raw materials from overseas for the Group's production facilities. Between January and August 1998, the Group entered into five franchise agreements with five independent third parties under which the Group has granted to the franchisees the right to sell the Group's products under the "Hengan" name. Details in relation to the sales franchises are set out in the paragraph headed "Sales, distribution and marketing" in this section.

At present, the total registered capital of the Company's subsidiaries in the PRC (which has been fully paid up) amount to approximately HK\$613.8 million (of which HK\$602.5 million has been contributed by the Group and the remainder has been contributed by the joint venture partners) with a workforce of about 8,800 people. The Directors believe that the Group is now one of the leading manufacturers of sanitary napkins and one of the major manufacturers of disposable baby diapers in the PRC. The Group currently has in the PRC a total of 17 production facilities with 117 production lines (of these production lines, 24 are for the Group's winged sanitary napkins and pantliners, two are for disposable baby diapers, and the remainder are for the production of ordinary sanitary napkins).

The Company was incorporated in the Cayman Islands on 22nd July, 1998. As a result of the Reorganisation (particulars of which are set out in Appendix VII to this prospectus), the Company is now the ultimate holding company of the Group. As part of the Reorganisation, the Group's packaged tissue paper products business, which has been conducted by Hengan Hygiene Products since 1996, was transferred to Jinjiang Hengan Hearttex Paper Products Co., Ltd. (a connected person of the Group).

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## **BUSINESS OF THE GROUP**

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### **Incentive scheme implemented by the Group in the past**

As described above, Hengan Fujian was the first subsidiary within the Group established in the PRC. At the establishment of Hengan Fujian, Tin Lee (a nominee company) held a 33.09 per cent. interest in Hengan Fujian on behalf of the Founding Shareholders and about 20 senior employees of Hengan Fujian. The respective proportionate interest held by Tin Lee on behalf of these people had been agreed by them prior to the establishment of Hengan Fujian. Over the years, more senior employees were invited by the Founding Shareholders to invest in Hengan Fujian. For those senior employees who agreed to invest in Hengan Fujian, the Founding Shareholders would transfer part of their interests in Hengan Fujian to these senior employees. This arrangement, which was extended to other subsidiaries within the Group, is in this section hereinafter referred to as the “Incentive Scheme”.

Tin Lee’s interest in Hengan Fujian increased from 33.09 per cent. in 1985 to 77.20 per cent. in 1987, 81.76 per cent. in 1990, 89.90 per cent. in 1992 and 98.32 per cent. in 1996. The increase came about through a series of acquisitions of the joint venture partners’ interests by Tin Lee and increases in the registered capital of Hengan Fujian. Immediately prior to the Reorganisation, the Founding Shareholders and 33 senior employees (the “Core Senior Employees”) held interests in Hengan Fujian.

Over the years, the Group has expanded and established more PRC subsidiaries located in various areas in the PRC. When the Founding Shareholders and the Core Senior Employees considered making a new investment, they would assess the estimated capital investment required for the new subsidiary. They would then offer the opportunity to participate in investing in the new subsidiary to certain individuals whom the Group had decided to employ as senior employees of the new subsidiary and/or to certain existing employees whom the Group intended to relocate to the place where the new subsidiary was to be set up. Depending on the size of the required capital investment, the total investment of these individuals would usually amount to approximately seven to 15 per cent. of the equity interest in the new subsidiary and the remainder would be taken up by the Founding Shareholders and the Core Senior Employees. In addition, the Founding Shareholders might also offer opportunities to senior employees to acquire interests in the then existing PRC subsidiaries within the Group, in which case, the Founding Shareholders would transfer part of their interests in the relevant subsidiaries to these senior employees. Investment contributions by the senior employees were usually satisfied by cash payment and/or advances from the Founding Shareholders, usually Mr. Sze Man Bok and Mr. Hui Chi Lin, which would be repaid out of dividends declared by that subsidiary or the other subsidiaries then existing within the Group.

Hengan Articles, a sino-foreign equity joint venture within the Group, was established in March 1993. Its registered capital has increased over the years. The last increase in its registered capital from RMB 160 million (approximately HK\$149.8 million) to RMB 240 million (approximately HK\$224.7 million) was approved on 7th October, 1997 by the relevant approval authority. Such increase was mostly contributed before 30th June, 1998 with a balance of RMB1.25 million (approximately HK\$1.17 million) contributed by 31st July 1998. This amount had been contributed on behalf of the relevant investors by Foundation Development (the legal owner of the Group’s interests in Hengan Articles prior to the Reorganisation) by utilising the dividends declared by Hengan Articles to such investors as at 30th June, 1998.

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## **BUSINESS OF THE GROUP**

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Hengan Hygiene Material, a wholly foreign owned enterprise within the Group, was established in March 1998 with a registered capital amounting to US\$10,000,000 (approximately HK\$77.5 million at an exchange of US\$1:HK\$7.75). The registered capital of Hengan Hygiene Material was contributed in instalments between March 1998 and August 1998 by United Wealth (the legal owner of the Group's interests in Hengan Hygiene Material prior to the Reorganisation) on behalf of the relevant investors who held beneficial interests in Hengan Hygiene Material. Such contributions have been satisfied by (i) cash payment (amounting to approximately HK\$9.6 million), (ii) contribution by way of machinery and equipment (amounting to approximately HK\$9.5 million) and (iii) re-investing dividends declared by the other subsidiaries within the Group as at 30th June, 1998 (amounting to approximately HK\$58.4 million).

Each acquisition and investment had been internally recorded by the Group. The records kept by the Group included (i) a list containing the names of the investors (including the Founding Shareholders, the Core Senior Employees and senior employees) and amount of investment by each investor; and (ii) the stubs of the receipts issued to the investors. The receipts were issued to evidence the investment committed or made. Each receipt contained information including its issue date, a registered number, the amount of investment committed or made, the name of the subsidiary in which investment was committed or made and was affixed with the company chop of Hengan Fujian. Whilst the receipts did not carry the names of the investors, the Group had not experienced any difficulty in identifying the investors because (i) the investors were all employees of the Group and were personally known to the Founding Shareholders and the relevant officer in charge of keeping the record and (ii) the receipts carried the same registered number as shown on the stubs kept by the Group.

Since (i) senior employees who participated in the Incentive Scheme were required to transfer their interests to the Founding Shareholders or other senior employees upon death or termination of their employment with the Group; (ii) the number of participants of the Incentive Scheme was numerous and there were transfers of and changes in the investments from time to time; and (iii) the Incentive Scheme was only an internal arrangement between the Group and the relevant senior employees, the Founding Shareholders have adopted this recording system in order to minimise any need to seek relevant approvals whenever the senior employees increased or assigned their investment or interests in the relevant subsidiary.

The legal interest of each then existing PRC subsidiary within the Group was held by a nominee company (namely, Tin Lee, Foundation Development, United Wealth or Hengan Fujian) prior to the Reorganisation. Such nominee company held the beneficial interests in the relevant subsidiary on behalf of the Founding Shareholders, the Core Senior Employees and the relevant senior employees.

Should a senior employee decease or depart from the Group, the Founding Shareholders and/or the other senior employees would acquire (at the original cost together with any subsequent increase in investment via declared dividend or cash contribution) his/her investment or interest in the relevant subsidiary or subsidiaries. According to the Company's PRC legal counsel, the Incentive Scheme and the underlying arrangements do not violate any PRC laws and for the purposes of the Reorganisation, there were no PRC legal requirements for any physical transfer of the direct equity interests in the relevant subsidiaries.

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## **BUSINESS OF THE GROUP**

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The Directors confirm that, within the past six months from the date of this prospectus, save for the Reorganisation:—

- (i) there has been no increase in the registered capital in any of the Company's 17 PRC subsidiaries;
- (ii) the Group and the Founding Shareholders have not offered or transferred any interests in the Company's subsidiaries, the Company and its subsidiaries have not issued to any party, and the senior employees have not acquired, any additional interests in the Company or its subsidiaries; and
- (iii) there were no new senior employees who have acquired any interests in the Company or its subsidiaries or made any additional capital contributions to the Company or any of its subsidiaries.

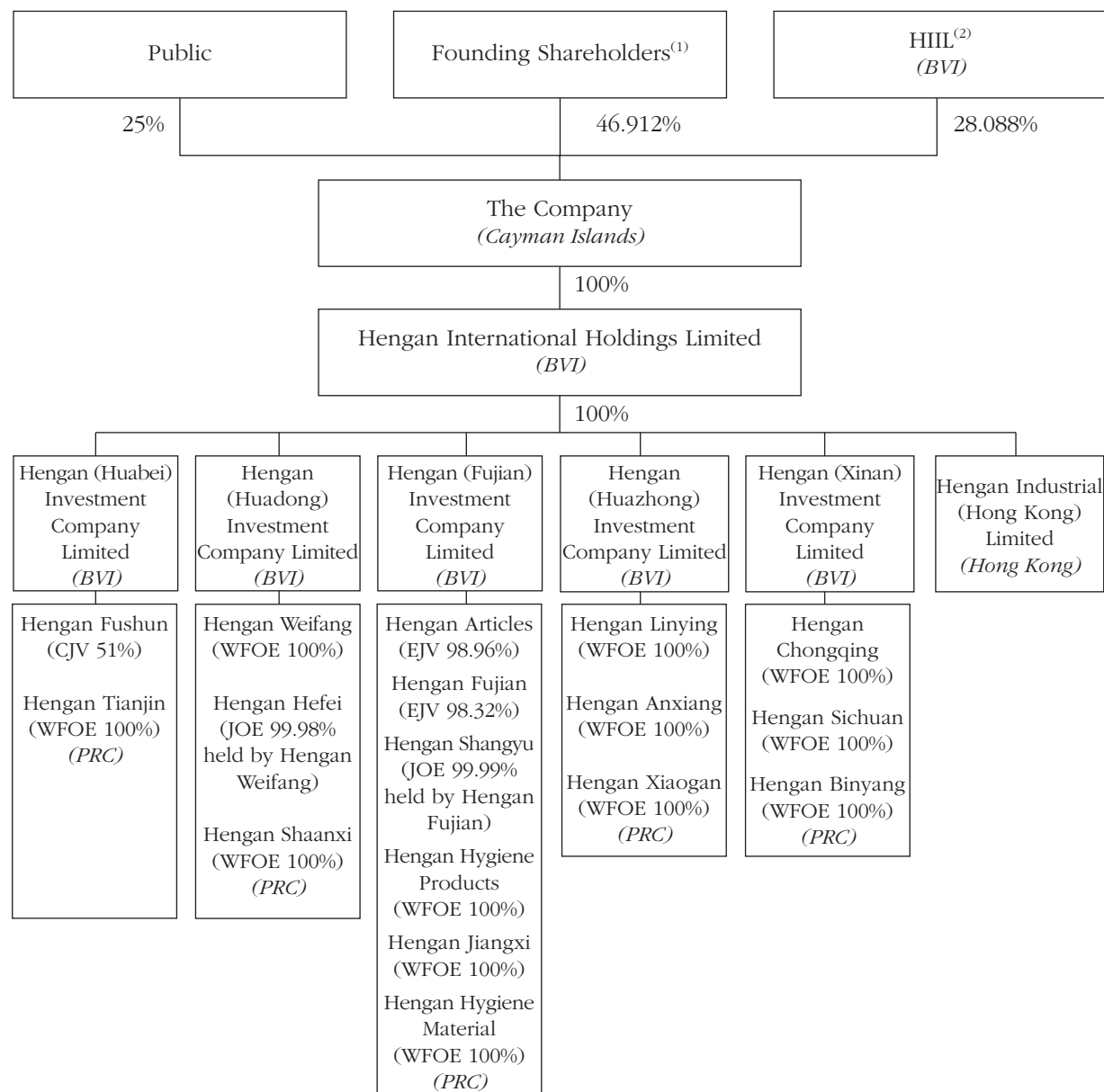
In preparation for the listing of the Shares on the Stock Exchange, the Incentive Scheme has been terminated and replaced by the Share Option Scheme. Senior employees who remained as investors in the Company's 17 PRC subsidiaries on 2nd March, 1998 have been given beneficial interests in the Company in consideration of their respective agreements to transfer their investments in the Company's 17 PRC subsidiaries to the intermediate holding companies of the Group (see "Business of the Group — Group structure" for details). For the purposes of the Reorganisation, investors were requested to confirm (i) their then respective interests in the relevant PRC subsidiaries within the Group and (ii) the persons who should be vested with the beneficial interests of the Shares to be allotted and issued by the Company. All information contained in the letters of confirmation respectively signed by the investors for this purpose were confirmed by the relevant investors by 17th April, 1998. The relevant beneficial interest in the Company of an investor was determined after taking into consideration of his share of interest in the Company's 17 PRC subsidiaries before the Reorganisation. The Directors confirm that the basis of determining the percentage of beneficial interests of the investors and their respective designated family members in the Shares were confirmed by April 1998 and were calculated on the basis set out above. The Directors also confirm that the pre-determined shareholdings have remained unchanged since that date and the Reorganisation was completed on such basis.

Pursuant to 17 deeds of confirmation all dated 10th November, 1998 (the "Deeds of Confirmation") (see no. 62 in the section "5. Further information about the business — Summary of material contracts" in Appendix VII to this prospectus signed by, inter alios, the Founding Shareholders, the relevant senior employees, the 17 subsidiaries, HUIL and the Company), the transfer of the interests in the Company's 17 PRC subsidiaries were confirmed and ratified by the Founding Shareholders and the relevant senior employees as the then beneficial investors of the subsidiaries. In accordance with the terms of the Deeds of Confirmation, the Company has agreed to allot and issue an aggregate of 749,999,980 Shares to the Founding Shareholders and HUIL. The 280,880,000 Shares issued to HUIL are held on trust for 492 individuals comprising senior employees of the Group, their respective family members and the family members of the Founding Shareholders (Ms. Wang Heishang, an ex-senior employee of the Group and spouse of Mr. Hui Chi Lin, holds an approximately 0.66 per cent. interest in the Company and Ms. Zhang Biling, a senior employee of the Group and spouse of Mr. Yeung Wing Chun, holds an approximately 0.0046 per cent. interest in the Company) and the 469,120,000 Shares held by the Founding Shareholders are in proportion to the respective investment ratios of the Founding Shareholders and the senior employees. The voting rights attached to the Shares owned by HUIL will be exercised by HUIL on behalf of the senior employees of the Group, their family members and the family members of the Founding Shareholders according to their respective instructions through a voting by poll as and when necessary.

## BUSINESS OF THE GROUP

### GROUP STRUCTURE

The following chart shows a simplified corporate structure of the Group immediately after completion of the Share Offer (before taking account of the exercise of the Over-Allotment Option and the exercise of the options granted under the Share Option Scheme or of any issue or repurchase of Shares by the Company under the general mandates referred to in Appendix VII to this prospectus).



Notes:

- (1) The interests are held by the following persons (who (together) remained as the controlling shareholders of the Group throughout the three year period ended 31st December, 1997 and the six months ended 30th June, 1998):—
- Mr. Sze Man Bok - 21.875 per cent. of the Company's issued share capital
- Mr. Hui Chi Lin - 20 per cent. of the Company's issued share capital
- Mr. Yeung Wing Chun - 4.125 per cent. of the Company's issued share capital
- Mr. Hung Ching Shan - 0.912 per cent. of the Company's issued share capital

## BUSINESS OF THE GROUP

- (2) *HILL is a nominee company holding 280,880,000 Shares for a total of 492 individuals comprising the senior employees of the Group, their family members and the family members of the Founding Shareholders (Ms. Wang Heishang, an ex-senior employee of the Group and spouse of Mr. Hui Chi Lin, holds an approximately 0.66 per cent. interest in the Company and Ms. Zhang Biling, a senior employee of the Group and spouse of Mr. Yeung Wing Chun, holds an approximately 0.0046 per cent. interest in the Company). HILL is a party to the Underwriting Agreement under which it has undertaken to the Company and the Underwriters that it will not, amongst other things, dispose of any of the Shares it holds on behalf of the beneficial shareholders within 12 months from the date of commencement of dealings of the Shares on the Stock Exchange. For further information, please refer to the paragraph headed "Undertakings" in the section headed "Underwriting" in this prospectus. None of the senior employees of the Group, their family members and the family members of the Founding Shareholders has more than 2.5 per cent. interest in the Company after the completion of the Share Offer. For further details, please refer to the paragraph headed "History and development" in this section.*
- (3) *WFOE — Wholly Foreign Owned Enterprise; EJV — Sino-foreign Equity Joint Venture; CJV — Sino-foreign Co-operative Joint Venture; and JOE — Joint Operation Enterprise.*
- (4) *Please refer to the paragraph headed "Information about the PRC foreign investment enterprises and joint operation enterprises within the Group" in Appendix VII to this prospectus for details in relation to the Company's PRC subsidiaries.*

## DESCRIPTION OF THE BUSINESS

The Group is principally engaged in the manufacture and sale of personal hygiene products currently comprising sanitary napkins and disposable baby diapers mainly in the PRC. All these products of the Group are sold under the Group's own brand names, namely *Anerle* (安爾樂) for winged sanitary napkins and pantliners, *Anle* (安樂) for ordinary sanitary napkins and *Anerle* (安兒樂) for disposable baby diapers. In addition, the Group sells to third parties some of its excess materials which it produces in-house including polyethylene film, hot melt glue and non-woven fabric. The Group also sells as a non-exclusive agent packaged tissue paper products such as facial tissue paper, paper napkins and toilet rolls under the *Hearttex* (心相印) brand name. Details of this sales agency arrangement are included in the paragraph headed "Connected transactions" in this section.

### Breakdown of the Group's total sales by product category

	Year ended 31st December, 1995		Year ended 31st December, 1996		Year ended 31st December, 1997		Six months ended 30th June, 1998	
	Sales (HK\$ million)	Percentage of total sales	Sales (HK\$ million)	Percentage of total sales	Sales (HK\$ million)	Percentage of total sales	Sales (HK\$ million)	Percentage of total sales
Sanitary napkins								
Ordinary sanitary napkins	401	88	498	85	593	74	396	62
Winged sanitary napkins	50	11	75	13	172	22	185	29
Pantliners	—	—	—	—	—	—	19	3
	<u>451</u>	<u>99</u>	<u>573</u>	<u>98</u>	<u>765</u>	<u>96</u>	<u>600</u>	<u>94</u>
Disposable baby diapers	—	—	5	1	22	3	29	4
Others <sup>(1)</sup>	<u>4</u>	<u>1</u>	<u>7</u>	<u>1</u>	<u>7</u>	<u>1</u>	<u>13</u>	<u>2</u>
	<u>455</u>	<u>100</u>	<u>585</u>	<u>100</u>	<u>794</u>	<u>100</u>	<u>642</u>	<u>100</u>

Note:

- (1) *This comprises mainly the sale of materials including polyethylene film, hot melt glue and non-woven fabric.*

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## BUSINESS OF THE GROUP

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The Group's sales are currently conducted through 136 sales liaison offices, sales offices and sales franchises covering 30 provinces, autonomous regions and direct administrative cities in the PRC, and through its direct sales representatives. The Group sells its products almost entirely within the PRC with only approximately 0.5 per cent. and 0.3 per cent. of the Group's total sales for the year ended 31st December, 1997 and the six months ended 30th June, 1998, respectively, being exported to Southeast Asian countries such as the Philippines and Malaysia, and other countries such as New Zealand and Australia.

The Company has 17 PRC subsidiaries and employs about 8,800 people in the PRC. Each of these subsidiaries has a production facility. They are located in 14 provinces, direct administrative cities or autonomous regions in the PRC and equipped with advanced imported or in-house developed equipment and technology. The Group currently has a total of 115 production lines for sanitary napkins and pantliners with an estimated aggregate annual production capacity of 6,800 million pieces of ordinary sanitary napkins, 1,900 million pieces of winged sanitary napkins and 650 million pieces of pantliners. It has two production lines for disposable baby diapers with an estimated aggregate annual production capacity of 150 million pieces of disposable baby diapers. Besides its own production facilities, the Group has sub-contracting arrangements with eight PRC enterprises which manufacture ordinary sanitary napkins exclusively for the Group. For details relating to these sub-contracting arrangements, see the paragraph headed "Sub-contracting arrangements" in this section.

The Group recently received the award of "Quality Products Recommended by China National Women Federation" for its sanitary napkins. In addition, in 1996, the *Anerle* (安爾樂) sanitary napkins (thick, standard and thin) and the *Anle* (安樂) sanitary napkins (standard) manufactured by Hengan Fujian received Certificates of Conformity of Product Quality from CCCQM. These certifications show that the Group's sanitary napkin products meet the PRC national standard requirements. The Group has also won a number of awards for its sanitary napkin products such as the Gold Award at the China International Women and Children Products Expo in 1992. The Group's sanitary napkin products were the only brand recommended by the Chinese Association of the World Women's Conference of the United Nations in 1994 and were selected by the PRC Consumer Council as recommended products between 1993 and 1996 and for 1998.

The Directors believe that the Group's principal strengths are:

- its leading position in the sanitary napkin market in the PRC;
- its extensive nationwide sales and distribution network supported by strategically located production facilities across the country;
- its position in the PRC sanitary napkin and disposable baby diaper markets which have strong growth potential with relatively low penetration rates as compared to those of developed countries;
- its experienced and entrepreneurial management, which is familiar with the PRC market;
- its ability to produce a wide range of sanitary napkin and disposable baby diaper products with a view to meeting changing market demand and improving the sales revenue and profit margin of the Group;
- its emphasis on quality control; and

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## BUSINESS OF THE GROUP

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- its cost effective production achieved through vertical integration, economies of scale and improvement in production technology.

### PRODUCTS

The Group currently has two lines of personal hygiene products, namely, sanitary napkins and disposable baby diapers.

#### Sanitary napkins

The Group owns and sells two brands of sanitary napkins, *Anerle* (安爾樂) and *Anle* (安樂). *Anerle* (安爾樂) is the label for the Group's winged sanitary napkins and pantliners and *Anle* (安樂) is the label for its ordinary sanitary napkins. The Group's ordinary sanitary napkins comprise standard type, health protection type and curved type. The Group's winged sanitary napkins comprise standard winged type and 3-D winged type. The Group also produces pantliners. The main characteristics of each type of sanitary napkins and pantliners produced by the Group are described below.

Product Category	Brand	Main Characteristics
<b>Ordinary sanitary napkins</b>		
Standard type	<i>Anle</i> (安樂)	Ordinary quality, self-adhesive and normal absorption ability.
Health protection type	<i>Anle</i> (安樂)	Contains medicated materials which help prevent various gynaecological diseases, absorb odour, prevent infection and skin irritation.
Curved type	<i>Anle</i> (安樂)	Concave edges providing greater protection at both ends and greater comfort.
<b>Winged sanitary napkins</b>		
Standard winged type	<i>Anerle</i> (安爾樂)	Has two self-adhesive side tabs which ensure the napkin remains in place. The upper layer is made of hot air penetrated non-woven fabric which is softer with air flow, has two liquid trenches which effectively absorb liquid to help prevent leakage. This product comes in three thicknesses: standard, thick and ultra-thin and two lengths for day use and night use.
3-D winged type	<i>Anerle</i> (安爾樂)	In addition to having self-adhesive side tabs, it has two elasticated edges which form a three dimensional curved pad to provide extra protection. The upper layer is made of perforated film or non-woven fabric providing good air flow and absorption and a drier surface. This product comes in two thicknesses: standard and ultra-thin with two lengths for day use and night use.
<b>Pantliners</b>	<i>Anerle</i> (安爾樂)	Thinner and contoured. This product is designed for everyday use.

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## BUSINESS OF THE GROUP

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### Disposable baby diapers

The Group manufactures disposable baby diapers under its own brand name *Anerle* (安兒樂). The Group currently produces disposable baby diapers which are categorised as the ordinary type, simple type and luxury type. The Group's disposable baby diapers come in different sizes for babies of different weights and ages.

Size	Weight (Kg)	Age (Months)
Small	3 - 6	0 - 3
Medium	5 - 10	3 - 12
Large	9 - 13	12 - 24
Extra Large	>13	>24

The main characteristics of each type of disposable baby diapers produced by the Group are described below.

Product Category	Available Size	Main Characteristics
Ordinary type	Large, medium and small	Self-adhesive side tabs, soft and comfortable, absorbent with good air flow.
Simple type	Large, medium and small	Comparatively thinner, self-adhesive side tabs capable of frequent use, more suitable for the summer months.
Luxury type	Extra large, large, medium and small	Super absorbent allowing longer lasting dry condition, three dimensional border prevents side leakage and improves overall leakage prevention with good air flow.

## SALES, DISTRIBUTION AND MARKETING

### Sales and distribution

Currently, sales of the Group's products cover a majority of the regions in the PRC. The Group's sales are conducted through a total of 136 offices, comprising 93 sales liaison offices (銷售辦事處), 38 sales offices (銷售經營部) and five sales franchises (特許經營部). The Group also conducts sales through approximately 400 direct sales representatives (直銷員). There are no fixed purchase amounts or ordering procedures for the sales franchises or direct sales representatives. However, under the sub-contracting agreements as described below, each sub-contractor has covenanted that sales of the Group's products by the sales offices will be not less than a minimum amount each year (which ranges between approximately HK\$14 million and HK\$26 million). Under the sub-contracting agreements, if a sub-contractor fails to meet this requirement, the Group has the right to terminate the relevant sub-contracting agreement. The agreements do not provide for any penalty on the sub-contractors in the event the sub-contractors fail to meet this requirement.

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## **BUSINESS OF THE GROUP**

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Each of the Group's sales liaison offices is managed by the relevant subsidiary within the Group according to its location. The sales liaison offices are responsible for gathering orders from the Group's customers and the sales are conducted directly by the Group. Sales invoices are issued by the Group directly to the customers. The first sales liaison office was established in 1990.

Sales offices are branch offices of the Group operated by independent third parties under sub-contracting arrangements. Under the sub-contracting agreements, sub-contractors are not permitted to sell any products other than the Group's products without the prior consent of the relevant subsidiary within the Group. The relevant subsidiaries within the Group have granted consents to all the sub-contractors to sell other products which do not compete with the Group's products. The sub-contractors purchase goods from the Group as principal and the price of the Group's products sold to the sub-contractors is generally the same as the price sold by the Group to its other customers. The sub-contractors usually sell the Group's products to retailers such as convenience stores, supermarkets and department stores at prices suggested by the Group (but they are not binding on the sub-contractors). The Group is not required to pay any sub-contracting fee to the sub-contractors. The sub-contractors have agreed to be responsible for all rights and liabilities arising out of the operation of the sales offices and have undertaken to indemnify the relevant subsidiary within the Group for any losses (including any third party claims) which it suffers as a result of the operation of the offices. Under the sub-contracting agreements, the Group may provide advertising subsidies to the sub-contractors. It either fully or partly subsidises the advertising expenses of the sub-contractors on a solely discretionary basis, depending on the sales performance of the sub-contractors. The Directors estimate that the Group's advertising subsidies accounted for not more than five per cent. of its total marketing expenses for each year. The Group first sold products through sales offices in 1992. The Group intends to convert these sales offices to sales franchises. The Group wishes to unify these sub-contracting arrangements with the franchise arrangements for better administration purposes. The Directors believe that the conversion process will not create any material disturbance to the Group's business.

Hengan Fujian has entered into five franchise agreements with independent third parties (the "Franchisees") between January and August 1998 under which they are granted the right to sell the Group's products under the "Hengan" name. The sales franchises may not engage in any business other than selling the Group's products without the prior consent of Hengan Fujian. Sales franchises purchase goods from the Group as principal and they issue their own invoices to their customers and are run as independent businesses. The price of the Group's products sold to the sale franchises is generally the same as the price sold by the Group to its other customers. The Group provides guidelines to the Franchisees in respect of prices and promotion of the products (but they are not binding on the Franchisees). The Franchisees are not required to pay any franchise fee to the Group. The Franchisees are responsible for the operations of the sales franchises and their profits, losses, assets and liabilities. The Group may, on a discretionary basis, offer rental and wage subsidies to the Franchisees. All the franchise agreements are for a term of three years commencing from their respective date of execution. Subject to agreement between the parties, the franchise agreement may be renewed two months prior to its expiration. Either party is entitled to terminate the relevant franchise agreement if the other party commits a breach of the terms of the agreement.

The direct sales representatives act as agents of the Group and sell the Group's products to their customers mainly in remote areas of the PRC. They place a deposit with the Group against which they are entitled to obtain a small quantity of the Group's products for sale to their customers. On receiving the sale proceeds from the direct sales representatives, the Group either offers a

## BUSINESS OF THE GROUP

commission or a discount on the sale proceeds to them as reward for their service. There are no written agreements between the Group and the direct sales representatives. This sales arrangement has been in place since the establishment of the Group in 1985. If the relationship between the Group and the direct sales representative is terminated, the deposit paid will be refunded, subject to such amount as may be used to set-off amounts owed to the Group.

The Group conducts sales to the sales offices and sales franchises through its PRC subsidiaries in the relevant location. The Group divides its sales network into five regions, namely the northern PRC, eastern PRC, Fujian, central PRC, and south-western PRC. Each sales department of the Company's PRC subsidiaries within each region monitors and co-ordinates the sales of the Group's sales network within the respective area and reports directly to the Group's head office.

The map below shows the Group's main sales network in the PRC.



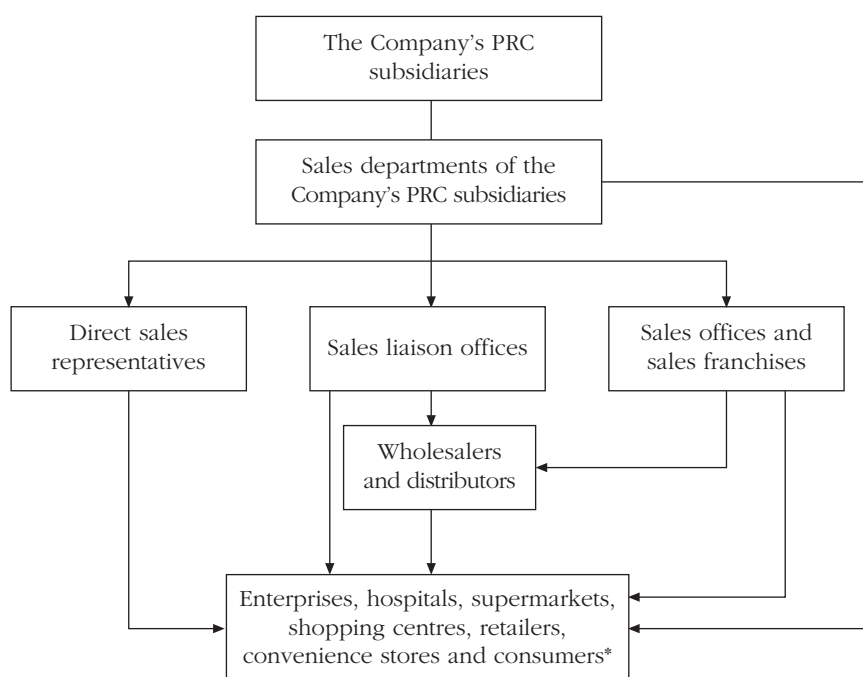
## BUSINESS OF THE GROUP

The following table shows a breakdown of the Group's sales in the five regions and overseas sales.

	Year ended 31st December, 1995		Year ended 31st December, 1996		Year ended 31st December, 1997		Six months ended 30th June, 1998	
	Sales (HK\$ million)	Percentage of total sales	Sales (HK\$ million)	Percentage of total sales	Sales (HK\$ million)	Percentage of total sales	Sales (HK\$ million)	Percentage of total sales
Northern	56	12.3	92	15.7	178	22.4	128	19.9
Eastern	16	3.6	32	5.5	55	6.9	67	10.4
Fujian	257	56.5	309	52.9	380	47.9	245	38.2
Central	101	22.1	121	20.7	136	17.1	129	20.1
South-western	19	4.2	25	4.3	41	5.2	71	11.1
Overseas	6	1.3	6	0.9	4	0.5	2	0.3
	<u>455</u>	<u>100</u>	<u>585</u>	<u>100</u>	<u>794</u>	<u>100</u>	<u>642</u>	<u>100</u>

The customers of the Group's products include wholesalers, distributors, enterprises, hospitals, supermarkets, shopping centres, retailers, convenience stores and consumers. The Group also sells to third parties some of its excess materials which it produces in-house including polyethylene film, hot melt glue and non-woven fabric.

The main channels through which the Group's principal products are sold are illustrated in the diagram below.



\* The Company's PRC subsidiaries and its sales network may sell to one or more of these customers.

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## BUSINESS OF THE GROUP

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The Group's sales policy is not to rely on any single customer or single sales channel. The Group currently has over 2,500 customers. The Group generally designates sales areas to its distributors, wholesalers, sales offices, sales franchises and the sales liaison offices in order to reduce overlap within the region in which they operate. The Group sends sales officers to distributors and wholesalers to assist them with marketing and sales support including assisting them to prepare marketing strategies and sales plans, participating in sales and promotional campaigns and gathering market information. The Group provides recommended retail prices to its distributors, wholesalers, sales offices and sales franchises for its products but these are not binding. In addition, the Group conducts direct sales to certain customers such as hospitals, enterprises and to consumers through sales counters in shopping malls and department stores. By doing so, the Group is able to sell its products to all types of customers.

Through its close interaction with its customers and providing sales and marketing advice to them, the Group's sales and distribution network is strengthened and the prices of its products are maintained at a stable level. The Group obtains regular feedback from customers and consumers which keeps the Group informed about consumer needs and product trends in the market. This assists the Group in making effective and prompt production and business development decisions.

The Group has been selling packaged tissue paper products under the *Hearttex* (心相印) brand name since 1996. As part of the Reorganisation, the Group's packaged tissue paper manufacturing business was sold to the Group's connected parties and the Group now sells packaged tissue paper products as a non-exclusive agent of the connected parties through the Group's sales network (see the paragraph headed "Connected transactions" below).

The Group delivers its products mainly using rail and road transport. The Group engages transport companies for the distribution of large orders or for orders to remote places. Transportation for small orders and to nearby places is carried out by small lorries owned or hired by the Group. Transportation expenses are usually paid by the Group. A small proportion of the Group's products are collected directly by the customers.

Each sales liaison office, sales office and sales franchise places a monthly order with the relevant subsidiary within the Group for the amount of products required for the following month. Each subsidiary will determine whether it will produce the products or order products from the Group's head office. Generally, the Group's products are manufactured by and delivered from the nearest subsidiary to the relevant sales liaison office, sales office and sales franchise. By doing so, transportation costs and damage which may be incurred during transportation of the products are minimised, thereby increasing profit margins and ensuring timely delivery of the products. The Group's local production and distribution capabilities are important factors in enabling the Group to supply products to the inland towns and rural areas.

For the year ended 31st December, 1997 and the six months ended 30th June, 1998, the Group's sales to its five largest customers accounted for approximately nine per cent. and 13 per cent., respectively, of the Group's total turnover. Three out of the Group's five largest customers are sub-contractors of sales offices. The length of the Group's business relationship with each of these five customers ranges between two to seven years. Sales to the Group's largest customer accounted for approximately four per cent. of the Group's total turnover for the year ended 31st December, 1997 and the six months ended 30th June, 1998. The amount of provision for doubtful debts for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998 were approximately HK\$0.9 million, HK\$1.2 million, HK\$3.4 million and HK\$5.9 million, respectively. None of the Directors, Hengan International Holdings Limited, its subsidiaries or

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## **BUSINESS OF THE GROUP**

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their respective associates (as defined in the Listing Rules), nor any existing shareholders of the Company (holding five per cent. or more of the issued share capital of the Company) has any interest in the Group's five largest customers for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998.

All sales in the PRC are made in RMB. The Group generally provides 30 to 45 days credit terms to its customers which have a long standing relationship (over two years) with the Group. A portion of the Group's domestic sales has been made on a cash on delivery basis. Sales to overseas customers are sold on a free on board (FOB) or a carriage insurance freight (CIF) basis mainly in US Dollars.

Three subsidiaries within the Group, namely Hengan Hygiene Material, Hengan Weifang and Hengan Hygiene Products, were required under their articles of association and/or approval documents to export a portion of their products. These entities had not complied with such requirement. These three subsidiaries (save for the Hengan Weifang which only needed to seek approval for change of the local/export sales ratio originally approved by the relevant PRC authority) have amended their articles of association and (i) Hengan Hygiene Material and Hengan Hygiene Products and (ii) Hengan Weifang obtained on 21st and 22nd October, 1998, respectively, the relevant PRC approval so that all of their products can be sold within the PRC. The Company has received PRC legal advice that it is uncertain as to what penalties will fall on an enterprise for such non-compliance. The Company has further received PRC legal advice that pursuant to a notice promulgated by the relevant authorities relating to the renewal of business licence of foreign investment enterprise ("FIE") dated 26th December, 1996 (the "Notice"), whether a FIE has complied with its local/export sales ratio will be one of the criterion considered by the relevant authorities in the PRC on the renewal of its business licence. According to the Notice, if a FIE is "in serious breach of PRC laws and regulations, operated without a legal address or did not carry on any business activities, the business licence will not be renewed". The Company's PRC legal counsel has advised that whether a failure to comply with the local/export sales ratio is a serious breach depends on the interpretation of the relevant authorities. The Directors confirm that the three subsidiaries have never had their business licence revoked or failed to renew their business licence.

The Founding Shareholders and HIIL have undertaken to indemnify the Group against any liabilities, losses, expenses, fines or penalties which it may suffer as a result of the above non-compliance pursuant to the deed of indemnity entered into between the Company, HIIL and the Founding Shareholders.

### **Marketing**

The Group's current marketing strategies are based on its knowledge and understanding of the special characteristics of the PRC personal hygiene products market. The Group's marketing strategy is to use its salesforce to promote its products directly to its customers and consumers, accompanied by advertising and various other marketing and promotional activities.

The Group's marketing division carries out market research, meets with customers on a regular basis and gathers market information in order to assess market conditions and demand for sanitary napkins and disposable baby diapers in the PRC. This division is also responsible for determining the Group's marketing and sales planning. For each new product, the Group's marketing division will formulate a marketing and promotion strategy. Once the strategy is formulated, the marketing division will organise new product promotional meetings and media coverage to launch the product.

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## **BUSINESS OF THE GROUP**

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The Group is not responsible for the marketing of *Hearttex* (心相印) branded packaged tissue paper products. Under the agency agreement entered into between the Group and United Wealth, United Wealth may request the Group to, and subject to the Group's consent, carry out advertising and promotional activities in relation to *Hearttex* (心相印) branded products. United Wealth has to reimburse the Group for the expenses incurred.

The amount spent by the Group on advertising and promotion amounted to approximately HK\$37 million and HK\$27 million for the year ended 31st December, 1997 and the six months ended 30th June, 1998, respectively, representing approximately 4.7 per cent. and 4.2 per cent. of the Group's total turnover for the corresponding periods. Television is the Group's main advertising medium in promoting its products. The Group's television advertisements appear on the major television channels in the PRC, including CCTV (the national television station which broadcasts across the PRC). The marketing strategy of the Group differs in cities and in rural areas. In cities, in addition to television advertisements, the Group advertises using other media such as newspapers, magazines, radio, billboard advertising, promotional leaflets and promotional counters in department stores and supermarkets. The Group also develops and monitors its relationship with customers to increase brand awareness and distributes free samples to consumers. In rural areas, the Group uses its salesforce and the direct sales representatives to promote and sell its products to the consumers, assisting the Group to promote brand awareness and gain customer loyalty.

The Group organises promotional campaigns jointly with, and issues gift coupons through, the Women's Federation Union and labour unions established in the PRC. In addition, the Group seeks to establish a high social and community profile through sponsoring social welfare activities. The Group also conducts joint promotional activities with its large wholesalers and distributor customers such as product promotional campaigns in hospitals, department stores and supermarkets and educational programs in schools.

The Group expects to continue to commit significant resources to its marketing and media campaigns in order to promote brand awareness and consumer loyalty for its products.

### **PRODUCTION PROCESSES**

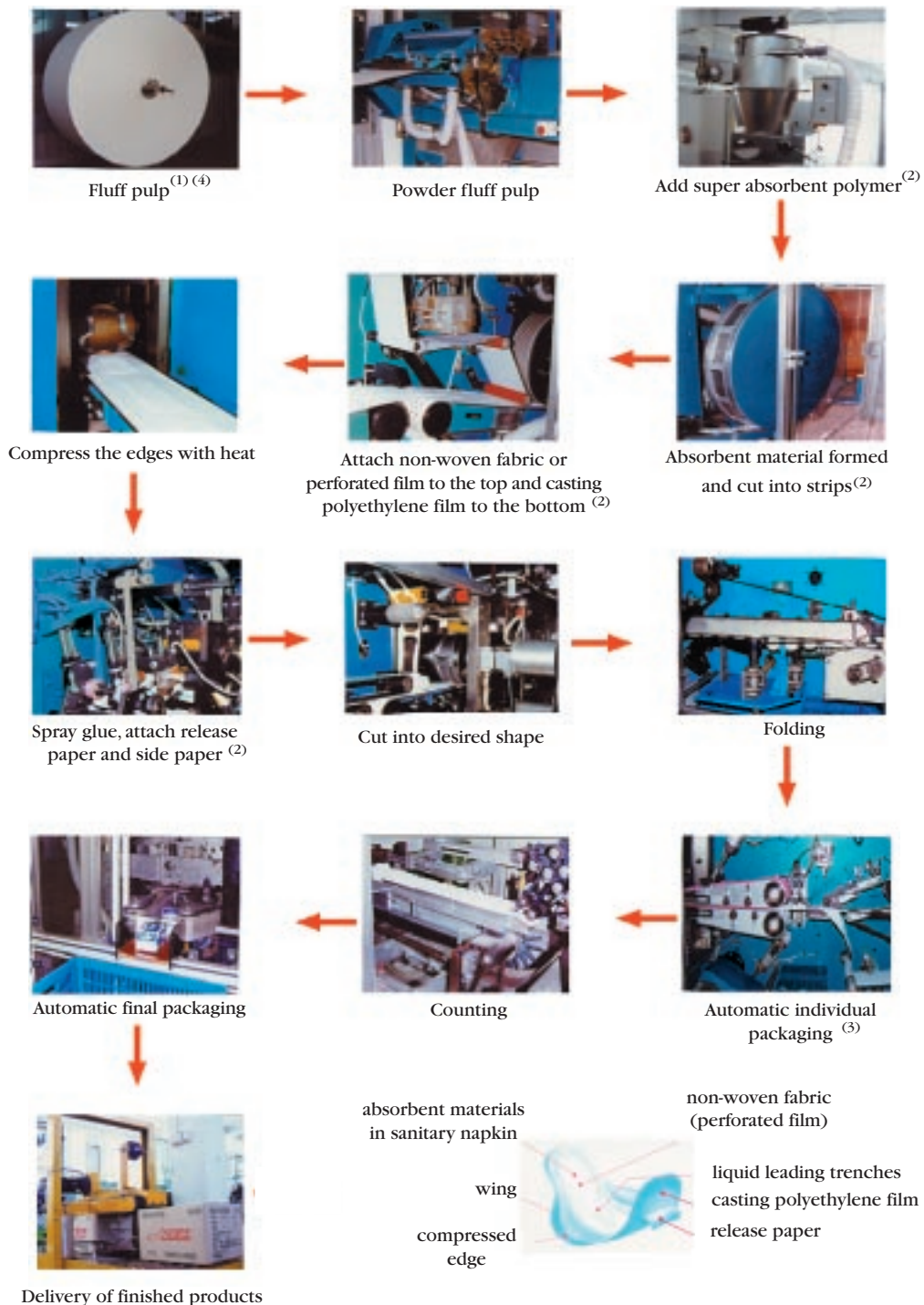
The Group has an integrated production process from the production of certain raw materials to finished products, which has assisted in reducing its production costs and in maintaining product quality. Raw materials produced by the Group in-house, mainly at its facilities in Fujian, comprise hot air penetrated non-woven fabric, perforated film, casting polyethylene film and hot melt glue. These are all principal raw materials required for the manufacture of sanitary napkins and disposable baby diapers. The Group also produces plastic packaging bags.

The production of sanitary napkins (other than pantliners) and disposable baby diapers starts with the powdering of fluff pulp. Super absorbent polymer is then mixed with the powdered fluff pulp to form the absorbent material which is cut into strips and wrapped with tissue paper. Outer layers are added and the products are cut into desired shapes. The finished products are then folded and put into plastic bags. Instead of using fluff pulp, the production of pantliners uses airlaid paper. These procedures are mainly carried out through automated production facilities. The following diagrams show the principal stages involved in the production of the Group's sanitary napkins and disposable baby diapers.

## BUSINESS OF THE GROUP

### Sanitary napkins

Set out below is the production process for winged sanitary napkins which is broadly similar to the production processes for ordinary sanitary napkins.



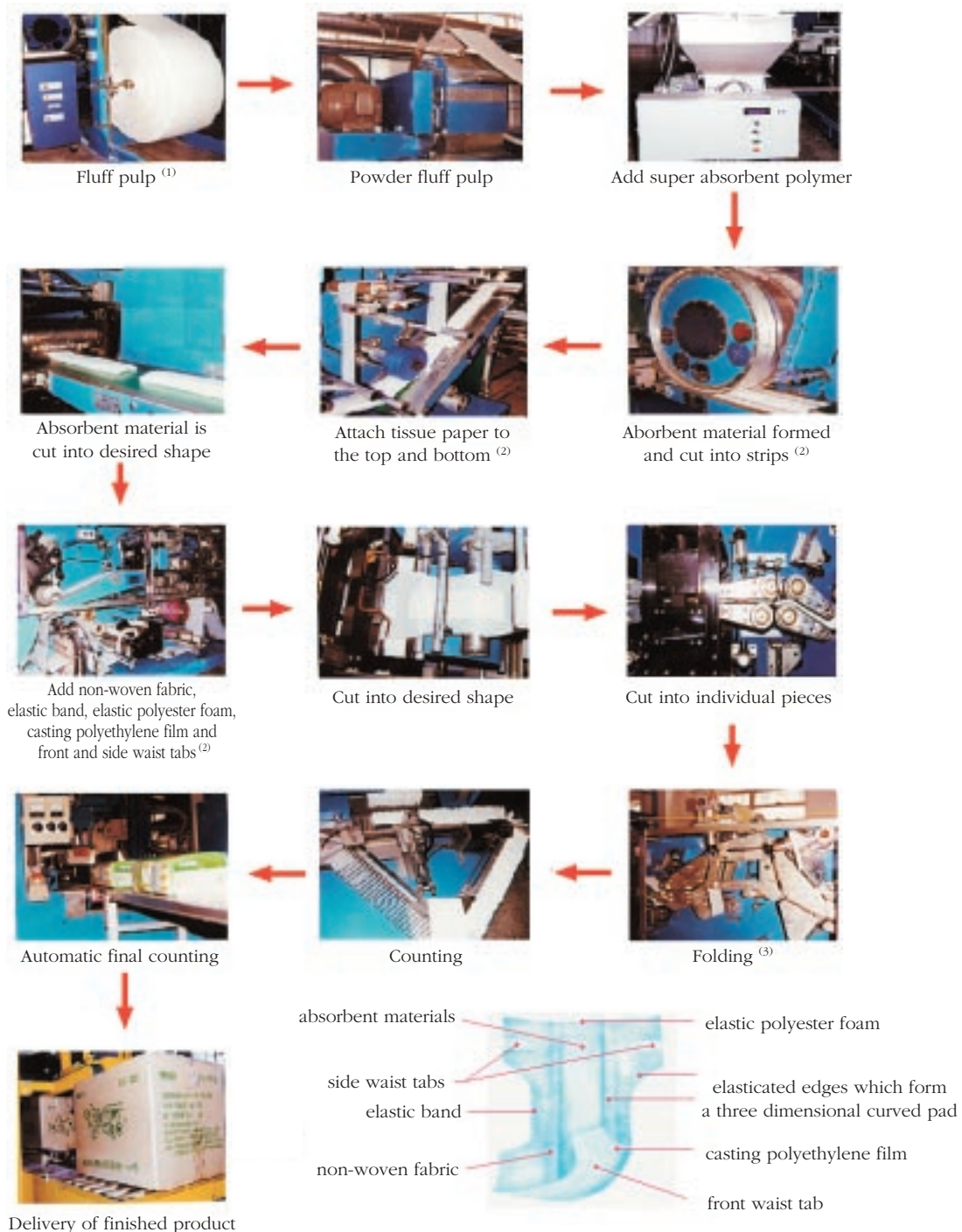
Notes:

- (1) The quality testing and control of raw materials is carried out by specialised staff.
- (2) Various parts of the sanitary napkins are subject to quality testing and control during the production process.
- (3) Quality testing of samples.
- (4) For pantliners, the Group uses airlaid paper instead of fluff pulp.

## BUSINESS OF THE GROUP

### Disposable baby diapers

Set out below is the production process for disposable baby diapers.



Notes:

- (1) The quality testing and control of raw materials is carried out by specialised staff.
- (2) Various parts of the baby diapers are subject to quality testing and control during the production process.
- (3) Quality testing of samples.

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## **BUSINESS OF THE GROUP**

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### **RAW MATERIALS**

Fluff pulp, tissue paper, non-woven fabric, perforated film, casting polyethylene film, super absorbent polymer and hot melt glue are the principal raw materials for the manufacture of sanitary napkins and disposable baby diapers. For pantliners, the Group uses airlaid paper instead of fluff pulp. The Group has its own production facilities for the manufacture of hot air penetrated non-woven fabric, perforated film, casting polyethylene film, hot melt glue and plastic packaging bags. The Group's total raw material purchases for the year ended 31st December, 1997 and the six months ended 30th June, 1998 amounted to approximately HK\$519 million and HK\$338 million, respectively, representing approximately 65.5 per cent. and 52.6 per cent. of the total turnover of the Group for the respective period. According to CNSAHP, the Group is the largest importer of fluff pulp in the PRC. Apart from fluff pulp, tissue paper, release paper, airlaid paper, super absorbent polymer, ES fibre, resin, perforated film and P.U.foam which are wholly or partly imported by the Group, approximately 69 per cent. of the Group's raw materials in terms of costs of raw materials is produced by the Group or sourced from PRC suppliers.

In order to ensure the stability and consistency of product quality, the Group takes into account the quality of materials, prices and after-sales services provided in choosing its key suppliers. In accordance with the applicable PRC regulations, the quality of all the imported materials of the Group are checked by the China Commodity Inspection Bureau at the port (see "Summary of relevant PRC laws and regulations" in Appendix V to this prospectus). Currently, there are no PRC regulations governing the quality of locally produced raw materials. All raw materials undergo a final check by the quality control department of the Group before they are used for production.

In order to benefit from centralised bulk purchasing, apart from a very small proportion of materials which the Company's PRC subsidiaries directly source from suppliers, raw material purchase requirements are generally sent by each subsidiary to the Group's headquarters on a monthly basis. The Group then places a single purchase order to suppliers. Purchases of raw materials are made by reference to monthly inventory reviews and the Group's production schedules. It is the Group's policy to review prices of raw materials to determine whether any extra purchases should be made to benefit from low prices or hedge against any anticipated price increases.

For raw materials which are imported from overseas, the Group usually maintains stock sufficient for one to two months' production (apart from fluff pulp which the Group maintains stock for three to four months' production). Purchases from the Group's overseas suppliers were generally paid for by telegraphic transfer or letters of credit and they generally give 30 to 45 days credit terms to the Group. Since July 1998, the Group commenced its policy to pay for a majority of its raw material purchases overseas using letters of credit. The credit terms given by the Group's suppliers vary between 15 and 45 days. For raw materials which are readily available from suppliers or agents in the PRC, the Group usually maintains stock sufficient for one to four weeks' production. The Group is generally given 15 to 30 days credit terms for local purchases.

For the year ended 31st December, 1997 and the six months ended 30th June, 1998, purchases from the Group's five largest suppliers accounted for approximately 30 per cent. and 26 per cent., respectively of the Group's total raw material purchases. These five suppliers have carried on business with the Group for periods ranging from one to ten years. The Group's purchases from its largest supplier accounted for approximately 13 per cent. and nine per cent. of the Group's total raw material purchases for the year ended 31st December, 1997 and the six months ended

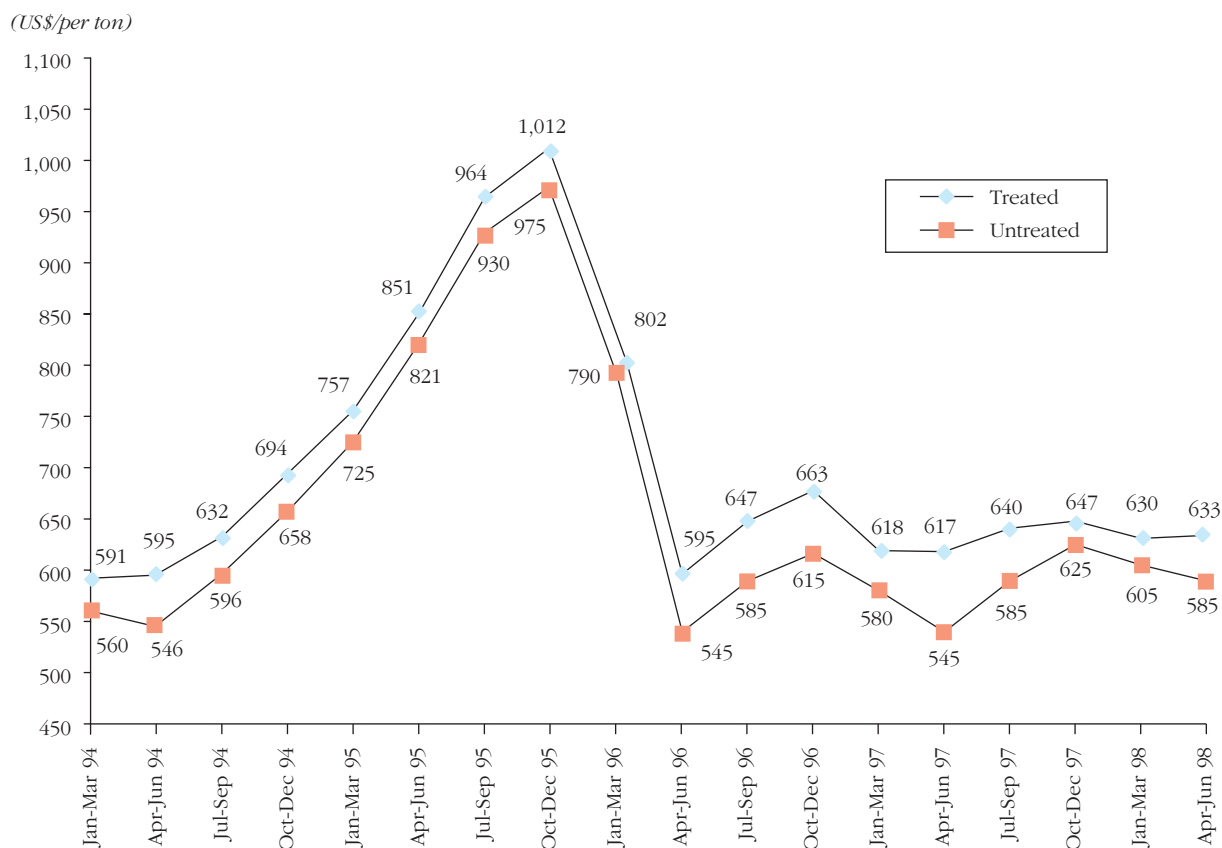
## BUSINESS OF THE GROUP

30th June, 1998, respectively. The Group has good relationships with its suppliers and has not experienced difficulties in obtaining supplies of raw materials. The Directors believe that because the Group is the largest importer of fluff pulp in the PRC, it is a major customer of its fluff pulp suppliers and is usually able to obtain favourable prices. None of the Directors, Hengan International Holdings Limited, its subsidiaries or their respective associates (as defined in the Listing Rules), nor any existing shareholder of the Company (holding five per cent. or more of the issued share capital of the Company) has any interest in the Group's five largest suppliers for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998.

Currently, the import of the Group's raw materials into the PRC is subject to import tariff and a value added tax. The tariff rate for fluff pulp is one per cent. and the rate for the rest of the Group's imported raw materials ranges from five per cent. to 19 per cent. Value added tax at a rate of 17 per cent. is also payable on the value of the materials (including import tariff payable).

In 1997, approximately 31 per cent. of the Group's purchase of raw materials were in US Dollars, representing about 20 per cent. of the Group's sales revenue in that year (of which purchases of fluff pulp accounted for approximately 88 per cent.). The fluff pulp purchased by the Group comprises treated and untreated fluff pulp. The average price per ton sold by the Group's overseas suppliers to the PRC market for treated and untreated fluff pulp for each quarter between 1994 and 1997 and the first two quarters of 1998 are set out in the diagram below.

**The average price per ton sold by the Group's overseas suppliers to the PRC market for treated and untreated fluff pulp**



Source: The Group's overseas fluff pulp suppliers

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## **BUSINESS OF THE GROUP**

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The Group is currently seeking to source more raw materials within the PRC such as tissue paper and to produce more raw materials in-house. The Group has been importing some of the tissue paper which it requires for the manufacture of sanitary napkins and disposable baby diapers, which accounted for approximately 0.5 per cent., 0.6 per cent., 1.6 per cent. and 1.3 per cent. of the Group's total cost of sales for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, respectively. The Group expects to purchase tissue paper from Changde Paper (which is expected to be not more than three per cent. of the Group's total cost of sales) when its commercial production commences, as currently scheduled, in December 1998. If Changde Paper produces tissue paper of a quality meeting the Group's requirements, the Group may reduce its cost because of the elimination of import duty (at present, 15 per cent.) and reduction of transportation costs. It is not known whether Changde Paper's products will meet the Group's requirements and therefore such saving in costs may not materialise. Further details of the purchasing arrangements between Changde Paper and the Group are outlined in the paragraph headed "Connected transactions" in this section.

### **QUALITY CONTROL**

The Directors believe that the high quality of the Group's products is one of the main reasons for the Group's success. ISO 9002 Quality System Certifications have been awarded by the CCCQM to Hengan Fujian and Hengan Anxiang in 1996 and 1998, respectively. Hengan Fujian passed the annual assessment audits (in terms of quality system) in both 1997 and 1998. The Group was the first sanitary napkin manufacturer in the PRC to obtain this accreditation. In addition, in 1996, the *Anerle* (安爾樂) sanitary napkins (thick, standard and thin) and the *Anle* (安樂) sanitary napkins (standard) manufactured by Hengan Fujian received Certificates of Conformity of Product Quality from the CCCQM.

As well as the certifications described above, the Group has received numerous awards for its sanitary napkin products from various national organisations including the State Quality Technology Supervision Bureau (Grade A Certification for the Group's sanitary napkin products in 1995) and the PRC Consumer Council (Gold Award at the National Women and Children Products Expo in 1990), as well as the recommendation from the National Women's Federation of the PRC.

The Group places strong emphasis on quality control throughout its production processes, from the sourcing of raw materials to final packaging. There are approximately 120 staff involved in quality control who conduct checks during the production processes. The Group carries out quality checks on its raw materials to ensure that the quality of the products meet the required national hygienic standards. Currently, the quality of the Group's products have to meet the hygiene standard set by the Ministry of Public Health. The Group has obtained hygiene licences issued by the relevant government authorities which show that the hygiene standards of the Group's production facilities meet the requisite standards set by the PRC government. The Group uses raw materials checklists, production flow charts and product specifications for its quality control procedures which seek to ensure the consistent quality of the Group's products. The Group's production facilities in Tianjin City and Weifang City in Shandong Province have submitted their application for ISO 9002 Quality System accreditation in August 1998 and September 1998, respectively.

The Group has a quality control team in each of its production facilities, which is responsible for the implementation of the quality control procedures adopted by the Group. The quality control team in each production facility prepares an annual quality control report. These reports are

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## **BUSINESS OF THE GROUP**

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submitted to the quality control department at the Group's head office. This department then reports directly to senior management. The quality control department carries out annual examinations of the quality control procedures within the Group and introduces necessary changes.

The Group places strong emphasis on the training of its quality control staff. The Group sends its employees to training courses on quality management and quality control organised at national and provincial levels by various relevant states and local authorities including the local quality control authority and public health authority. The Group also invites Chinese and foreign experts and professors to give lectures to staff. In order to ensure the quality of the Group's products, the Group's quality control department has installed product testing facilities. Advanced automatic testing systems have been installed in the Group's winged sanitary napkin, pantiliner and disposable baby diaper production lines (totalling 26 production lines) to ensure the control of quality during the production process. Apart from the daily quality checks carried out by the Group, it sends its products to the local Commodity Technology Inspection Departments and Hygiene Inspection Points for quality testing as required by the relevant regulations of the relevant local authority. Random sample checks are carried out by the National Quality Control Authority every year. The quality of sanitary napkins and disposable baby diapers produced in the PRC is subject to government regulations.

The Group very seldom receives complaints about its products. The Group has received nine, five and three complaints about its products for each of the three years ended 31st December, 1997 and has received no complaints for the six months ended 30th June, 1998. The complaints which the Group has received are mainly relating to the quantity of the products in the packages and malfunction of external parts of the products such as the adhesives and release papers of the sanitary napkin products. Any complaints received are analysed to locate the source of the problem and the relevant department is notified to rectify the problem promptly.

### **RESEARCH AND DEVELOPMENT**

The Group places strong emphasis on the development of new technologies and new products as well as applying new technology to its production processes. The Directors believe that the ability to supply new products in line with market demand and product trend is very important for maintaining the Group's competitive position.

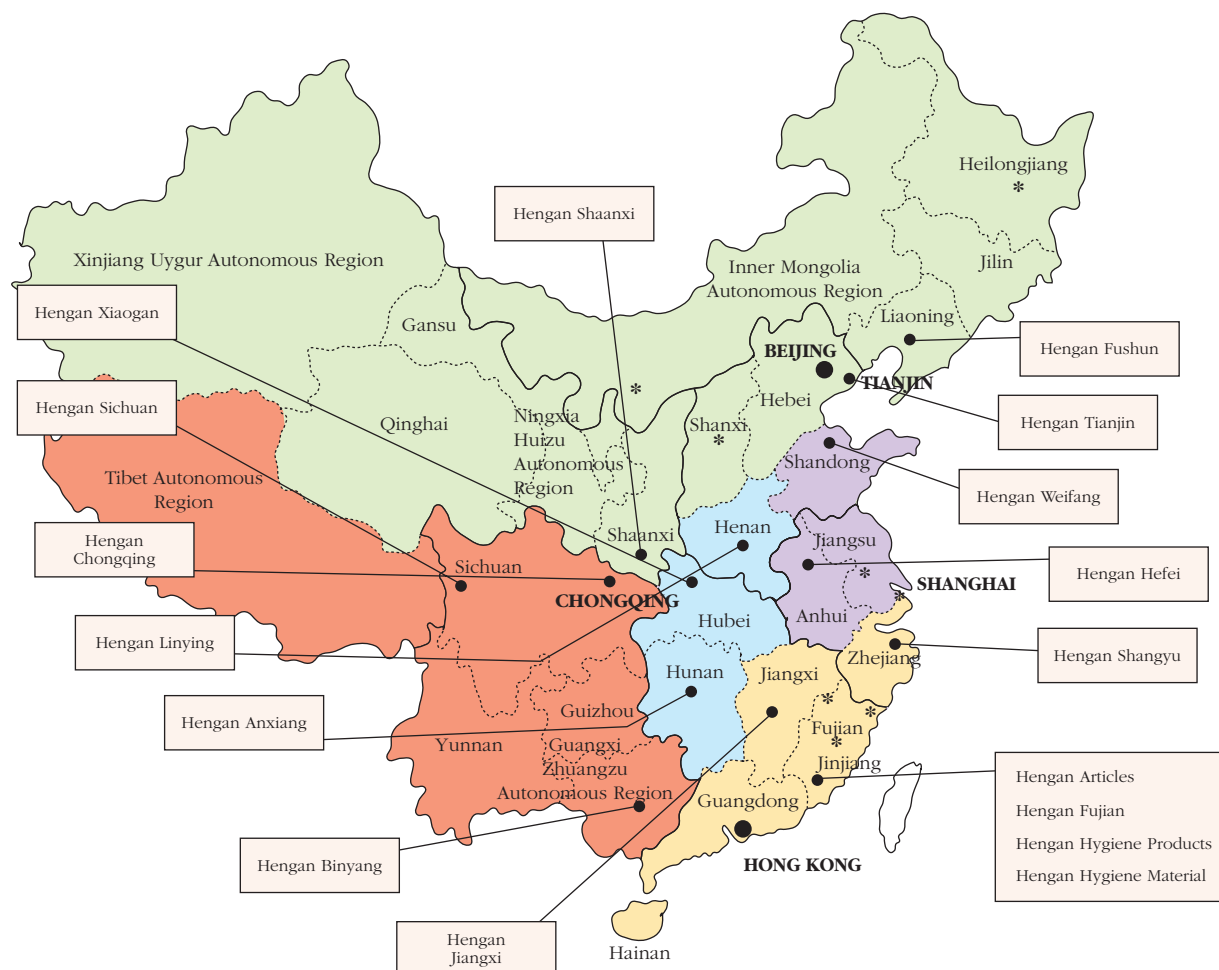
The Group has a research and development centre at its headquarters in Fujian. The centre currently has 11 professional staff. In addition, there are employees at every production plant of the Group (totalling approximately 290 technicians) who assist in research and development when necessary. The Group's research and development work includes developing new products, improving the manufacturing process, improving the quality of the Group's existing products, improving efficiency of the existing production lines and auxiliary facilities, developing new machinery and upgrading production techniques. Products recently developed and sold by the Group include pantliners and disposable baby diapers. Examples of new products currently being developed are adult diapers and a new style of disposable baby diapers.

The Group uses its extensive production, sales and marketing networks to provide up-to-date market information to the research and development centre. The production team provides feedback to the research and development centre in relation to the manufacturing process and machinery and equipment. This is particularly important for reviewing the upgrading or replacement of equipment. The Group has established an educational training course (Hengan Electrical and Mechanical Course) with Huaqiao University in Fujian for educating technicians and developing mechanical research.

## BUSINESS OF THE GROUP

### PRODUCTION FACILITIES

The Group has 17 PRC subsidiaries each with a production facility and a warehouse. These production facilities are located in 14 provinces, direct administrative cities or autonomous regions. The following map shows the 17 production facilities of the Group and the eight facilities with which the Group has entered into sub-contracting arrangements.



Note: ● indicates the 17 production facilities of the Group.

\* indicates the eight facilities with which the Group has entered into sub-contracting arrangements.

Northern region
  Eastern region
  Fujian region
  Central region
  South-western region

Each of the Company's 17 PRC subsidiaries is either a wholly foreign owned subsidiary, a sino-foreign equity joint venture, a sino-foreign co-operative joint venture or a joint operation enterprise. These 17 PRC subsidiaries are grouped under five BVI holding companies by reference to their geographical locations in the PRC (see the Group structure chart under the paragraph headed "Group structure" in this section). The eight sub-contractors are operated by independent third parties. Details regarding the Company's PRC subsidiaries are set out in the paragraph headed "Information about the PRC foreign investment enterprises and joint operation enterprises within the Group" in Appendix VII to this prospectus.

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## BUSINESS OF THE GROUP

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The production lines currently owned and operated by the Group have an estimated aggregate annual production capacity of 6,800 million ordinary sanitary napkins, 1,900 million winged sanitary napkins, 650 million pantliners and 150 million disposable baby diapers.

The total floor area of the 17 production facilities operated by the Group is approximately 201,232 sq.m. of which approximately 164,626 sq.m. is owned by the Group. The remainder is leased by the Group.

The following table provides certain information in relation to the products and production lines of the Company's PRC subsidiaries divided in the five regions.

<b>Factory and location</b>	<b>Principal types of products manufactured</b>	<b>Total no. of production lines</b>
<b><i>Northern Region</i></b>		
Hengan Fushun (Liaoning Province) and Hengan Tianjin (Tianjin Direct Administrative City)	<i>Anle</i> (安樂) and <i>Anerle</i> (安爾樂) sanitary napkins	18
<b><i>Eastern Region</i></b>		
Hengan Weifang (Shandong Province); Hengan Hefei (Anhui Province); and Hengan Shaanxi (Shaanxi Province)	<i>Anle</i> (安樂) sanitary napkins	14
<b><i>Fujian Region</i></b>		
Hengan Articles (Fujian Province); Hengan Fujian (Fujian Province); Hengan Hygiene Products (Fujian Province); Hengan Shangyu (Zhejiang Province); Hengan Jiangxi (Jiangxi Province); and Hengan Hygiene Material (Fujian Province)	<i>Anerle</i> (安爾樂) and <i>Anle</i> (安樂) sanitary napkins; <i>Anerle</i> (安兒樂) disposable baby diapers; pantliners and raw materials for sanitary napkins	49
<b><i>Central Region</i></b>		
Hengan Linying (Henan Province); Hengan Anxiang (Hunan Province); and Hengan Xiaogan (Hubei Province)	<i>Anle</i> (安樂) and <i>Anerle</i> (安爾樂) sanitary napkins	24
<b><i>South-western Region</i></b>		
Hengan Chongqing (Chongqing Direct Administrative City); Hengan Sichuan (Sichuan Province); and Hengan Binyang (Guangxi Zhuangzu Autonomous Region)	<i>Anle</i> (安樂) and <i>Anerle</i> (安爾樂) sanitary napkins	12
Total production lines		<u>117</u>

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## **BUSINESS OF THE GROUP**

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### **Sub-contracting arrangements**

The Group has exclusive sub-contracting arrangements for the production of *Anle* (安樂) sanitary napkins in place with eight PRC enterprises located in five provinces and one self autonomous region in the PRC. These sub-contractors have a total of 22 production lines (with an estimated total annual production capacity of 1,100 million pieces of ordinary sanitary napkins) and are all independent third parties.

For four of the eight sub-contractors (namely Xishan City Hengan Hygiene Products Factory, Ningde Hengan Hygiene Products Co., Ltd., Liancheng Hengan Hygiene Products Factory and Heilongjiang Hengan Hygiene Products Co., Ltd.) were previously legally owned by the Group which the beneficial interests were held by the Group on behalf of the Founding Shareholders. As part of the Reorganisation, the Group has transferred its interests in these entities to independent third parties by way of four equity transfer agreements with the consent of the Founding Shareholders (see nos. 33, 35, 37 and 39 in the section “5. Further information about the business — Summary of material contracts” in Appendix VII to this prospectus). In addition, the Group, the subject entities, the Founding Shareholders and the transferees executed four letters of confirmation under which the Founding Shareholders agreed to the transfer of the equity interests in these four entities to the transferees. The relevant transferees paid in total RMB 4 (approximately HK\$3.7) to the Group under the said equity transfer agreements. The consideration of the equity interests transferred to the relevant transferees were settled at net asset value directly between the Founding Shareholders and the transferees.

Apart from the four entities mentioned above, the Group used to hold interests in two other entities, namely Shanghai Qingpu Hygiene Products Co. and Inner Mongolia Wuyuan Hengan Hygiene Products Co., Ltd., on behalf of the Founding Shareholders. As part of the Reorganisation, the Group dissolved these two entities (which was completed in September 1998) and as a result of which the Group was allocated with the assets which were originally held by the entities on behalf of the Founding Shareholders. Pursuant to two asset transfer agreements (see no. 68 and 69 in the section “5. Further information about the business — Summary of material contracts”), the Group transferred such assets to independent third parties who then injected the assets respectively to the two sub-contractors operated thereby. The transferees paid in total RMB 2 (approximately HK\$1.9) to the Group under the two asset transfer agreements. The consideration of the assets transferred to the transferees were settled at net asset value directly between the Founding Shareholders and such transferees. The remaining two sub-contractors, namely Shanxi Taiyuan Hengan Hygiene Products Factory and Sanming City Hengan Hygiene Products Co., Ltd., were previously owned by the Founding Shareholders and such interests were transferred to independent third parties in August and September 1998.

For the three years ended 31st December, 1997 and the six months ended 30th June, 1998, sales of these eight entities accounted for approximately 18 per cent., 22 per cent., 18 per cent. and nine per cent. of the Group’s total sales. 16 out of the aggregate 20 transferees to whom the Group and the Founding Shareholders transferred their interests in the sub-contractors or the assets as referred to in this section used to be employees of the Group and each of them held less than 2.5 per cent. interest in each of these entities. The remaining four transferees are independent third parties to the Group. The investors of the sub-contractors currently do not hold any interest in HIIL, the Company or any its subsidiaries. For identities of the independent third parties, please refer to the paragraph headed “Reorganisation in respect of the PRC subsidiaries” in Appendix VII to this prospectus.

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## **BUSINESS OF THE GROUP**

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The Founding Shareholders decided not to include these entities in the Group because (i) some are located in remote areas which the Group finds it costly and ineffective to manage, (ii) some overlap with the location of the PRC subsidiaries within the Group and (iii) the production scales and sizes of the production facilities are small.

The sub-contracting agreements were all entered into in September 1998. Under the sub-contracting agreements, the sub-contractors are required to produce the Group's *Anle* (安樂) ordinary sanitary napkin products according to the Group's specifications. In return, the Group will pay to the sub-contractors a fixed price determined by reference to an agreed profit margin to be enjoyed by the sub-contractors for each type of products which the sub-contractors produce for the Group. Such fixed price is subject to an annual review. The Group is not required to place any minimum order to any sub-contractor at any time during the term of the sub-contracting agreements. The sub-contractors are entitled to source raw materials from their own suppliers (except for packaging materials which must be sourced from the Group). The Group is required to send technicians to the sub-contractors' production facilities and provide on-site production supervision, quality control and appropriate training. Either party to the sub-contracting agreement has the right to terminate the agreement if the other party commits a breach of the agreement. The Group also has the right to terminate the sub-contracting agreements upon giving three months' prior written notice to the sub-contractors. The terms of the sub-contracting agreements are for three years commencing from their respective date of execution. The Group and the sub-contractors may renew the agreements two months prior to expiration upon mutual agreement between the relevant parties.

### **MAINTENANCE**

The Group's production facilities normally operate sixteen hours a day, six days a week. The Group carries out maintenance and repair works at two different levels. The Group head office's mechanical and electrical repair teams provide repair technical guidance and carry out an annual overhaul of the production facilities of each of the PRC subsidiaries. At the annual overhaul (where the plant is usually shut for three to seven days and is usually carried out during the Chinese new year holiday), each production line is thoroughly cleansed and all parts are checked and tested to ensure that they are functioning properly. The mechanical and electrical repair teams also provide ad hoc services as and when required by the PRC subsidiaries. Each of the PRC subsidiaries also has its own maintenance and repair team which carries out periodic checks and inspection of the plant's machinery and equipment, which include daily cleaning and repair and replacement of worn-out parts.

For imported machinery and equipment, the Group usually sends its technicians overseas to the relevant suppliers for training in relation to the operation and maintenance of the machinery and equipment. The Group usually requires the suppliers to send technicians to conduct on-site inspection of the machinery and equipment and to provide production assistance during the installation of the equipment and commencement of production stages and to advise the Group's technicians on maintenance matters. The Group spent approximately HK\$1.7 million, HK\$2.1 million, HK\$2.9 million and HK\$2.1 million for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, respectively, on maintenance and repair, representing approximately 0.4 per cent., 0.4 per cent., 0.4 per cent. and 0.3 per cent. of the Group's total turnover for the corresponding periods.

### **MANAGEMENT INFORMATION SYSTEM**

The Group commenced the installation of a computerised management information system ("MIS") in June 1998 which will connect its headquarters in Fujian with each of its PRC subsidiaries and the main sales liaison offices (as far as practicable). This system is being installed with a view to ensuring efficient and effective communication between the

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## BUSINESS OF THE GROUP

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headquarters, the PRC subsidiaries and the main sales liaison offices located in different areas. It will also enable management to have direct access to the operations of each facility including sales, production, accounting, raw materials and stock level. The total investment for the MIS is expected to be approximately HK\$28 million of which approximately HK\$1 million has already been invested up to 30th June, 1998. As at 30th June, 1998, the aggregate committed sum of approximately HK\$28 million for the installation of the MIS have been authorised and contracted for (but not provided for in the financial statements of the Company). The head office's system is already in trial operation and the whole computer network is expected to be fully operational by the end of 1999.

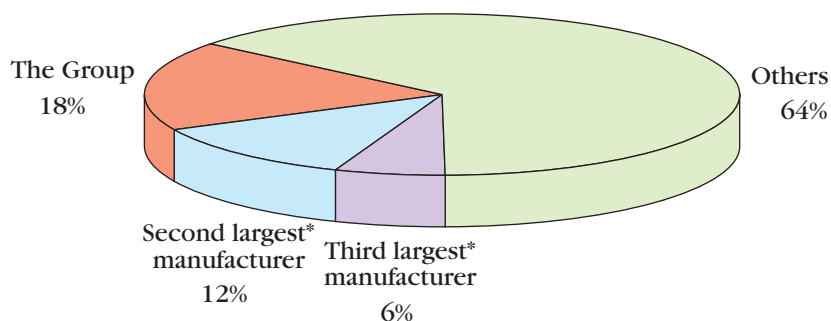
Before the MIS is fully operational, the Group has been using personal computers to process some of the Group's management information.

The Directors are aware of the year 2000 computer virus "millennium bug" issue and note that certain computer software which only use two digits to identify the year may not be able to distinguish between the year 1900 and the year 2000 and if not upgraded to rectify such deficiency, may result in inaccurate data processing and information recording. Various Year 2000 compliance tests and checks have been conducted on the software and hardware installed or to be installed in the MIS. Results show that the software and hardware used in the MIS are Year 2000 compliant. The existing personal computers used by the Group which may not be Year 2000 compliant will be replaced by the end of 1999 (the total cost of which forms part of the estimated HK\$28 million referred to above). Accordingly, the Directors do not foresee that the millennium bug issue will present any problem to the Group. If any new computer software is to be adopted by the Group in the future, it will take into account the millennium bug issue and take appropriate actions to ensure that the new software is Year 2000 compliant.

### COMPETITION

#### Sanitary napkins

According to information provided by CNSAHP, the Group was the largest sanitary napkin manufacturer in the PRC in 1997. It is estimated by CNSAHP that the top three sanitary napkin manufacturers accounted for approximately 36 per cent. of sanitary napkins in the PRC in 1997. The remainder is supplied by over 1,000 manufacturers in the PRC. The pie chart below shows the estimated market share of the top three manufacturers and other manufacturers in the PRC sanitary napkin market by reference to estimated production volume of sanitary napkins for 1997.



Source: CNSAHP

\* These manufacturers are international manufacturers with manufacturing bases in the PRC.

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## **BUSINESS OF THE GROUP**

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Due to the different market characteristics of winged sanitary napkins and ordinary sanitary napkins, the Group's competitors and competition strategies for these two markets are different.

Winged sanitary napkin products became available in the PRC in the early 1990s. Sales of winged sanitary napkin products are currently mainly concentrated in cities and in coastal areas. As the average household income level and the standard of living in these cities are higher, there is a greater demand for quality products than in the smaller cities and rural areas. According to CNSAHP, only an estimated 16 per cent. of total sanitary napkins produced in the PRC in 1997 were winged sanitary napkin products.

The Directors believe that most of the multinational companies which produce and sell sanitary napkins in the PRC produce winged sanitary napkin products. The Directors also believe that the major PRC domestic sanitary napkin manufacturers, including the Group, produce winged sanitary napkin products as well. The Group's winged sanitary napkin products mainly compete with the products of these manufacturers.

Ordinary sanitary napkins were first available in the PRC in the early 1980s. In the PRC, ordinary sanitary napkins are generally sold at a lower price than winged sanitary napkins and are used by more consumers compared with winged sanitary napkins. They are sold in cities of all sizes and in rural areas. The production of ordinary sanitary napkin products accounted for approximately 83 per cent. of the total sanitary napkins produced in the PRC in 1997. Even in big cities such as Shanghai, Beijing, and Guangzhou, the market share of both winged sanitary napkins and ordinary sanitary napkins is similar.

The Directors believe that in the PRC the vast majority of ordinary sanitary napkin products are currently produced by PRC local manufacturers. The Group's *Anle* (安樂) products compete with the products of these manufacturers. The Directors also believe that ordinary sanitary napkin product manufacturers with small production scale generally produce and sell their products within the vicinity of where they are located.

Pantiliners are high-end products (the production of which in the PRC is believed to have commenced in 1992) and are still at an early stage of development. Currently, there are a few major pantiliner manufacturers in the PRC and sales are mainly concentrated in big and coastal cities with high household income. According to CNSAHP, only less than one per cent. of the total sanitary napkins produced in the PRC in 1997 were pantiliners. As a result, the Directors believe that competition for this product is not as intense as for winged and ordinary sanitary napkin products.

As described in the section headed "Overview of PRC sanitary napkin and disposable baby diaper markets" in this prospectus, imported sanitary napkins only accounted for less than one per cent. of the total sanitary napkins consumed in the PRC in 1997. As a result, the Directors believe that currently imported sanitary napkins do not have a significant impact on competition in the PRC sanitary napkin market.

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## BUSINESS OF THE GROUP

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The Directors believe that at present the Group mainly competes with the following competitors in the PRC sanitary napkin market:

<b>Major competitors</b>	<b>Winged sanitary napkin/brand</b>	<b>Ordinary sanitary napkin/brand</b>	<b>Pantiliners/brand</b>
Kimberly-Clark	Kotex	Comfort and Beauty	Comfort and Beauty
Procter & Gamble	Whisper	Whisper	Whisper
Uni-charm	Sofe	Sofe	Sofe
Johnson & Johnson	Carefree	Carefree	Carefree
Kao	Laurier	Laurier	Laurier
Hengli	好舒爽	舒爽	—
Welfare	Welfare	Welfare	Welfare

The Directors believe that PRC consumers currently take into account various factors in choosing their sanitary napkin products. The foremost considerations are quality and price. The others (in order of preference) include brand awareness, purchase convenience and the influence of advertising.

The Directors believe that the Group has maintained its competitiveness in the sanitary napkin market mainly due to the following reasons.

- Its high market share is achieved by a well established sales network which covers most regions in the PRC.
- Its high quality and wide range of products caters for demands of consumers in different income brackets.
- A strong brand awareness of its *Anle* (安樂) and *Anerle* (安爾樂) brands, because they each appeared relatively early in the PRC sanitary napkin market as compared with other brands of similar products.
- Its vertically integrated production process and production facilities located in various regions in the PRC enabled the Group to benefit from economies of scale, to minimise product costs, to maintain the quality of its products and to reduce transportation costs.
- Its research and development capabilities allow the Group to develop new products to suit market demand and improve its production techniques and efficiency.
- Its experienced management is familiar with the PRC market and its efficient management structure is based on the operational needs of the Group.

In addition, the Directors believe that its *Anerle* (安爾樂) branded sanitary napkin products are of comparable quality to the products sold by the Group's competitors in the PRC. The retail price of *Anerle* (安爾樂) branded products is competitive as compared to most other major multi-national companies' branded products (ignoring any special promotions).

The Group seeks to enhance its leading position in the PRC sanitary napkin market through its established market share for winged and ordinary sanitary napkins and the development and sale of new sanitary napkin products such as pantliners.

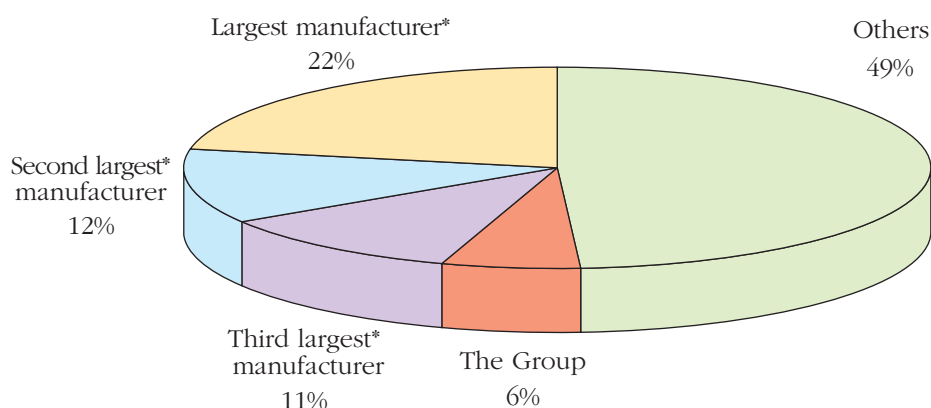
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## BUSINESS OF THE GROUP

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### Disposable baby diapers

The PRC disposable baby diaper market is at an early stage of development. Currently, there are a few major players in the PRC disposable baby diaper market. According to CNSAHP, the top four manufacturers accounted for approximately 51 per cent. of the total production in 1997. Some international manufacturers also produce disposable baby diapers in the PRC. The pie chart below shows the estimated market share of the top four manufacturers and other manufacturers in the PRC disposable baby diaper market by reference to total estimated production.



Source: CNSAHP

\* These manufacturers are foreign investment enterprises established in the PRC.

Sales of disposable baby diapers are currently mainly concentrated in major cities, coastal cities and other cities with high household income. The Directors believe that, since the PRC baby diaper market is still at an early stage of development, competition is not as intense as in the PRC sanitary napkin market. The Group will seek to increase sales of its disposable baby diapers by capitalising on its extensive sales and distribution network and, in particular, by increasing sales to supermarkets, department stores and other retail stores in major cities in the PRC. The Group plans to place more emphasis on advertising and promoting its disposable baby diapers. The Group is currently developing a new design of disposable baby diapers with better air flow and is also currently developing a new form of disposable baby diapers. The Directors believe that these new products will provide the Group with a stronger competitive edge.

### INSURANCE

The Group has purchased from The People's Insurance Company of China, Ltd. approximately RMB347 million (approximately HK\$325 million) of insurance to cover losses in respect of damages to its existing properties, inventories and facilities. This insurance covers approximately 57 per cent. of the Group's assets in respect of fixed assets and inventories as at 30th June, 1998. The Group also maintains insurance in respect of its motor vehicles and medical and employee insurance policies for some of its employees. For the three years ended 31st December, 1997 and the six months ended 30th June, 1998, the Group paid approximately HK\$186,000, HK\$233,000, HK\$550,000 and HK\$320,000 in insurance premiums.

The Group does not have any product liability insurance, business interruption insurance or any third party liability insurance for claims in respect of personal injury or property damage arising from accidents on the Group's property or relating to the Group's operations or products. The Group has not had any major third party liability claim or material accident compensation claim filed against it during the period covered by the Accountants' Report.

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## **BUSINESS OF THE GROUP**

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### **INTELLECTUAL PROPERTY**

The Group has registered trademarks in relation to its sanitary napkin and disposable baby diaper products in the PRC and in certain other countries. For more details, please refer to the paragraph headed “Intellectual property rights of the Group” in Appendix VII to this prospectus.

As the Group’s brand names are relatively well-known and popular in the PRC, the Group has discovered incidences of counterfeiting of its products in the PRC (13, 12, 11 and six cases were reported by the Group to the relevant government authorities for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, respectively). The Group puts strong emphasis on the protection of its trademarks and combats counterfeiting activities through reporting them to the relevant government and judicial authorities (including the Public Security Bureau (公安局), the relevant People’s Court (人民法院), local Technology Inspection Bureau (地方技術監督局) and the Administration of Industry and Commerce (工商行政管理局)) which then take appropriate action against the offenders.

### **RELATIONSHIP WITH THE FOUNDING SHAREHOLDERS**

The Founding Shareholders, who will in aggregate hold 46.912 per cent. of the issued shares of the Company immediately after completion of the Share Offer (but before the exercise of the Over-Allotment Option), will be the controlling shareholders of the Company. Apart from their investment in the Group, the Founding Shareholders also carry on the business relating to the production of paper products and clothing materials and property development. Save for the transactions set out in the paragraph headed “Connected transactions” in this section, at present, the Group does not have any business relationship with the entities engaged in such other businesses of the Founding Shareholders.

The Company and the Founding Shareholders have entered into a deed of non-competition dated 26th November, 1998 under which, subject to the conditions set out in the paragraph headed “Conditions of the New Issue” in the section headed “Structure of the Share Offer” in this prospectus becoming unconditional, the Founding Shareholders have undertaken that they will not directly or indirectly invest, participate, be engaged, or interested in (whether as a shareholder, partner, agent or otherwise) the acquisition, development or management of or investment in the business of the production or sale of sanitary napkins and disposable baby diapers or any business of any type which the Group is described as undertaking in this prospectus or any business relating to personal hygiene products which the Group decides to engage in the future (“Restricted Activity”) whether for their own account or for any person, firm or company and whether through the medium of any company which is/are their respective associate(s) or connected person(s).

The non-competition undertakings given by the Founding Shareholders do not apply to (i) the direct or indirect holdings of any securities of any company listed on the Stock Exchange or any other stock exchange which conducts or is engaged in any Restricted Activity where the aggregate number of the shares held by the Founding Shareholders and/or their respective associates or connected persons do not exceed 10 per cent. of the issued share capital of the company in question or the Founding Shareholders and/or their respective associates or connected persons do not control the board of directors of the company in question; or (ii) the direct or indirect holding by the Founding Shareholders or any of their respective associate(s) or connected person(s) of any securities of or interest in any member of the Group.

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## **BUSINESS OF THE GROUP**

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The deed of non-competition will remain effective until the earliest of (i) the Founding Shareholders and/or their respective associates ceasing to be the controlling shareholders (as defined in the Listing Rules) of the Company; (ii) the Shares ceasing to be listed and traded on the Stock Exchange; and (iii) the principal business of the Group ceasing to be the Restricted Activities.

The Founding Shareholders have jointly and severally undertaken to the Group that they will not, and will procure that none of their respective subsidiaries or associates (as defined in the Listing Rules) will transfer, assign, sell or dispose of (i) any of their respective interest in Changde Paper, Jinjiang Hengan Hearttex Paper Products Co., Ltd. (“Hearttex Paper”), Hengan (Luohe Linying) Paper Co., Ltd. (“Linying Paper”) and Hengan (Chongqing) Paper Products Co., Ltd. (“Chongqing Paper”); or (ii) any of their respective interest in any subsidiaries or associated companies which engage in the business of manufacturing tissue paper (either as finished products or as raw materials) to any member of the Group within one year from the date of listing of the Shares on the Stock Exchange.

### **CONNECTED TRANSACTIONS**

Following the listing of the Shares on the Stock Exchange, the following transactions will constitute connected transactions for the Company under the Listing Rules.

#### **(i) Supply Agreement with Changde Paper**

The Company entered into a supply agreement with Changde Paper on 26th November, 1998 (“Supply Agreement”). Changde Paper is a sino-foreign equity joint venture established on 19th February, 1997 carrying on the business of manufacturing tissue paper raw material. It is 94 per cent. owned by United Wealth which is wholly beneficially owned by the Founding Shareholders. Therefore Changde Paper is a connected person of the Group under the Listing Rules. Changde Paper commenced trial production in October 1998 and is expected to commence commercial production in December 1998.

Pursuant to the Supply Agreement, Changde Paper has covenanted to supply tissue paper as raw material to the Group at a purchase price not less favourable than that offered to Changde Paper’s other independent customers in the PRC and that it will give the Group first priority for purchase order placed by the Group. The Group is not obliged to purchase any minimum quantity of tissue paper raw material from Changde Paper over any given period of time and the Group is free to source tissue paper raw material from other local or international suppliers in the market. Since the Directors expect that the quality of tissue paper raw material to be produced by Changde Paper will be comparable to that produced by international suppliers, the Group at present has an intention to purchase from Changde Paper upon its commencement of commercial production should the products of Changde Paper meets the Group’s requirements.

According to Changde Paper, its estimated total production for 1999 is 25,000 tonnes. The Directors expect that the Group will require approximately 3,500 tonnes of tissue paper raw material in 1999. This is expected to be no more than 15 per cent. of the estimated total production of Changde Paper for that year.

The term of the Supply Agreement is three years commencing from 26th November, 1998 and is automatically renewable on a yearly basis unless and until terminated by either party to the agreement by giving not less than six months’ prior written notice to the other. During the term

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## **BUSINESS OF THE GROUP**

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of the Supply Agreement, the Company may terminate the Supply Agreement by giving not less than six months' prior written notice, but Changde Paper is not entitled to terminate the Supply Agreement unless the Company commits a material breach of the terms of the Supply Agreement.

The Directors have confirmed that the Group will obtain and review at least two quotations, in addition to Changde Paper's quotation, from independent suppliers whenever the Group intends to purchase tissue paper raw material. The Group will place orders to the supplier which offers the best terms.

For each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, the total tissue paper purchased by the Group from independent suppliers were respectively HK\$24.9 million, HK\$29.9 million, HK\$45.9 million and HK\$28.8 million, representing 7.0 per cent., 7.0 per cent., 8.7 per cent. and 7.3 per cent. respectively of the total cost of sales of the Group. Out of these purchases, 0.5 per cent., 0.6 per cent., 1.6 per cent. and 1.3 per cent. respectively of the total cost of sales of the Group were for tissue paper raw materials imported for the corresponding periods. The Company expects that the aggregate cost of tissue paper purchased by the Group from Changde Paper in any relevant year during the term of the Supply Agreement would not exceed three per cent. of the total cost of sales of the Group for that year.

### **(ii) Agency Agreement with United Wealth**

The Company entered into an agency agreement with United Wealth on 26th November, 1998 (the "Agency Agreement"). As described in (i) above, United Wealth is a connected person of the Group under the Listing Rules. Currently, United Wealth has three subsidiaries, namely Hearttex Paper, Linying Paper and Chongqing Paper ("United Wealth Subsidiaries") which are engaged in or will engage in the manufacture of packaged tissue paper products (including toilet rolls, paper napkins and facial tissue paper) under the *Hearttex* (心相印) brand name, which has been previously undertaken by Hengan Hygiene Products since 1996 but was transferred to Hearttex Paper pursuant to the Reorganisation. Linying Paper and Chongqing Paper have not commenced production as at the date of this prospectus and are expected to commence production not later than April 1999. Hearttex Paper commenced production in September 1998 when it acquired the production lines and other assets from Hengan Hygiene Products.

The Agency Agreement is for a term of three years and is automatically renewable on a yearly basis unless and until terminated by either party upon giving three months' prior written notice to the other. The Agency Agreement provides that the Group shall distribute packaged tissue paper products manufactured by the United Wealth Subsidiaries or any other subsidiaries of United Wealth which engage in the manufacture of packaged tissue paper products on a non-exclusive basis through the Group's sales network. In return, United Wealth will pay to the Group a commission at a rate of 7.5 per cent. on the total value of net sales. The commission rate is subject to an annual review by the Company and United Wealth. The commission rate of 7.5 per cent. was calculated and agreed by the parties by reference to and is in line with the selling and administration expenses of the Group principally comprising transportation, travelling, selling commissions and salaries payable to the sale officers employed by the Group.

United Wealth has undertaken to the Company that the terms offered to the Company under the Agency Agreement shall be no less favourable than any terms offered to other agents of United Wealth for the distribution of packaged tissue paper products during the term of the Agency Agreement. Had the Agency Agreement been in place for the three years ended 31st December, 1997 and the six months ended 30th June, 1998, the aggregate commission receivable by the

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## **BUSINESS OF THE GROUP**

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Group from the United Wealth Subsidiaries would have been approximately HK\$nil, HK\$150,000, HK\$390,000 and HK\$950,000, respectively, representing nil per cent., 0.026 per cent., 0.049 per cent. and 0.15 per cent. of the total sales of the Group for the corresponding periods and nil per cent., 0.027 per cent., 0.071 per cent. and 0.17 per cent. of the combined audited net tangible assets of the Group as at 31st December, 1995, 1996 and 1997 and 30th June, 1998.

The Group expects that the total amount of commission receivable by the Group from the distribution of packaged tissue paper products in any relevant year during the term of the Agency Agreement will not exceed three per cent. of the Group's consolidated audited net tangible assets for that year and such percentage shall be adjusted proportionately downwards according to any reduction in the commission rate chargeable by the Group for that year. Notwithstanding the arrangements under the Agency Agreement, the Directors intend that the Group will continue to concentrate on its core business of the manufacture of personal hygiene products in the future.

### **(iii) Lease with Linying Paper**

Hengan Linying, a wholly-owned subsidiary of the Company, entered into a lease agreement with Linying Paper on 10th November, 1998 for the lease of a gross floor area of 1,431 square meters of production facilities of Hengan Linying at a monthly rental of RMB6,868.80 (approximately HK\$6,431.46), inclusive of building management fee, for a term of two years. Annual rental payable by Linying Paper to Hengan Linying under the lease is RMB82,425.6 (approximately HK\$77,178).

Linying Paper is entitled to request for an extension of the term of the lease for an additional term of one year on the same terms and conditions (save for the rental which will be adjusted according to the then prevailing market rental) upon giving three months' written notice to Hengan Linying prior to the expiration of the two year term. Either party to the lease is entitled to terminate the lease by serving three months' prior notice to the other.

Under the term of the lease, Hengan Linying is responsible for the maintenance and security of the leased area and Linying Paper is granted a right of access subject to the condition that the enjoyment of the right of access does not cause any interruption to the normal production runs of Hengan Linying. Before Hengan Linying agreed to grant the lease to Linying Paper, the leased area was idle.

Chesterton Petty Limited, an independent professional valuer, has reviewed the lease agreement and has confirmed that the current rent payable is the market rent for similar properties.

### **(iv) Lease with Hearttex Paper**

Hengan Hygiene Products, a wholly-owned subsidiary of the Company, entered into a lease agreement with Hearttex Paper on 10th November, 1998 for the lease of a gross floor area of 2,298.49 square meters of production facilities of Hengan Hygiene Products at a monthly rental of RMB12,182 (approximately HK\$11,406), inclusive of building management fee, for a term of two years. Annual rental payable by Hearttex Paper to Hengan Hygiene Products under the lease is RMB146,184 (approximately HK\$136,876).

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## **BUSINESS OF THE GROUP**

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Hearttex Paper is entitled to request for an extension of the term of the lease for an additional term of one year on the same terms and conditions (save for the rental which will be adjusted according to the then prevailing market rental) upon giving three months' written notice to Hengan Hygiene Products prior to the expiration of the two year term. Either party to the lease is entitled to terminate the lease by serving three months' prior notice to the other.

Under the term of the lease, Hengan Hygiene Products is responsible for the maintenance and security of the leased area and Hearttex Paper is granted a right of access subject to the condition that the enjoyment of the right of access does not cause any interruption to the normal production runs of Hengan Hygiene Products. Before Hengan Hygiene Products agreed to grant the lease to Hearttex Paper, the leased area was idle.

Chesterton Petty Limited, an independent professional valuer, has reviewed the lease agreement and has confirmed that the current rent payable is the market rent for similar properties.

### **(v) Trademark Licence to Hearttex Paper**

Hengan Fujian has granted to Hearttex Paper a licence to use the *Hearttex* (心相印) and 心相映 trademarks at nil consideration before the grant of approval from the Trademark Administration Bureau for registration of the trademarks in the name of Hearttex Paper pursuant to an assignment thereof by Hengan Fujian to Hearttex Paper as part of the Reorganisation. Hearttex Paper has covenanted to indemnify Hengan Fujian for any liabilities arising from the use of the trademarks. Such licence arrangement will terminate forthwith upon registration of the trademarks in the name of Hearttex Paper.

### **(vi) Trademark Licences with Linying Paper and Chongqing Paper**

Hengan Fujian entered into a trademark licence agreement with Linying Paper and Chongqing Paper, respectively, on 5th November, 1998 and 23rd October, 1998 (the "Licence Agreements"). Pursuant to the Licence Agreements, which are of identical terms and conditions, Hengan Fujian has granted to Linying Paper and Chongqing Paper licences to use the *Hearttex* (心相印) trademark at nil consideration before the grant of approval from the Trademark Administration Bureau for registration of the trademark in the name of Hearttex Paper. Both Linying Paper and Chongqing Paper have covenanted to indemnify Hengan Fujian for any liabilities arising from the use of the trademark. Such licence arrangements will terminate forthwith upon registration of the trademark in the name of Hearttex Paper. All costs and expenses relating to the subject matter of the Licence Agreements shall be borne by the respective licensees.

All the transactions described above are expected to continue following the listing of the New Shares on the Stock Exchange.

In the opinion of the Directors, the transactions mentioned above have been entered into by the relevant member of the Group on normal commercial terms and on an arm's length basis, in the usual and ordinary course of business and are fair and reasonable so far as the shareholders of the Company, taken as a whole, are concerned.

The Sponsors are of the view that the connected transactions set out in the paragraphs above, which are subsisting and are of a commercial nature, have been entered into in the ordinary and usual course of business of the relevant member of the Group and on normal commercial terms and on terms that are fair and reasonable as far as the shareholders of the Company, taken as a whole, are concerned.

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## **BUSINESS OF THE GROUP**

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In respect of transactions referred to above, each of Changde Paper, United Wealth, Linying Paper, Hearttex Paper and Chongqing Paper has undertaken to the Company that it will provide the auditors of the Group full access to its books and records for the auditors to review whether the terms of such transactions have been complied with.

The transactions described above fall within the category of connected transactions under the Listing Rules. Pursuant to the Listing Rules, each such transaction may require full disclosure by way of a press announcement and prior approval by independent shareholders, depending on the nature and the value of the particular transaction. As these transactions are in the ordinary and usual course of business, the Directors and the Sponsors consider that such disclosure would be impractical. Accordingly, the Company has applied for and the Stock Exchange has indicated that it will grant a general waiver for the period commencing from the date of listing of the Shares on the Stock Exchange to the financial year ending 31st December, 2000 from strict compliance with the relevant requirements of the Listing Rules for the connected transactions described above and matters arising out of or in connection with such transactions on the conditions that:—

- (i) details of the transactions will be disclosed in the Company's annual report as set out in Rule 14.25(1)(A) to (D) of the Listing Rules;
- (ii) the independent non-executive Directors will review annually any continued transactions and confirm in the Company's annual report of the relevant year that:
  - (a) the transactions have been entered into in the ordinary and usual course of the business of the Group;
  - (b) the transactions have been entered into on an arm's length basis and on normal commercial terms;
  - (c) the transactions are on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
  - (d) the transactions have been entered into either (1) in accordance with the terms of the agreements governing such transactions, or (2) where there is no such agreement, on terms no less favourable than terms available to third parties so far as the shareholders of the Company are concerned;
  - (e) in any financial year until 31st December, 2000, the aggregate cost of tissue paper purchased by the Group from Changde Paper do not exceed three per cent. of the total cost of sales of the Group for that year; and
  - (f) in any financial year until 31st December, 2000, the aggregate commission receivable by the Group from the distribution of packaged tissue paper products do not exceed three per cent. of the Group's consolidated audited net tangible assets for that year and such percentage shall be adjusted proportionately downwards according to any reduction in the commission rate chargeable by the Group for that year;

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## **BUSINESS OF THE GROUP**

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- (iii) the auditors of the Company will review annually the transactions and write to the Board stating that:
  - (a) the transactions have received approval of the Board;
  - (b) the transactions are in accordance with the pricing policies of the Company;
  - (c) the transactions have been entered into in accordance with the terms of the agreement relating to the transactions or, where there is no such agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties; and
  - (d) the transactions have not exceeded the relevant cap referred to in sub-paragraphs (ii)(e) and (f) above; and
- (iv) the Company's annual report and accounts shall contain a statement that, in the opinion of the Directors, the arrangement has been entered into in the manner as stated in paragraphs (ii)(a) to (f) above.

The Stock Exchange has indicated that, if any terms of the agreement referred to above are altered (unless as provided for under the terms of the agreement) or if the Group enters into any new agreement with any connected persons (within the meaning of the Listing Rules and subject to the requirements set out in the Listing Rules) in the future or if the limits referred to above are exceeded, the Company must comply with the provisions of Chapter 14 of the Listing Rules dealing with connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange. In addition, after the expiry of the waiver described above, the connected transactions described above will be subject to the disclosure and/or approval requirements of the Listing Rules unless another waiver is applied for and granted.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

#### Executive Directors

Mr. Sze Man Bok, aged 48, is the chairman of the Group. He is responsible for corporate direction and development of the Group's overall business. Prior to the establishment of the Group, in the early 1960s, he started his garment processing and trading business in Fujian and later in 1975 migrated to Hong Kong, where he continued his trading business in Fujian and Hong Kong. Mr. Sze and Mr. Hui Chi Lin formed a garment processing factory in the PRC in the early 1980s.

Mr. Hui Chi Lin, aged 45, is the deputy chairman and the chief executive officer of the Group. He is responsible for strategy planning and the overall management of the Group. He has over 20 years' experience in trading, business management and development. Prior to engaging in the garment processing and exporting business with Mr. Sze Man Bok and the establishment of the Group, he managed a local transportation company. Mr. Hui has the title of senior economist in the PRC and is the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association.

Mr. Hung Ching Shan, aged 48, is a vice-president of the Group responsible for raw materials procurement. He is responsible for the overall planning and purchasing of raw materials. Prior to the establishment of the Group, he was a manager of a garment factory in the PRC. He has over 20 years' experience in raw materials procurement as well as in import and export trading.

Mr. Yeung Wing Chun, aged 49, is a vice-president of the Group responsible for production technology and research and development. He is responsible for product development, research and development and quality control. Mr. Yeung graduated from Fuzhou University and has the title of engineer in the PRC. He has over 22 years' experience in machinery technology, quality control and research and development. Prior to the establishment of the Group, Mr. Yeung worked in a diesel engine manufacturing company in the PRC as an engineer.

Mr. Zhang Shi Pao, aged 55, is the chief operating officer of the Group. He is responsible for supervising the day-to-day management of the Group's operations and is in charge of the human resources and the planning departments. Prior to joining the Group in 1990, Mr. Zhang served as a vice governor in Fujian Jinjiang Anhai Town Government and was responsible for supervising local enterprises established in Anhai Town for over 10 years. Mr. Zhang has over 30 years' experience in management and administration.

Mr. Wu Shi Jie, aged 49, is a vice-president of the Group responsible for administration. Mr. Wu has over 28 years' experience in finance and administration. Prior to joining the Group in 1985, he served as the finance and administrative manager of two local PRC manufacturing companies.

Mr. Yue Wai Leung, Stan, aged 38, is a vice-president of the Group in charge of finance and is also the company secretary. Mr. Yue is responsible for overseeing the finance and accounting of the Group. Prior to joining the Group in July 1998, Mr. Yue served as a deputy chief executive and chief financial officer of a company which engaged in property development in the PRC. Mr. Yue also worked in two international accounting firms in Hong Kong, the US and the PRC for 13 years and has substantial experience in relation to listings, auditing and consultancy work in Hong Kong and the PRC. Mr. Yue graduated with a bachelor's degree in administrative studies from York University, Toronto, Canada and is a member of Hong Kong Society of Accountants and American Institute of Certified Public Accountants.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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Mr. Xu Da Zuo, aged 33, is the manager of the Group's accounting and finance department and is responsible for overseeing and monitoring the accounting functions of the Group's subsidiaries in the PRC. Mr. Xu has over 14 years' experience in accounting and internal audit. He joined the Group in 1985. He graduated from Jilin Business School and has the title of accountant in the PRC.

Mr. Xu Chun Man, aged 24, is the manager of the Group's business development department and is responsible for business development and customer services of the Group. He joined the Group in 1991 after graduating from Fujian Jinjiang Vocational Institute in that year. Mr. Xu has over six years' experience in business development and customer service management.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 10th November, 1998 and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party. Each of the executive Directors will receive a salary which is subject to an annual increment at rates of not exceeding 10 per cent. to be decided by the Board. The executive Directors and the senior management personnel of the Group may receive a discretionary bonus determined by the Board for an amount not exceeding four per cent. of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items and payment of such bonus) in respect of that financial year of the Group. The estimated total salary and benefits in kind receivable by the executive Directors for the year ending 31st December, 1998 is HK\$3.2 million. Details of the terms of the services agreements are set out in the paragraph headed "Further Information in relation to Directors, Management and Staff" in Appendix VII to this prospectus.

### **Independent non-Executive Directors**

Mr. Henry Chan, aged 33, is an independent non-executive director of the Company appointed in October 1998. Mr. Chan has over 11 years' experience in the financial market. He is an executive director of Sanfull Securities Limited.

Ms. Guan Tao, aged 65, is an independent non-executive director of the Company appointed in October 1998. Ms. Guan is a former member of the Secretariat of All-China Women's Federation and the honorary chairperson of the Capital Association of the Female Journalists. Ms. Guan was a member of the Eighth Chinese People's Political Consultative Conference (the "CPPCC") and a member of the Standing Committee of the Eighth CPPCC. She was also the Deputy Director of the Preparation Committee of the Fourth International Women Conference of the United Nations.

Ms. Ada Wong, aged 39, is an independent non-executive director of the Company appointed in October 1998. Ms. Wong has been a solicitor for more than 12 years and is a partner of Philip K H Wong, Kennedy Y H Wong & Co., Solicitors & Notaries. She has been an elected member of the Urban Council since March 1995 and an appointed member of the Provisional Urban Council since July 1997. Ms. Wong also participates in public and community services actively.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **SENIOR MANAGEMENT**

Mr. Chen Sun An, aged 45, is a vice-president of the Group in charge of production and quality control. Mr. Chen joined the Group in 1988 and has over 20 years' experience in production and quality control.

Mr. Zhang Hai Lai, aged 45, is a vice-president of the Group in charge of marketing and sales. He is responsible for the development and implementation of the Group's marketing and sales strategy and business operation. Before joining the Group in March 1997, Mr. Zhang was the general manager of two large department stores in the PRC. Mr. Zhang has over 20 years' experience in management, marketing and sales of consumer products.

Mr. Huang Nian Quan, aged 54, is the manager in charge of quality control. He is responsible for the quality control of the production of the Group. Before joining the Group in 1994, Mr. Huang worked in a diesel engine company.

Mr. Yang Zhen Yang, aged 47, is the supervisor in charge of the Group's research department. He is responsible for the Group's new product research and development and technical development for production. Before joining the Group in May 1996, Mr. Yang worked as an electrical engineer in a number of manufacturing companies. Mr. Yang graduated as an electrical engineer from Fuzhou University and has over 21 years' experience in technical research and development.

Mr. Huang Xiao Yuan, aged 49, is the manager in charge of Group's production technology. He is responsible for the design, repair and maintenance of the Group's production equipment. Before joining the Group in late 1987, Mr. Huang worked as an engineer in a mechanical equipment company and has over 15 years' experience in production technology.

Mr. Huang Liang Zhen, aged 49, is the sales manager of the Group. He is responsible for the Group's sales and marketing. Mr. Huang joined the Group in 1985 and has over 13 years' experience in sales and marketing.

Ms. Wang Hong Huei, aged 33, is the assistant sales manager of the Group. She is responsible for the management of the Group's sales and marketing activities. Before joining the Group in November 1997, Miss Wang worked as an assistant sales manager in a chemical company. Miss Wang obtained an MBA from Xiamen University and has over seven years' management experience in sales and marketing.

Mr. Yu Wen Zhang, aged 35, is the manager in charge of the operation and of the disposable baby diaper business. He is responsible for day to day operation of the disposable baby diaper business. Mr. Yu joined the Group in 1991 and has over eight years' experience in manufacturing and administration.

Mr. Liao Jin Nan, aged 38, is the manager in charge of information technology of the Group. He is responsible for administration and operation of the Management Information System of the Group. Before joining the Group in September 1997, Mr. Liao worked as a business and research manager in a railway company in the PRC for 13 years. Mr. Liao has the title of Microsoft Certified Professional.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### STAFF

#### Overview of staff numbers

As at 30th September, 1998, the Group had 8,847 permanent employees in the PRC as follows:

Management, finance and administration	509
Production	5,993
Quality control	120
Sales and marketing	1,322
Research and development and technology	290
Purchasing	91
Others	<u>522</u>
Total	<u>8,847</u>

The Group had four employees in Hong Kong as at 15th October, 1998. The Group's Hong Kong employees mainly carry on administration work relating to accounting and raw materials, machinery and equipment purchases.

#### Benefit schemes

The Group has established a pension scheme (the "Scheme") covering full time employees who wish to participate in the Scheme on a voluntary basis. According to the Scheme, which is a defined contribution pension scheme, both the Group and the relevant employee are required to make a monthly cash contribution of 10 per cent. of the relevant employee's salaries to a fund. The maximum contribution by the Group and each relevant employee is subject to a cap of RMB100 per month. The funds of the Scheme are placed with a local financial institution in Fujian, the PRC and are managed by a representative committee of the Group's employees. Each relevant employee's and the Group's monthly pension contribution is recorded separately. The Group contributed approximately HK\$287,000, HK\$373,000, HK\$487,000 and HK\$273,000 for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998, respectively, to the Scheme. The Group has not made any contributions to the Scheme for the benefits of any of the Directors for the three years ended 31st December, 1997 and the six months ended 30th June, 1998. No contribution has been forfeited by employees for the three years ended 31st December, 1997 and the six months ended 30th June, 1998.

The Group provides dormitory accommodation to about 1,000 employees. In 1996, the Group constructed properties which were sold to employees at cost. The Group has sold in total 100 such properties to approximately 100 management personnel. The Group has been fully reimbursed for the costs of the properties sold to staff.

#### The Group's relationship with staff

The Group maintains good relations with its employees. It has not experienced any disruption of its normal business operations due to strikes or labour disputes.

The Group provides on-the-job training to its employees in their respective fields of work. The training programmes include technical training in respect of the installation and operation of

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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machinery and equipment, quality control, finance and accounting and sales and marketing. Depending on the qualification and relevant work experience of each newly recruited employee, the employee will receive prior job training to ensure that he or she is equipped with the requisite skills and knowledge to carry out his or her job duties.

To assist the Group to recruit qualified and skilled employees, the Group sponsors over 40 students per year through a two-year technical training programme jointly organised by the Group and Huaqiao University in Fujian. These students are required to work for the Group for at least five years upon their graduation from this programme.

Employees of every subsidiary of the Group have set up trade unions for themselves. These trade unions currently have a total membership of approximately 950 employees. The trade unions do not undertake much activities other than maintaining a relationship or acting as a channel of communication between the Group and its employees.

The Founding Shareholders have always seen the involvement and participation of staff as a key element of the success of the Group. The Group rewards its members of staff according to their performance through paying commission and bonuses and, after the listing of the Shares on the Stock Exchange, granting share options. The Founding Shareholders also provided members of senior management with the opportunity to invest in the Group's subsidiaries by way of an incentive scheme. Through the Reorganisation, investment interests of the relevant members of senior management were converted into Shares. This incentive scheme has been replaced by the Share Option Scheme. For details of the incentive scheme, please refer to the paragraph headed "History and development" in the section headed "Business of the Group" in this prospectus.

### **Share Option Scheme**

The Company has conditionally adopted the Share Option Scheme pursuant to which employees of the Company and its subsidiaries may be granted options to subscribe for Shares. A summary of the main terms of this scheme is set out in the section headed "Share Option Scheme" in Appendix VII to this prospectus.

No options under the Share Option Scheme will be granted to HIIL because it is considered a substantial shareholder and a connected person of the Company pursuant to the Listing Rules.

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## **SUBSTANTIAL SHAREHOLDERS**

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After the completion of the Share Offer (but without taking into account Shares which may be taken up under the Share Offer) the only persons directly or indirectly interested in ten per cent. or more of the voting power at any general meeting of the Company will be:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of voting power</b>
Sze Man Bok	218,750,000	21.875
Hui Chi Lin	200,000,000 (Personal interest)	20
	6,630,224 (Family interest)	0.66
HILL	280,880,000	28.088

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## SHARE CAPITAL

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HK\$

### Authorised share capital:

3,000,000,000 Shares 300,000,000

### Issued and to be issued, fully paid or credited as fully paid:

750,000,000 Shares in issue at the date of this prospectus 75,000,000  
250,000,000 Shares to be issued pursuant to the Share Offer 25,000,000

1,000,000,000 Shares 100,000,000

Notes:

1. Assumptions

*This table assumes the Share Offer becomes unconditional.*

*It takes no account of any Shares which may be issued pursuant to the exercise of the Over-Allotment Option or which may be issued pursuant to the exercise of options granted under the Share Option Scheme, or which may be allotted and issued pursuant to the general mandate (see Note 4 below), or which may be repurchased by the Company pursuant to the share repurchase mandate (see Note 5 below).*

2. Ranking

*The New Shares will rank equally with all Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.*

3. Share Option Scheme

*The Company has conditionally adopted the Share Option Scheme. A summary of the main terms of this scheme is set out in the paragraph headed "Share Option Scheme" in Appendix VII to this prospectus.*

*Under the Share Option Scheme, full-time employees and executive directors of the Group may be granted options which entitle them to subscribe for Shares representing up to a maximum of ten per cent. of the issued share capital of the Company from time to time (excluding Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme).*

4. General mandate to issue new shares

*Conditional on the Share Offer becoming unconditional, the Directors have been granted a general mandate to allot and issue, otherwise than by way of rights issue or pursuant to the exercise of any options which may be granted under the Share Option Scheme or allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or the Share Offer (including the exercise of the Over-Allotment Option), Shares in the capital of the Company with a total nominal amount of not more than the sum of:*

- 20 per cent. of (i) the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and (ii) the total nominal amount of the share capital of the Company which may be issued pursuant to the exercise of the Over-Allotment Option; and*
- the total nominal amount of the share capital of the Company repurchased pursuant to the mandate referred to in Note 5 below.*

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## SHARE CAPITAL

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*This mandate does not entitle the Directors to allot or issue Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.*

*This mandate will expire:*

- *at the end of the next annual general meeting of the Company; or*
- *at the end of the period within which the Company is required by law or the Articles of Association to hold its next annual general meeting; or*
- *when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,*

*whichever is the earliest.*

*For further details of this general mandate, see the paragraph headed "Written Resolutions of the Company passed on 10th November, 1998" in Appendix VII to this prospectus.*

### *5. General mandate to repurchase shares*

*Conditional on the Share Offer becoming unconditional, the Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than ten per cent. of (i) the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and (ii) the total nominal amount of the share capital of the Company which may be issued pursuant to the exercise of the Over-Allotment Option.*

*This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (which is recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix VII to this prospectus.*

*This mandate will expire:*

- *at the end of the next annual general meeting of the Company; or*
- *at the end of the period within which the Company is required by law or the Articles of Association to hold its next annual general meeting; or*
- *when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,*

*whichever is the earliest.*

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## FINANCIAL INFORMATION

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### INDEBTEDNESS

At the close of business on 31st August, 1998, being the latest practicable date for the purpose of this statement, the Group had outstanding unsecured borrowings of approximately HK\$116 million comprising short-term bank loans of approximately HK\$115 million and short-term loans from a financial institution of approximately HK\$1 million. No guarantee or pledge of assets had been provided by any of the Founding Shareholders in connection with the borrowings of the Group as at 31st August, 1998.

As at 31st August, 1998, the Group had unsecured letter of credit banking facility in the amount of US\$6 million (equivalent to approximately HK\$46 million), out of which US\$5 million (equivalent to approximately HK\$40 million) was utilised.

In addition, as at 31st August, 1998, the Group had provided guarantees to a financial institution in the PRC for loans granted to a company beneficially owned by the Founding Shareholders totalling approximately HK\$3 million. These guarantees have been released in September 1998.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 31st August, 1998, any outstanding loan capital or debentures, mortgages, charges, bank overdraft, liabilities under acceptances or other similar indebtedness, finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Company since 31st August, 1998.

The Group has declared dividends amounting to approximately HK\$151 million for the six months ended 30th June, 1998, and no dividend declaration had been made for July and August 1998. As at 31st August, 1998, approximately HK\$71 million of the dividends had been paid in cash, of which approximately HK\$60 million had been re-invested into Hengan Hygiene Material and Hengan Articles as contribution to their registered capital. The remaining balance of approximately HK\$80 million will be paid in cash from the Group's internal resources by February 1999.

For the purpose of the indebtedness statement, foreign currency amounts have been translated into HK dollars at the rates of exchange prevailing at the close of business on 31st August, 1998.

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## **FINANCIAL INFORMATION**

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### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

#### **Net current assets**

As at 31st August, 1998, being the latest practicable date for the purpose of this statement, the Group had net current assets of approximately HK\$192 million. Total assets of the Group were approximately HK\$1,015 million, of which leasehold land and buildings, plant and machinery and other fixed assets accounted for approximately HK\$417 million, construction-in-progress accounted for approximately HK\$40 million, cash on hand and at banks accounted for approximately HK\$120 million, inventories accounted for approximately HK\$195 million and accounts receivables, other receivables, prepayments and deposits accounted for approximately HK\$243 million. The current liabilities of the Group comprise bank loans of approximately HK\$116 million, accounts payable, other payable and accrued charges of approximately HK\$113 million, taxation payable of approximately HK\$57 million and dividend payable of approximately HK\$80 million. The dividend payable will be paid in cash from the Group's internal resources by the end of February 1999.

The net current assets of the Group increased from approximately HK\$106 million as at 30th June, 1998 to approximately HK\$192 million as at 31st August, 1998. This increase was mainly attributable to the profit generated for July and August 1998 of approximately HK\$39 million in aggregate and the contribution of approximately HK\$60 million to the registered capital of Hengan Hygiene Material and Hengan Articles.

#### **Borrowings and bank facilities**

The Group generally finances its operation with internally-generated cashflow and banking facilities provided by its principal bankers in the PRC.

As at 31st August, 1998, the Group had short-term borrowings of approximately HK\$116 million.

As at 31st August, 1998, the capital expenditure commitments of the Group amounted to approximately HK\$92 million comprising capital contribution to foreign investment enterprises of the Group of approximately HK\$15 million, land and buildings of approximately HK\$16 million and plant and machinery and office equipment of approximately HK\$61 million.

Foreign currency amounts in this section have been translated into Hong Kong dollars at the rates of exchange prevailing as at the close of business on 31st August, 1998.

#### **Working capital**

Taking into account the internally generated cashflow, the available banking facilities and the net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

## FINANCIAL INFORMATION

### TRADING RECORD

The following table, which summarises the combined audited results of the Group for the three years ended 31st December, 1997 and the six months ended 30th June, 1998, has been extracted from the Accountants' Report set out in Appendix I to this prospectus. The summary has been prepared as if the current structure of the Group had been in existence throughout the relevant period.

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sanitary napkins				
Ordinary sanitary napkins	401,220	497,863	592,913	395,950
Winged sanitary napkins	49,785	74,772	171,747	185,504
Pantliners <sup>(1)</sup>	—	—	—	18,680
Disposable baby diapers <sup>(2)</sup>	—	4,809	21,737	28,852
Others <sup>(3)</sup>	3,949	7,074	7,609	12,640
	<u>454,954</u>	<u>584,518</u>	<u>794,006</u>	<u>641,626</u>
Cost of goods sold	<u>(356,671)</u>	<u>(425,570)</u>	<u>(527,217)</u>	<u>(394,603)</u>
Gross profit	98,283	158,948	266,789	247,023
Operating expenses				
Selling and administration expenses	(57,595)	(68,444)	(94,671)	(81,626)
Finance expenses, net	<u>(5,246)</u>	<u>(5,264)</u>	<u>(8,194)</u>	<u>(6,102)</u>
Profit before taxation	35,442	85,240	163,924	159,295
Taxation	<u>(5,276)</u>	<u>(9,395)</u>	<u>(18,745)</u>	<u>(19,179)</u>
Profit after taxation	30,166	75,845	145,179	140,116
Minority interests	<u>(258)</u>	<u>(523)</u>	<u>(879)</u>	<u>(917)</u>
Net profit attributable to shareholders	<u>29,908</u>	<u>75,322</u>	<u>144,300</u>	<u>139,199</u>
Dividends	<u>6,755</u>	<u>62,033</u>	<u>157,172</u>	<u>150,713</u>
<b>Financial analysis:</b>	%	%	%	%
Gross profit margin	21.6	27.2	33.6	38.5
Profit before taxation margin	7.8	14.6	20.6	24.8
Net profit margin	6.6	12.9	18.2	21.7

*Notes:*

(1) The Group commenced the sale and production of pantliners in January 1998.

(2) The Group commenced the sale of disposable baby diapers in July 1996.

(3) These comprise mainly the sale of materials including polyethylene film, hot melt glue and non-woven fabric.

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## FINANCIAL INFORMATION

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### *The 1996 financial year as compared to the 1995 financial year*

Sales for the 1996 financial year were approximately HK\$584.5 million representing an increase of approximately 28.5 per cent. over the previous year. The increase in sales was mainly attributable to the increased sales of *Anerle* (安爾樂) and *Anle* (安樂) sanitary napkin products in the PRC and, to a lesser extent, the commencement of the sale of *Anerle* (安兒樂) disposable baby diapers in July 1996. As the Group expanded its sales network from a total of 45 sales liaison offices and sales offices in 1995 to 63 in 1996, the sales of *Anle* (安樂) and *Anerle* (安爾樂) sanitary napkin products increased by approximately 24.1 per cent. and 50.2 per cent., respectively, as compared to the previous year. The Group's sales of *Anle* (安樂) and *Anerle* (安爾樂) sanitary napkin products and *Anerle* (安兒樂) disposable baby diapers in 1996 amounted to approximately HK\$497.9 million, HK\$74.8 million and HK\$4.8 million, respectively, representing approximately 85.2 per cent., 12.8 per cent. and 0.8 per cent. of the total sales of the Group in that year. In 1996, the Group's sales of materials amounted to approximately HK\$7.1 million, representing approximately 1.2 per cent. of total sales of the Group in that year.

Gross profit for 1996 increased by nearly 61.7 per cent. compared to the previous year. The gross profit margin increased from 21.6 per cent. for 1995 to 27.2 per cent. for 1996. The increase in gross profit margin mainly resulted from increased sales of *Anerle* (安爾樂) sanitary napkin products, the average profit margin of which was 30.8 per cent. higher than *Anle* (安樂) sanitary napkin products. The improvement in gross profit was also attributable to the reduced cost of sales which, in terms of a percentage of total sales, decreased from approximately 78.4 per cent. for 1995 to approximately 72.8 per cent. for 1996. The reduction was mainly due to the lowering of the cost of core raw materials, in particular, fluff pulp (the average price of which has decreased by approximately six per cent. in 1996 from 1995), and increased in-house production of certain raw materials by the Group. The raw material costs as a percentage of the Group's total sales revenue decreased from approximately 64.0 per cent. in the 1995 financial year to 61.4 per cent. in the 1996 financial year.

Selling and administrative expenses as a percentage of total sales revenue decreased from approximately 12.7 per cent. for 1995 to 11.7 per cent. for 1996. Advertising expenses was 6 per cent. lower in 1996 than 1995 when the Group was promoting the sales of *Anerle* (安爾樂) sanitary napkin products in 1995, which sales commenced in 1993. Although transportation costs increased by 23.9 per cent. between 1995 and 1996 due to increased sales volume, it remained stable over the two years at about 2.7 per cent. of the Group's total sales revenue.

Financial expenses for 1996 remained relatively stable as compared to 1995. In 1996, there was an exchange loss of approximately HK\$1.7 million for certain Japanese Yen deposits which the Group held for the purchase of winged sanitary napkin and pantiliner production lines from a Japanese supplier. This exchange loss was largely off-set by the decrease in interest expenses due to a general drop in bank interest rates.

As a result of the increase in sales and improvement in gross profit, the Group's profit before taxation increased from approximately HK\$35.4 million in 1995 to approximately HK\$85.2 million in 1996, representing an increase of 140.7 per cent. Profit before taxation as a percentage of total sales increased from approximately 7.8 per cent. in 1995 to approximately 14.6 per cent. in 1996. For the 1995 and 1996 financial years, the Group declared approximately HK\$6.8 million and HK\$62.0 million dividends, which had been fully paid in cash.

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## FINANCIAL INFORMATION

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Taxation increased from approximately HK\$5 million for 1995 to HK\$9 million for 1996, representing effective tax rates of 15% and 11%, respectively. The decrease in the effective tax rate was mainly attributable to the increase in profit and sales from the Company's PRC subsidiaries (namely Hengan Binyang, Hengan Chongqing, Hengan Fushan, Hengan Hefei, Hengan Jiangxi, Hengan Articles, Hengan Linying, Hengan Shangyu and Hengan Xiaogan) which enjoy tax incentives.

### *The 1997 financial year as compared to the 1996 financial year*

Sales for the 1997 financial year were approximately HK\$794 million representing an increase of approximately 35.8 per cent. over the previous year. This was primarily due to the Group's continued expansion of its sales network from 63 sales liaison offices and sales offices in 1996 to 100 such offices in 1997. The sale of *Anerle* (安爾樂) sanitary napkin products increased to approximately HK\$171.7 million for 1997 from approximately HK\$74.8 million for 1996, representing an increase of approximately 129.7 per cent. The increase in sales of *Anerle* (安爾樂) sanitary napkin products was mainly concentrated in the Group's northern China market due to the commencement of production of the production facility in Tianjin in July 1997. The sales of *Anle* (安樂) sanitary napkin products increased by approximately 19.1 per cent. as compared with the previous year from approximately HK\$497.9 million for 1996 to approximately HK\$592.9 million for 1997. Sales of *Anerle* (安兒樂) disposable baby diapers in 1997 amounted to approximately HK\$21.7 million, representing an increase of approximately 352 per cent. as compared to 1996. The increase was mainly attributable to increased demand for these products (with increased market penetration rates in the PRC for these products), the increase in production volume and increased sales efforts and marketing of the Group. In the 1997 financial year, as compared to the 1996 financial year, the Group's production volume of *Anle* (安樂), *Anerle* (安爾樂) and *Anerle* (安兒樂) branded sanitary napkins and disposable baby diapers increased by approximately 23 per cent., 137 per cent. and 380 per cent., respectively. The increase in production volume was due to an increase in production lines from 74 ordinary sanitary napkin, three winged sanitary napkin and one disposable baby diapers production lines at the end of 1996 to 90 ordinary sanitary napkin, 14 winged sanitary napkin and one disposable baby diaper production lines.

Gross profit margin for 1997 increased from approximately 27.2 per cent. for 1996 to 33.6 per cent. for 1997. The increase in gross profit margin was mainly attributable to the Group's continued increase in sales of *Anerle* (安爾樂) sanitary napkin products and the reduction in the cost of sales. The sales of *Anerle* (安兒樂) disposable baby diapers in 1997 began to contribute gross profit to the Group. In the 1997 financial year, the gross profit margin for *Anerle* (安爾樂) sanitary napkin products was 23.4 per cent. higher than that for *Anle* (安樂) sanitary napkin products, as compared to 30.8 per cent. for the 1996 financial year. This reduction is mainly attributable to a decrease in the unit cost of sales for *Anle* (安樂) sanitary napkin products in the 1997 financial year as compared to the 1996 financial year, whereas the unit cost of sales for *Anerle* (安爾樂) sanitary napkins increased. The unit cost of sales for *Anerle* (安爾樂) sanitary napkins increased in the 1997 financial year as compared to that in the 1996 financial year mainly because of a shift in the product mix of *Anerle* (安爾樂) sanitary napkins as the Group increased its production of a type of *Anerle* (安爾樂) sanitary napkins which uses more raw materials. As a result of the continued reduction in cost of core raw materials and the increase in in-house production of certain raw materials, the raw material cost as a percentage of total sales decreased from approximately 61.4 per cent. for 1996 to approximately 55.7 per cent. for 1997.

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## FINANCIAL INFORMATION

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Selling and administration expenses for 1997 increased by 38.3 per cent. compared to 1996 from approximately HK\$68.4 million in 1996 to HK\$94.7 million in 1997. However, these expenses as percentage of sales remained stable from 11.7 per cent. for 1996 to 11.9 per cent. for 1997. The increase was mainly attributable to increased advertising expenses from approximately HK\$27.2 million for 1996 to HK\$37 million in 1997, reflecting the management's strategy to continue to increase the Group's market share. Transportation costs reduced from approximately HK\$14.6 million in 1996 to approximately HK\$12.5 million in 1997. This was mainly attributable to the full year operation of the production facilities in Xiaogan City, Xian City and Hefei City which reduced the Group's need to deliver its products to markets in these regions.

Financial expenses increased by approximately 55.7 per cent. This was mainly attributable to the increased interest payments on new bank loans taken out by the Group in 1997 for the purchase of production lines and the construction of the new office building in Fujian. The bank loans increased from approximately HK\$43 million in the 1996 financial year to approximately HK\$122 million in the 1997 financial year.

Taxation increased from approximately HK\$9.4 million in 1996 to HK\$18.7 million in 1997, representing effective tax rates of 11 per cent. and 11.4 per cent., respectively. The increase was mainly attributable to the cessation of tax incentives previously enjoyed by Hengan Fujian which began to pay full tax in 1997. However, this has been off set largely by increase in profit contribution from subsidiaries which were welfare enterprise and enjoy full exemption from PRC income tax.

The Group's profit before taxation increased from approximately HK\$85.2 million in 1996 to approximately HK\$163.9 million in 1997, representing an increase of approximately 92.3 per cent. Profit before taxation as a percentage of total sales increased from approximately 14.6 per cent. to approximately 20.6 per cent. in 1997. For the 1997 financial year, the Group declared approximately HK\$157.2 million dividends, which had been fully settled in cash.

### *Six months ended 30th June 1998*

During the six months ended 30th June, 1998, sales of *Anle* (安樂) and *Anerle* (安爾樂) sanitary napkin products and disposable baby diaper products were approximately HK\$396 million, HK\$185.5 million and HK\$28.9 million, respectively, representing approximately 66.8 per cent., 108 per cent. and 132.7 per cent. of those for the whole 1997 financial year. The Group commenced sales of pantliners in January 1998 and achieved a gross revenue of HK\$18.7 million, accounting for 2.9 per cent. of the total sales of the Group.

Gross profit for the six months ended 30th June, 1998 was approximately HK\$247 million, representing approximately 92.6 per cent. of that for the whole 1997 financial year. The gross profit margin was approximately 38.5 per cent. showing an improvement from 33.6 per cent. for the 1997 financial year. This is principally attributable to the Group's continuous effort to shift its product mix to *Anerle* (安爾樂) products which have higher margin. For the six months ended 30th June, 1998, the gross profit margin for *Anerle* (安爾樂) sanitary napkin products was 24.5 per cent. higher than that for *Anle* (安樂) sanitary napkin products.

Selling and administrative expenses as a percentage of the total sales revenue for the period was approximately 12.7 per cent. This percentage has slightly increased from the 1997 financial year which reflected the Group's sales effort for pantliners.

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## FINANCIAL INFORMATION

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Finance expenses as a percentage of the total sales revenue for the period were stable and remained at approximately one per cent. of total sales revenue.

Taxation amounted to approximately HK\$19.2 million or approximately 12 per cent. of the profit before taxation for the period compared to approximately 11.4 per cent. for 1997. The increase in the taxation was attributable to the cessation of tax benefits previously enjoyed by Hengan Fujian. Hengan Fujian started to enjoy tax benefits as a PRC foreign investment enterprise in 1990 and ceased to be entitled to such tax benefit in 1997.

For the six months ended 30th June, 1998, the Group declared approximately HK\$150.7 million dividends, of which approximately HK\$71 million has been paid in cash before 31st August, 1998 and the remainder is expected to be paid in cash by the end of February 1999 from the Group's internal resources. Of the HK\$71 million dividend paid, approximately HK\$60 million has been re-invested into Hengan Hygiene Material and Hengan Articles as contribution to their registered capital.

### TAXATION

Of the Group's 17 PRC subsidiaries, 15 are foreign investment enterprises ("FIEs"). These 15 entities comprise Hengan Jiangxi, Hengan Fushun, Hengan Shaanxi, Hengan Xiaogan, Hengan Anxiang, Hengan Weifang, Hengan Articles, Hengan Tianjin, Hengan Hygiene Products, Hengan Lingying, Hengan Chongqing, Hengan Fujian, Hengan Hygiene Materials, Hengan Binyang and Hengan Sichuan. The first four entities were domestic enterprises and used to have the "welfare enterprise" status. After the Reorganisation, these companies became FIEs and they are no longer entitled to the tax benefits available to "welfare enterprises". Instead, they are entitled to tax incentives available to FIEs.

Hengan Anxiang and Hengan Weifang were also domestic enterprises. After the Reorganisation, they became FIEs and are now entitled to tax incentives available to FIEs. Hengan Articles, Hengan Tianjin, Hengan Hygiene Products, Hengan Lingying, Hengan Chongqing and Hengan Hygiene Materials were FIEs on incorporation and remain as such after the Reorganisation. They will continue to enjoy the tax incentives available to them before the Reorganisation. Hengan Binyang and Hengan Sichuan are FIEs and they are entitled to tax incentives available to FIEs.

Hengan Fujian is a FIE. Pursuant to a notice issued by the Provincial Tax Bureau of Fujian Province in 1985 ((85) Min Shui Wai Zi No. 328), foreign investment enterprises established by overseas Chinese in the Fujian Province (but outside the Special Economic Zone or Economic and Technology Development Zone) are entitled to tax incentives of three years full exemption and four years 50 per cent. reduction of income tax. On 28th July, 1990, Jinjiang City Government issued a certificate to Hengan Fujian stating that it is entitled to enjoy these tax incentives. The tax incentives available to Hengan Fujian were fully utilised in 1996 and from the 1997 financial year and onwards, Hengan Fujian is subjected to an income tax rate of 27 per cent.

Hengan Shangyu and Hengan Hefei are joint operation enterprises and have the "welfare enterprise" status. They have maintained this status after the Reorganisation. Therefore, they are entitled to the tax benefits available to "welfare enterprises".

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## FINANCIAL INFORMATION

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Currently, under the relevant PRC law, FIEs enjoy certain preferential tax treatments including exemption from profits tax payments for the first two years from the year when the enterprise starts to make profit and a 50 per cent. tax exemption for the next three years. FIEs are generally not required to pay value added tax and import tax on imported machinery and facilities which form part of the enterprise's total investment unless the FIE was approved and established between 1st April, 1996 and 31st December, 1997 and the machinery and facilities were imported within that period, in which case such machinery and facilities would be subject to value added tax and import duty.

Enterprises with "welfare enterprise" status are fully exempted from income tax and are entitled to a full refund of value added tax paid during a particular financial year, subject to the satisfaction of certain requirements. For further details, please refer to the information in Appendix VI to this prospectus.

### PROPERTIES

#### PRC

##### *Properties owned in the PRC*

The Group has property interests in the PRC for some of its production facilities and for its head office. They are located in Jinjiang City in Fujian Province, Tianjin City, Fushun City in Liaoning Province, Xiaogan City in Hubei Province, Linying County in Henan Province and Anxiang County in Hunan Province. These properties have been valued by Chesterton Petty Limited, an independent property valuer, at approximately HK\$159.2 million as at 31st August, 1998.

##### *Properties leased in the PRC*

The Group has eight rented premises in the PRC. They have a gross floor area of approximately 36,606 sq.m. These premises are rented for a term of 3 to 15 years.

The production facilities in Hu County in Shaanxi Province, Chengdu City, Chongqing City, Shangyu City in Zhejiang Province, Hefei City in Anhui Province, Binyang County in Guangxi Zhuangzu Autonomous Region, Weifang City in Shandong Province and Dongxiang County of Jiangxi Province are operated on rented premises.

#### Hong Kong

##### *Properties leased in Hong Kong*

Hengan Industrial (Hong Kong) Limited, a subsidiary within the Group, has leased office premises with a saleable area of approximately 162.11 sq.m. (1,745 sq.ft.) at Tower II, Admiralty Centre in Hong Kong.

#### Property valuation

Chesterton Petty Limited, an independent property valuer, has valued the property interests of the Group as at 31st August, 1998. Details of the valuation and the text of a letter, summary of values and valuation certificate from Chesterton Petty Limited are set out in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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### PROFIT FORECAST, DIVIDENDS AND WORKING CAPITAL

#### Profit forecast

The Directors estimate that, on the bases and assumptions set out in Appendix II to this prospectus and in the absence of any unforeseen circumstances, the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31st December, 1998 will not be less than HK\$280 million. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31st December, 1998.

On the basis of the above profit forecast and the weighted average number of 769,178,082 Shares expected to be in issue during the year ending 31st December, 1998 and without taking into account any Shares which may fall to be issued upon exercise of the Over-Allotment Option or which may be issued by the Company upon the exercise of the options granted under the Share Option Scheme or which may be issued or repurchased by the Company pursuant to the mandates referred to in Appendix VII to this prospectus, the forecast earnings per Share for the year ending 31st December, 1998 will be HK\$0.364. The pro-forma forecast earnings per Share for the year ending 31st December, 1998 on a fully-diluted basis will be HK\$0.310. This assumes that the Company had been listed since 1st January, 1998, that a total of 1,000,000,000 Shares were issued on 1st January, 1998 (taking no account of any Shares which may fall to be issued upon exercise of the Over-Allotment Option or to be issued upon exercise of the options granted under the Share Option Scheme or which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix VII to this prospectus), at the Issue Price and that interest income had been earned on the net proceeds of the Share Offer at an interest rate of approximately five per annum (net of tax), between that date and the expected date of receipt of the net proceeds of the Share Offer.

The text of the letters from PricewaterhouseCoopers, the auditors and reporting accountants and from the Sponsors in respect of the profit forecast, are set out in Appendix II to this prospectus.

#### Dividends

Save as disclosed below, the Company does not intend to declare a dividend in respect of 1998. The Company intends to retain most of its earnings following the Share Offer for working capital purposes. The Directors anticipate that, subject to the availability of any distributable profit of the Company, interim and final dividends will be paid in October and June of each year, respectively, with the interim dividend representing approximately one-third of the total dividends to be paid for the entire year.

Had the Company been a publicly listed company for the whole of the year ending 31st December, 1998, on the basis of the above profit forecast and dividend policy, the Directors would have recommended dividends for the whole year ended 31st December, 1998 of HK\$0.15 per Share, representing a yield of 5.36 per cent. based on the Issue Price.

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## **FINANCIAL INFORMATION**

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The Group declared and paid dividends of approximately HK\$7 million, HK\$62 million and HK\$157 million for each of the three years ended 31st December, 1997 to its then existing shareholders. The payment of the dividends was made in cash and the Directors believe that a majority of such dividends paid were re-invested into the Group's then existing PRC subsidiaries. For the six months ended 30th June, 1998, the Group declared approximately HK\$151 million dividends, of which approximately HK\$71 million has been paid in cash before 31st August, 1998 and the remainder is expected to be paid in cash by the end of February 1999 from the Group's internal resources. Of the HK\$71 million dividends paid, approximately HK\$60 million has been re-invested into Hengan Hygiene Material and Hengan Articles as contribution to their registered capital.

### **Working capital**

Taking into account the internally generated cashflow, the available banking facilities and the net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

### **DISTRIBUTABLE RESERVES**

As at 30th June, 1998, the Company had not commenced operations. There was accordingly no reserve available for distribution to shareholders of the Company at that time.

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## FINANCIAL INFORMATION

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### ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of the adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 30th June, 1998 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	<i>HK\$'000</i>
Combined audited net tangible assets of the Group as at 30th June, 1998	546,757
Combined unaudited profit attributable to shareholders of the Group for the two months ended 31st August, 1998	39,027
Capital contribution to the Company's PRC subsidiaries subsequent to 30th June, 1998 ( <i>Note 1</i> )	74,087
Surplus arising on revaluation of the Group's land and buildings ( <i>Note 2</i> )	50,265
Estimated net proceeds of the Share Offer ( <i>Note 3</i> )	<u>652,000</u>
Adjusted net tangible assets	<u>1,362,136</u>
Adjusted net tangible asset value per Share ( <i>Note 4</i> )	<u>HK\$1.36</u>

*Notes:*

- 1. Capital contribution to the Company's PRC subsidiaries were made in cash after 30th June, 1998 by the relevant investors re-investing dividends declared by the Group to them for the six months ended 30th June, 1998 (amounting to approximately HK\$60 million) and by cash and machinery (amounting to approximately HK\$14 million).*
- 2. The Group's land and buildings have been revalued by Chesterton Petty Limited, an independent property valuer. The surplus has not been incorporated into the accounts of the Group for the six months ended 30th June, 1998 but will be incorporated in the accounts of the Group for the year ending 31st December, 1998.*
- 3. The estimated net proceeds of the Share Offer do not take into account New Shares which may be issued pursuant to the Over-Allotment Option.*
- 4. The adjusted net tangible asset value per Share is calculated based on 1,000,000,000 Shares expected to be in issue following the Share Offer. This takes no account of any Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme or any issue or repurchase of Shares by the Company pursuant to the mandates referred to in Appendix VII to this prospectus, or otherwise.*

### NO MATERIAL CHANGE

The Directors have confirmed that, save as disclosed in this prospectus, since 30th June, 1998, there has been no material adverse change in the financial or trading position or prospects of the Group.

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## FUTURE PLANS

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### FUTURE PROSPECTS AND PLANS

The Directors believe that the PRC sanitary napkin and disposable diaper markets have significant growth potential due to the following:

- **expected increase in penetration rates** - with the likely future growth in the PRC economy and the improvement in the living standards of consumers, it is expected that sanitary napkins and disposable baby diapers will become more popular in the PRC, in particular, it is expected that the sanitary napkin market penetration rates in the rural areas and medium and small cities will increase.
- **expected increase in the frequency of use** - currently, even in major cities such as Beijing, Shanghai and Guangzhou, approximately 20 per cent. of the sanitary napkin users merely use less than ten pieces each month. The Directors believe that, with the recent general improvement in the living standards of PRC individuals, the frequency of use of sanitary napkins and disposable baby diapers will increase.
- **gradual shift to high-end products** - with the recent improvement in living standards of consumers, it is expected that high-end products such as winged sanitary napkins will take a larger market share in the PRC sanitary napkin market. Therefore, the Directors believe that this may further increase the total value of this market.
- **new markets as a result of demand for new products** - pantliners, disposable baby diapers and adult diapers are relatively new products in the PRC hygiene product market and are still at a developing stage and are expected to substantially enlarge the value of the personal hygiene product market.

In light of the PRC hygiene product market's development prospects including those of the sanitary napkin and disposable baby diaper markets which have relatively lower penetration rates as compared to developed countries, the Group's main goals are to strengthen its leading position in the PRC sanitary napkin market and to continue to develop its diaper business.

The Group aims to maintain its position as one of the main sanitary napkin suppliers in cities and to increase its market share through continued business development. The Group plans to expand its sanitary napkin product range so as to satisfy consumers' changing demand for various types of sanitary napkins, in particular, high-end sanitary napkins. In the cities, the Group plans to establish more sales liaison offices in small and medium cities and to conduct sales to more wholesalers and distributors. In rural areas, where the market penetration rate is relatively low, the Group plans to utilise its wide sales and distribution network to promote its sanitary napkin products to consumers in this area. By doing so, the Group aims to increase its sales in these areas and gain early entry advantages. The Group is also planning to expand its sales of pantliners and disposable baby diapers and plans to produce and sell adult diapers and a new form of disposable baby diapers, which are still at an early stage of development. The Directors aim to achieve a leading position for the Group in these new product markets as it has achieved in the sanitary napkin market.

Whilst the Group introduces advanced technology, it also upgrades its existing production facilities in order to maintain and improve the Group's production scale and technology in its production capacity. The Group aims to keep the standard of its products in line with the

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## FUTURE PLANS

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development of products in the international sanitary napkin market. In addition, the Group aims to continue to provide consumers in the PRC market with the choice of the widest possible range of sanitary napkin products, disposable diaper products and possibly other related personal hygiene products in the future.

The Group plans to achieve the above goals through:—

- **Widening its sales network** - increasing the number of its sales liaison offices in the PRC, particularly in small and medium cities which have relatively low sanitary napkin market penetration rates, so as to extend the coverage of its sales network. The Group, at present, plans to establish in total approximately 40 sales liaison offices by the end of 1999, and to expand its sales network to most of the counties and cities in the PRC. The Directors estimate that the total expenditures for the establishment of these offices is approximately RMB30 million (approximately HK\$28 million). The Group also plans to increase its efforts on advertising and marketing in order to promote further consumer awareness of its brands and products and so as to increase its market share.
- **Increasing its production capacity** - (i) purchasing four production lines for new types of sanitary napkins, (ii) purchasing two production lines for disposable baby diapers and (iii) installing 16 production lines for winged sanitary napkins and pantliners to be assembled by the Group. In addition, the Group plans to upgrade its existing sanitary napkin production lines in order to increase the capacity of these lines and to improve the quality of its products.
- **Introducing new products** - increasing its investment on developing new products. By doing so, the Group seeks to satisfy different market demand by offering a wide range of sanitary napkin (in particular, high end sanitary napkins) and diaper products. For example, the Group plans to commence the production of a new type of disposable baby diapers and adult diapers within the next two years.
- **Enhancing vertical integration** - enhancing the vertical integration of its production process and produce new raw materials which will help to improve product quality and/or lower production cost. By the end of 1999, the Group plans to commence the manufacture of materials such as breathable film, release paper and packaging tapes.
- **Improving product quality** - improving its product quality through introducing new production technology and manufacturing equipment, upgrading its existing production equipment, using high quality raw materials, achieving ISO 9002 accreditation for its major production facilities and providing further quality control training to staff.
- **Strengthening management system** - it is expected that the computerised management information system which will connect the Group's head office with its PRC subsidiaries and its main sales liaison offices (as far as practicable) will be fully operational by the end of 1999. The Group also plans to employ more professional staff and improve staff training in order to improve management efficiency.

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## FUTURE PLANS

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- **Developing new markets** - seeking opportunities to enter new personal hygiene product markets to gain additional benefits from its wide sales and distribution network. The Group has had informal preliminary discussions with various independent third parties regarding possible opportunities to produce or sell such personal hygiene products or to acquire their existing operations in the PRC. Such personal hygiene products include cosmetic products, haircare products and skin care products. The Group has no plans to engage in any one of these businesses at this stage and has not entered into any negotiations with the parties. It is not known whether any of these opportunities would materialise in the near future.

## USE OF PROCEEDS

The net proceeds of the Share Offer, after deducting related expenses, are estimated to amount to approximately HK\$652 million (assuming that the Over-Allotment Option is not exercised). If the Over-Allotment Option is exercised in full, the net proceeds will increase to approximately HK\$721 million. The Directors presently intend that the net proceeds will be used as follows:

- approximately HK\$179 million for (i) the purchase of new production lines for the manufacture of new types of sanitary napkins, disposable baby diapers and new production facilities for the manufacture of adult diapers and a new type of disposable baby diapers, (ii) the installation of additional production lines for winged sanitary napkins and pantliners to be assembled by the Group and (iii) for research and development of new products and production technology;
- approximately HK\$88 million for the expansion of the Group's sales and distribution network and for the advertising and marketing of the Group's products;
- approximately HK\$75 million for the construction and refurbishment of production plants, staff quarters and their ancillary facilities;
- approximately HK\$57 million for the purchase of new machinery and equipment for the production of materials including breathable film, release paper and packaging tapes;
- approximately HK\$41 million for the upgrading and replacement of existing production equipment and its ancillary facilities;
- approximately HK\$39 million for the completion of the installation of its computerised management information system and for the purchase of office equipment such as fax machines, photocopiers and typewriters; and
- the balance for working capital purposes.

In the event that the net proceeds of the Share Offer are not immediately used for the above purposes, the Company intends to place the net proceeds on deposits with banks or use a portion of the net proceeds for repayment of short term loans.

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## **UNDERWRITING**

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### **UNDERWRITERS**

#### **The New Issue Underwriters**

The New Issue Underwriters are BNP Prime Peregrine Securities, Jardine Fleming, China Everbright Securities (HK) Limited, BOCI Asia Limited, Oriental Patron Asia Limited, CEF Capital Limited, Celestial Securities Limited, Credit Lyonnais Securities (Asia) Limited, Core Pacific-Yamaichi International (H.K.) Limited, First Shanghai Capital Limited, OCBC Securities (Hong Kong) Limited, Pacific Challenge Capital Limited, Shenyin Wanguo Capital (H.K.) Limited and South China Securities Limited.

#### **The Placing Underwriters**

The Placing Underwriters are BNP Prime Peregrine Securities, Jardine Fleming, China Everbright Securities (HK) Limited, Bank of China International (UK) Ltd and Oriental Patron Asia Limited.

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Underwriting agreement**

Pursuant to the Underwriting Agreement, the Company is offering the New Issue Shares for subscription on and subject to the terms and conditions of this prospectus and the Application Forms at the Issue Price.

Subject to the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Underwriting Agreement, the New Issue Underwriters have agreed severally to subscribe or procure subscribers for, on the terms and conditions of this prospectus and the Application Forms, for their respective applicable proportions of the New Issue Shares initially being offered and which are not taken up under the New Issue.

In connection with the Placing, the Company has entered into the Underwriting Agreement with, inter alios, the Placing Underwriters under which the Placing Underwriters have severally agreed to subscribe or procure subscribers for the Placing Shares (subject to adjustment as described herein), on the terms and conditions as set out in the Underwriting Agreement.

The Placing Underwriters have been granted the Over-Allotment Option, exercisable by the Global Coordinator on behalf of the Placing Underwriters for a period of 30 days from the date of this prospectus.

#### **Grounds for termination**

The Global Coordinator (on behalf of the Underwriters) is entitled to terminate their obligations under the Underwriting Agreement at any time prior to 5:00 p.m. on the second business day following the date on which the application lists close (expected to be 4th December, 1998) if:—

1. there shall develop, occur, exist or come into effect:—
  - (A) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or

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## UNDERWRITING

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- (B) any change in, or any event or series of events resulting in any material change in local, national or international financial, political, military, industrial, economic, currency or market conditions; or
- (C) any change in the conditions of local, national or international equity securities or other financial markets; or
- (D) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances; or
- (E) a change, or development occurs involving a prospective change, in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, BVI or the PRC or elsewhere; or
- (F) any material adverse change or prospective material adverse change in the business or in the financial or trading position of the Company,

for the purpose of construing the foregoing:—

- (i) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States of America or a devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and
- (ii) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above;

which, in the sole and reasonable opinion of the Global Coordinator (for itself and on behalf of the other Underwriters):—

- (A) is or will or is likely to have a material adverse effect to the business, financial or other condition or prospects of the Group or, in the case of paragraph 1(E) above, to any present or prospective shareholder in his/its capacity as such shareholder of the Company; or
  - (B) has or will have or is likely to have a material adverse effect on the success of the New Issue or the Placing or the level of New Shares being applied for or accepted or the distribution of New Shares; or
  - (C) makes it inadvisable or inexpedient to proceed with the New Issue or the Placing; or
2. there comes to the notice of the Global Coordinator any matter or event showing any of the warranties set out in the Underwriting Agreement to be untrue or misleading in any material respect when given or repeated; or

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## UNDERWRITING

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3. there comes to the notice of the Global Coordinator any material breach on the part of the Company or each of the Founding Shareholders or HIIL of any of the provisions of the Underwriting Agreement,

then the Global Coordinator may, upon giving notice to the Company and the other Underwriters, terminate the Underwriting Agreement with immediate effect.

### **Undertakings**

Each of HIIL and the Founding Shareholders has jointly and severally undertaken to the Company and each of the Underwriters that (i) he/it will not, and will procure that his/its associates (as defined in the Listing Rules) shall not sell, transfer or otherwise dispose of any of the Shares or any interests therein (which for this purpose shall include any interest in any company which holds any Shares (whether directly or through another company)) (a) within twelve months from the date of commencement of dealings on the Stock Exchange (the “Period”) without the prior written consent of the Global Coordinator on behalf of the Underwriters (subject to the requirements set out in the Listing Rules) (such consent not to be unreasonably withheld), and (b) (only in the case of the Founding Shareholders) within the period of six months after the expiry of the Period if, immediately following such sale, transfer or disposal, the Founding Shareholders together will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, (ii) on any sale, transfer or disposal of such Shares during the six month period after the expiry of the Period, take all reasonable steps to ensure that any such sale, transfer or disposal will not create a disorderly or false market for the Shares and (iii) he/it will, and will procure that his/its associates (as defined in the Listing Rules) will, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/it or by the registered holder of any Shares in respect of which he/it is shown in this prospectus to be the beneficial owner.

The Company has undertaken to each of the Underwriters that, save as mentioned in this prospectus and pursuant to the exercise of the options granted under the Share Option Scheme and the general mandate granted to the Directors as set out in Appendix VII to this prospectus, the Company will not issue any Shares or other securities of the Company or agree to allot or issue or grant or agree to grant options to subscribe for Shares or other securities of the Company during the period of twelve months from the date when dealings of the Shares first commence on the Stock Exchange without the prior written consent of the Global Coordinator.

### **Commission**

The New Issue Underwriter will receive an underwriting commission of 2.5 per cent. of the Issue Price of the New Issue Shares, out of which they will pay any sub-underwriting commissions. The Placing Underwriters will receive an underwriting commission of 2.5 per cent. of the Issue Price of the Placing Shares, out of which they will pay any sub-underwriting commissions.

The underwriting commissions, a documentation fee, Stock Exchange transaction levy, legal and other professional fees and other expenses relating to the New Issue and Placing are estimated to amount to approximately HK\$48 million in total (assuming that the Over-Allotment Option is not exercised) and will be payable by the Company.

### **Underwriters’ interest in the Company**

The Underwriters have no interests in the Company.

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## **UNDERWRITING**

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### **Subscription and sales in the United States**

The New Shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (within the meaning of Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

Each Underwriter has agreed that, except as permitted by the Underwriting Agreement, it will not offer or sell the New Shares, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the commencement of the offering of New Shares, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the New Shares (other than a sale pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the New Shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The New Shares are being offered and sold outside the United States to non-U.S. persons (within the meaning of Regulation S) in reliance on Regulation S. The Underwriting Agreement provides that the Global Coordinator and such other Underwriters may arrange for the offer and resale of the New Shares in the United States only to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A. Any offer or sale of the New Shares in reliance on Rule 144A will be made by broker-dealers who are registered as such under the United States Securities Exchange Act of 1934, as amended.

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## **STRUCTURE OF THE SHARE OFFER**

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### **SHARE OFFER**

The Share Offer comprises the New Issue and the Placing. The New Shares initially offered in the Share Offer, totalling 250,000,000 Shares, will represent 25 per cent. of the share capital of the Company immediately following completion of the Share Offer. In addition, the Company has granted to the Placing Underwriters the Over-Allotment Option, exercisable by the Global Coordinator on behalf of the Placing Underwriters at any time within 30 days from the date of this prospectus, to require the Company to issue up to an aggregate of 25,000,000 additional Shares, representing 10 per cent. of the New Shares initially offered in the Share Offer, on the same terms as those applicable to the New Issue and the Placing, as the case may be, to cover over-allocations in the Placing. The Global Coordinator may also cover such over-allocations by purchasing Shares in the secondary market and/or by obtaining or purchasing Shares from sources as the Global Coordinator may deem appropriate (which may include stock borrowing arrangement) and/or by exercising the Over-Allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations and will not exceed 25,000,000 Shares. If the Over-Allotment Option is exercised in full, the New Shares will represent approximately 26.8 per cent. of the share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-Allotment Option. The levels of application for the New Issue Shares will be announced in the South China Morning Post, Hong Kong Economic Times and Hong Kong Economic Journal on or before 4th December, 1998.

The net proceeds from the issue of the New Shares, assuming that the Over-Allotment Option is not exercised, and after deducting related expenses, are estimated to be approximately HK\$652 million. If the Over-Allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK\$69 million, after deducting brokerage, commission and expenses attributable to the exercise of the Over-Allotment Option.

### **New Issue**

The New Issue is a public offer for subscription in Hong Kong of initially 25,000,000 Shares, representing 10 per cent. of the New Shares initially being offered in the Share Offer. The New Issue is sponsored by the Sponsors and fully underwritten by the New Issue Underwriters, subject to the terms and conditions of the Underwriting Agreement. The New Issue is subject to adjustment as described in the paragraph headed "Adjustment of New Shares between the New Issue and the Placing" below.

The New Issue Shares (after taking account of any adjustment of New Shares between the Placing and the New Issue referred to below) will be divided equally into two pools for allocation purposes: pool A and pool B. The New Issue Shares in pool A will be allocated on an equitable basis to applicants who have applied for New Issue Shares with a total subscription amount (excluding brokerage and Stock Exchange transaction levy) of HK\$5 million or less. The New Issue Shares in pool B will be allocated on an equitable basis to applicants who have applied for New Issue Shares with a total subscription amount (excluding brokerage and Stock Exchange transaction levy) of more than HK\$5 million and up to the total value of pool B. You should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If New Issue Shares in one pool (but not both pools) are undersubscribed, the surplus New Issue Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. You can only receive an allocation of New Issue Shares from either pool A or pool B but not from both pools and may only apply for New Issue Shares in pool A or pool B.

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## **STRUCTURE OF THE SHARE OFFER**

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### **Adjustment of New Shares between the New Issue and the Placing**

When there is full or over subscription, allocation of New Issue Shares, both in relation to pool A and pool B, will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of New Issue Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. However, this may involve balloting, which would mean that some applicants may be allotted more New Issue Shares than others who have applied for the same number of New Issue Shares and that applicants who are not successful in the ballot may not receive any New Issue Shares.

The allocation of the New Shares between the New Issue and the Placing is subject to adjustment. In addition to any allocation of New Shares to the New Issue from the Placing (which may be made at the Global Coordinator's discretion, on behalf of the Underwriters), if the number of Shares validly applied for in the New Issue is or exceeds 375,000,000, 1,250,000,000, or 2,500,000,000 Shares, being 15 times but less than 50 times, 50 times but less than 100 times or 100 times or more, respectively, the number of New Issue Shares initially available for subscription under the New Issue, an additional 50,000,000, 75,000,000 or 100,000,000 Shares, respectively, will be reallocated from the Placing to the New Issue so that the size of the New Issue will represent 30 per cent., 40 per cent. or 50 per cent. of the Share Offer, assuming that the Over-Allotment Option is not exercised. In these cases, the additional Shares will be reallocated equally between pool A and pool B as described above and the number of Shares allocated to the Placing will be correspondingly reduced.

If the New Issue is not fully subscribed, the Global Coordinator has the authority to reallocate all or any unsubscribed New Issue Shares originally included in the New Issue to the Placing, in such proportions as it deems appropriate.

If you are a professional and institutional investor, you may apply for New Shares under the New Issue and/or the Placing, otherwise, you may only apply for New Issue Shares. If you apply for New Shares under the New Issue and the Placing, you will only receive New Shares under either the New Issue or the Placing, but not both tranches. If you are a professional and institutional investor and have applied for Placing Shares, you are required to declare on your Application Form that you have applied for New Shares under the Placing.

### **Placing**

The Company is initially offering 225,000,000 Placing Shares, representing 90 per cent. of the total New Shares initially being offered in the Share Offer, for subscription by way of placing with professional and institutional investors. The Placing is subject to adjustment as described in the paragraph headed "Adjustment of New Shares between the New Issue and the Placing" above including when over-subscription in the New Issue is recorded. The Placing is managed by the Global Coordinator and is fully underwritten by the Placing Underwriters, subject to the terms and conditions of the Underwriting Agreement.

Under the Placing, the Placing Underwriters and certain of their affiliates on behalf of the Company are conditionally placing the Placing Shares with professional and institutional investors in Hong Kong and in certain other jurisdictions outside Hong Kong, subject to certain restrictions. Professional investors generally include brokers, dealers, companies including fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities and do not include retail investors and individual investors applying through banks and other institutions.

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## **STRUCTURE OF THE SHARE OFFER**

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Allocation of Placing Shares to investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

### **PRICE PAYABLE ON APPLICATION**

The Issue Price is HK\$2.80 plus one per cent. brokerage and a 0.011 per cent. Stock Exchange transaction levy, constituting a total of HK\$5,656.62 for every 2,000 Shares.

### **CONDITIONS OF THE NEW ISSUE**

Acceptance of your application for New Issue Shares is conditional upon:

#### **Listing**

- (a) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (subject only to allotment), including the additional Shares which may be issued pursuant to the exercise of the Over-Allotment Option, and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme or the general mandate to issue Shares referred to in Appendix VII to this prospectus; and

#### **Underwriting Agreement**

- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Global Coordinator on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise on or before the second business day following the date on which the application lists close (expected to be 4th December, 1998). Details of the Underwriting Agreement, their conditions and grounds for termination, are set out in the section headed "Underwriting" of this prospectus.

If the conditions referred to above are not fulfilled on or before 26th December, 1998, your application money will be returned to you, without interest. The terms on which your money will be returned to you are set out under the heading "Refund of your money" on the notes attached to the Application Forms.

In the meantime, your money will be held in one or more separate bank accounts with the receiving bank or other bank or banks.

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares or such other date as determined by Hongkong Clearing.

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## HOW TO APPLY FOR THE NEW ISSUE SHARES

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### WHICH APPLICATION FORM TO USE

Use a **WHITE** Application Form if you want the New Issue Shares issued in your own name.

Use a **YELLOW** Application Form if you want the New Issue Shares issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant maintained in CCASS.

*Note: The New Shares are not available to any Directors or chief executive of the Company or existing shareholder of the Company or their respective associates, as defined in the Listing Rules.*

### WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus from:

**Any member of the Stock Exchange**

**BNP Prime Peregrine Securities Limited**  
23rd Floor, New World Tower  
16-18 Queen's Road Central  
Hong Kong

or

**Jardine Fleming Securities Limited**  
46th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

**China Everbright Securities (HK) Limited**  
36th Floor, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

**BOCI Asia Limited**  
35th Floor, Bank of China Tower  
1 Garden Road Central  
Hong Kong

**Oriental Patron Asia Limited**  
42nd Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

**CEF Capital Limited**  
2nd Floor, China Building  
29 Queen's Road Central  
Hong Kong

**Celestial Securities Limited**  
22nd Floor, The Center  
99 Queen's Road Central  
Hong Kong

**Credit Lyonnais Securities  
(Asia) Limited**  
33rd Floor, Tower 2  
Lippo Centre  
89 Queensway  
Hong Kong

**Core Pacific-Yamaichi International  
(H.K.) Limited**  
30th Floor, Two Pacific Place  
88 Queensway  
Hong Kong

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## HOW TO APPLY FOR THE NEW ISSUE SHARES

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**First Shanghai Capital Limited**  
19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

**OCBC Securities (Hong Kong) Limited**  
10th Floor, New World Tower II  
18 Queen's Road Central  
Hong Kong

**Pacific Challenge Capital Limited**  
2201-3, 22nd Floor  
Worldwide House  
19 Des Voeux Road Central  
Hong Kong

**Shenyin Wanguo Capital (H.K.) Limited**  
28th Floor, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

**South China Securities Limited**  
28th Floor, Bank of China Tower  
1 Garden Road  
Hong Kong

or any of the following branch or sub-branches of **Bank of China**:

<b>Hong Kong Island:</b>	<b>Hong Kong branch</b>	<b>3rd Floor, 1 Garden Road, Central</b>
	<b>Central sub-branch</b>	<b>Li Po Chun Chambers, 189 Des Voeux Road Central</b>
	<b>Wanchai sub-branch</b>	<b>395 Hennessy Road, Wanchai</b>
	<b>North Point sub-branch</b>	<b>Ground Floor, Roca Centre, 464 King's Road, North Point</b>
<b>Kowloon:</b>	<b>Tsim Sha Tsui sub-branch</b>	<b>Ground Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui</b>
	<b>Yaumati sub-branch</b>	<b>471 Nathan Road, Yaumati</b>
	<b>Kwun Tong sub-branch</b>	<b>55 Hoi Yuen Road, Kwun Tong</b>
	<b>Lai Chi Kok sub-branch</b>	<b>Unit 1, Ground Floor, Kowloon Plaza, 485 Castle Peak Road</b>
<b>New Territories:</b>	<b>Tsuen Wan sub-branch</b>	<b>167 Castle Peak Road, Tsuen Wan</b>
	<b>Shatin sub-branch</b>	<b>Ground Floor, Lucky Plaza, Wang Pok Street, Shatin</b>

You can collect a **YELLOW** Application Form and a prospectus from:

**Hongkong Clearing**  
**Service Counter**  
2nd Floor, Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

**Hongkong Clearing**  
**Investor Service Centre**  
Room 1901, Chinachem Exchange Square  
1 Hoi Wan Street, Quarry Bay  
Hong Kong

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## HOW TO APPLY FOR THE NEW ISSUE SHARES

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or your stockbroker may have forms available.

### HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected.

If your application is made through a duly authorised attorney, the Company and the Global Coordinator (on behalf of the New Issue Underwriters) as agent for the Company may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Global Coordinator in its capacity as agent for the Company has full discretion to reject or accept any application, in full or in part, without assigning any reason.

### HOW MANY APPLICATIONS MAY YOU MAKE?

If you are a professional and institutional investor, you may apply for New Shares under the New Issue and/or the Placing, otherwise, you may only apply for New Issue Shares. If you apply for New Shares under the New Issue and the Placing, you will only receive New Shares under either the New Issue or the Placing, but not both tranches. If you are a professional and institutional investor and have applied for Placing Shares, you are required to declare on your Application Form that you have applied for New Shares under the Placing.

***You may make more than one application for New Issue Shares if you are a nominee.***

You may lodge more than one application in your own name on behalf of different owners. In the box on the Application Form marked “For nominees”, you must include (i) an account number; or (ii) some other identification code for **each** beneficial owner. If you do not include this information, the application will be treated as being made for your benefit. ***Otherwise, multiple applications are not allowed.***

It will be a term and condition of all applications that by completing and delivering an Application Form, you give a warranty to the following effect that:

- no other application is made for your benefit by you or by anyone applying as your agent or by any other person, if the application is made for your benefit;
- if the application is made by you as agent for the benefit of another person, no other application is being made by you as agent for or for the benefit of that person or by that person or by other person as agent for that person; and you have due authority to sign the application as agent for the person who is to benefit from the application.

All of your applications will be rejected as multiple applications if you, or you and joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** Application Form; or
- apply on one **WHITE** or **YELLOW** Application Form for more than 100 per cent. of the Shares being offered for public subscription initially available in either pool A or pool B as referred to in the paragraph headed “New Issue” in this section.

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## HOW TO APPLY FOR THE NEW ISSUE SHARES

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All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**. If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

**Unlisted company** means a company with no equity securities listed on the Stock Exchange.

**Statutory control** means you:

- control the composition of the board of directors of the company; or
- control more than half the voting power of the company; or
- hold more than half the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### HOW MUCH ARE THE NEW ISSUE SHARES

The Issue Price of the New Issue Shares is HK\$2.80 each. You must also pay the brokerage of one per cent. and a Stock Exchange transaction levy of 0.011 per cent. on application. This means that for every 2,000 Shares you will pay HK\$5,656.62. The Application Forms have tables showing the exact amount payable for multiples of Shares.

You must pay the Issue Price, brokerage and the Stock Exchange transaction levy in full when you apply for the Shares.

If your application is successful, brokerage is paid to members of the Stock Exchange, and the transaction levy is paid to the Stock Exchange.

### TIME FOR APPLICATION OF NEW ISSUE SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment in Hong Kong dollars for the full amount payable on application attached, must be lodged **by 12:00 noon on 2nd December, 1998**, or, if the application lists are not open on that day, then by 12:00 noon on the day the lists are open.

Your completed Application Form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any of the branch or sub-branches of Bank of China listed on page 105 of this prospectus at the following times:

**27th November, 1998 — 9:00 a.m. to 4:00 p.m.**  
**28th November, 1998 — 9:00 a.m. to 12:00 noon**  
**30th November, 1998 — 9:00 a.m. to 4:00 p.m.**  
**1st December, 1998 — 9:00 a.m. to 4:00 p.m.**  
**2nd December, 1998 — 9:00 a.m. to 12:00 noon**

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## HOW TO APPLY FOR THE NEW ISSUE SHARES

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The application lists will be open **from 11:45 a.m. to 12:00 noon on 2nd December, 1998.**

### EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

in force at any time between 9:00 a.m. and 12:00 noon on 2nd December, 1998. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

**Business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

### CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED NEW SHARES

Full details of the circumstances in which you will not be allotted New Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following two situations in which New Shares will not be allotted to you.

- **If your application is revoked:**

By completing an Application Form you agree that you cannot revoke your application before 26th December, 1998. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of the Company agreeing that, it will not offer any New Shares to any person before 26th December, 1998 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked. Acceptance of application will be constituted by notification to the press of the basis of allocation and, where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to satisfaction of such conditions or the results of such ballot, respectively.

- **If the allotment of Shares is void:**

Your allotment of Shares will be void if the Listing Committee does not grant permission to list the New Shares either:

- within three weeks from the closing of the application lists; or

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## HOW TO APPLY FOR THE NEW ISSUE SHARES

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- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the lists.

### COMMENCEMENT OF DEALINGS IN THE NEW SHARES

Dealings in the Shares are expected to commence on Tuesday, 8th December, 1998.

Shares will be traded in board lots of 2,000 each.

### COLLECTION/POSTING OF SHARE CERTIFICATE(S)/REFUND CHEQUE AND DEPOSIT OF CERTIFICATES INTO CCASS

**WHITE** application form:

If you have applied for 200,000 New Issue Shares or more and have indicated on your application form that you will collect your share certificate(s) and/or refund cheque, you may collect it/them in person from:

Abacus Share Registrars Limited  
10th Floor, Caroline Centre  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

Share certificate(s) and refund cheque will be available for collection between 9:00 a.m. and 1:00 p.m. on Monday, 7th December, 1998.

You must show your identification document to collect your share certificate(s) and/or refund cheque.

If you do not collect your share certificate(s) and/or refund cheque, if any, they will be sent to the address on your application form on 7th December, 1998 by ordinary post and at your own risk.

If you have applied for 200,000 New Issue Shares or above and have not indicated on your application form that you will collect your share certificate(s) and/or refund cheque in person, or if you have applied for less than 200,000 New Issue Shares, then your share certificate(s) and/or refund cheque, if any, will be sent to the address on your application form by ordinary post and at your own risk on or before Friday, 4th December, 1998 and Saturday, 5th December, 1998, respectively.

**YELLOW** application form:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you by the close of business on Monday, 7th December, 1998, or any other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited.

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## **HOW TO APPLY FOR THE NEW ISSUE SHARES**

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If you are applying through a designated CCASS participant (other than an investor participant):

- for New Issue Shares credited to the stock account of your designated CCASS participant (other than an investor participant), you can check the number of New Issue Shares allotted to you with that CCASS participant.

If you are applying as an investor participant:

- the Company will publish the results of investor participants' applications together with the results of the Share Offer in the newspapers on Friday, 4th December, 1998. You should check against the announcement published by the Company and report any discrepancies to Hongkong Clearing before 12:00 noon on Monday, 7th December, 1998 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited. On Tuesday, 8th December, 1998 (the next day following the credit of the New Issue Shares to your stock account) you can check your new account balance via the CCASS Phone System (under the procedures contained in Hongkong Clearing's "Investor Account Guide — Investor Participation" in effect from time to time). Hongkong Clearing will also mail to you an Activity Statement showing the number of New Issue Shares credited to your stock account.

If you have indicated on your application form that you will collect your refund cheque(s) in person, please follow the instructions set out under the sub-paragraph headed "White application form" above.

### **NEW SHARES WILL BE ELIGIBLE FOR CCASS**

If the Stock Exchange grants the listing of and permission to deal in the Shares and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares or on any other date as determined by Hongkong Clearing. Settlement of transactions between members of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

23rd Floor  
Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

27th November, 1998

The Directors  
Hengan International Group Company Limited  
BNP Prime Peregrine Capital Limited  
Jardine Fleming Securities Limited  
China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Hengan International Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998 (the "Relevant Period") for inclusion in the prospectus of the Company dated 27th November, 1998 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 22nd July, 1998 as an exempted company with limited liability under the Companies Law (1995 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as described more fully in the sections headed "Further Information About The Company" and "Reorganisation" in Appendix VII of the Prospectus, the Company became the ultimate holding company of the subsidiaries set out below.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies or, if incorporated/established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company. Details of these companies are as follows:—

<b>Company</b>	<b>Country/Place and date of incorporation/ establishment</b>	<b>Registered capital/ Issued and fully paid up share capital</b>	<b>Attributable equity interest</b>	<b>Principal activities</b>
			%	
Hengan International Holdings Limited ("Hengan International")	British Virgin Islands ("BVI") 8th April, 1998	US\$50,000	100	Investment holding

Registered office: 22nd Floor, Prince's Building, Central, Hong Kong

<b>Company</b>	<b>Country/Place and date of incorporation/ establishment</b>	<b>Registered capital/ Issued and fully paid up share capital</b>	<b>Attributable equity interest %</b>	<b>Principal activities</b>
Hengan Industrial (Hong Kong) Limited ("Hengan Industrial")	Hong Kong 10th June, 1998	HK\$10,000	100	Trading and procurement
Hengan (Fujian) Investment Company Limited ("Hengan Fujian Investment")	BVI 8th April, 1998	US\$50,000	100	Investment holding
Hengan (Huadong) Investment Company Limited ("Hengan Huadong")	BVI 8th April, 1998	US\$50,000	100	Investment holding
Hengan (Huazhong) Investment Company Limited ("Hengan Huazhong")	BVI 8th April, 1998	US\$50,000	100	Investment holding
Hengan (Huabei) Investment Company Limited ("Hengan Huabei")	BVI 8th April, 1998	US\$50,000	100	Investment holding
Hengan (Xinan) Investment Company Limited ("Hengan Xinan")	BVI 8th April, 1998	US\$50,000	100	Investment holding
Hengan (Anxiang) Hygiene Products Co., Ltd. ("Hengan Anxiang") (Note 2)	The People's Republic of China ("PRC") 24th July, 1998 (Note 1)	RMB15,000,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Binyang) Hygiene Products Co., Ltd. ("Hengan Binyang") (Note 2)	PRC 31st August, 1998 (Note 1)	RMB5,680,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan Chongqing Hygiene Supplies Co., Ltd. ("Hengan Chongqing") (Note 2)	PRC 31st January, 1991	US\$620,000	100	Manufacture, distribution and sale of personal hygiene products
Fujian Hengan Holding Co., Ltd. ("Hengan Fujian") (Note 2)	PRC 16th March, 1985	RMB147,360,000	98.32	Manufacture, distribution and sale of personal hygiene products

<b>Company</b>	<b>Country/Place and date of incorporation/ establishment</b>	<b>Registered capital/ Issued and fully paid up share capital</b>	<b>Attributable equity interest %</b>	<b>Principal activities</b>
Hengan (Fushun) Sanitary Products Co., Ltd. ("Hengan Fushun") (Note 2)	PRC 18th September, 1998 (Note 1)	RMB14,590,000	51	Manufacture, distribution and sale of personal hygiene products
Hefei Hengan Hygiene Products Factory ("Hengan Hefei") (Note 2)	PRC 12th March, 1998	RMB3,680,000	99.98	Manufacture, distribution and sale of personal hygiene products
Hengan (Jiangxi) Hygiene Products Co., Ltd. ("Hengan Jiangxi") (Note 2)	PRC 6th August, 1998 (Note 1)	RMB7,420,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Fujian) Articles for Women and Children Use Co., Ltd. ("Hengan Articles") (Note 2)	PRC 3rd March, 1993	RMB240,000,000	98.96	Manufacture, distribution and sale of personal hygiene products
Hengan (Jinjiang) Hygiene Products Co., Ltd. ("Hengan Hygiene Products") (Note 2)	PRC 3rd July, 1995	HK\$50,000,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Luohe Linying) Hygiene Products Co., Ltd. ("Hengan Linying") (Note 2)	PRC 15th November, 1993	US\$1,200,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Shaanxi) Hygiene Products Co., Ltd. ("Hengan Shaanxi") (Note 2)	PRC 1st September, 1998 (Note 1)	RMB3,980,000	100	Manufacture, distribution and sale of personal hygiene products

<b>Company</b>	<b>Country/Place and date of incorporation/ establishment</b>	<b>Registered capital/ Issued and fully paid up share capital</b>	<b>Attributable equity interest</b> %	<b>Principal activities</b>
Shangyu City Hengan Hygiene Products Co. ("Hengan Shangyu") (Note 2)	PRC 23rd May, 1989	RMB7,290,000	99.99	Manufacture, distribution and sale of personal hygiene products
Hengan (Sichuan) Hygienic Products Co., Ltd. ("Hengan Sichuan")	PRC 25th August, 1998 (Note 1)	US\$1,380,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Tianjin) Hygiene Supplies Co., Ltd. ("Hengan Tianjin") (Note 2)	PRC 13th May, 1997	US\$3,000,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Weifang) Hygienic Products Co., Ltd. ("Hengan Weifang") (Note 2)	PRC 9th September, 1998 (Note 1)	US\$1,360,000	100	Manufacture, distribution and sale of personal hygiene products
Hengan (Xiaogan) Hygiene Products Co., Ltd. ("Hengan Xiaogan") (Note 2)	PRC 23rd July, 1998 (Note 1)	US\$1,460,000	100	Manufacture, distribution and sale of personal hygiene products
Jinjiang Hengan Hygiene Material Co., Ltd. ("Hengan Hygiene Material")	PRC 16th March, 1998	US\$10,000,000	100	Manufacture and sale of personal hygiene product materials

*Note 1:* Prior to the Reorganisation, Hengan Anxiang, Hengan Binyang, Hengan Fushun, Hengan Jiangxi, Hengan Shaanxi, Hengan Sichuan, Hengan Weifang and Hengan Xiaogan, were established in the form of either collectively-owned enterprises or joint operation enterprises in the PRC (collectively referred to as "Domestic Enterprises") in which the major shareholders of the Company, Mr Sze Man Bok, Mr Hui Chi Lin, Mr Yeung Wing Chun and Mr Hung Ching Shan, have controlling interests. These Domestic Enterprises were established between 1991 and 1997. Pursuant to the Reorganisation, these Domestic Enterprises were converted to wholly foreign-owned enterprises and Sino-foreign co-operative joint venture in the PRC (collectively referred to as "Foreign Investment Enterprises"), between July 1998 and September 1998.

*Note 2:* The auditors of the principal subsidiaries of the Company during the Relevant Period are:—

<b>Company</b>	<b>Auditors</b>
Hengan Chongqing, Hengan Fujian, Hengan Fushun, Hengan Linying, Hengan Articles, Hengan Hygiene Products, Hengan Shaanxi, Hengan Tianjin and Hengan Weifang	Jin Jiang Certified Public Accountants, Certified Public Accountants, the PRC
Hengan Anxiang	Changde Certified Public Accountants' Office An Xiang Branch, Certified Public Accountants, the PRC
Hengan Binyang	Guangxi Certified Public Accountants, Certified Public Accountants, the PRC
Hengan Hefei	Hefei Certified Public Auditors, Certified Public Accountants, the PRC
Hengan Jiangxi	Dongxiang Audit Office, Certified Public Accountants, the PRC
Hengan Shangyu	Shangyu Certified Public Accountants, Certified Public Accountants, the PRC
Hengan Xiaogan	Hubei Xiao Nan Certified Public Accountants, Certified Public Accountants, the PRC

No financial statements have been prepared by the Company, Hengan International, Hengan Industrial, Hengan Fujian Investment, Hengan Huadong, Hengan Huazhong, Hengan Huabei and Hengan Xinan since their respective dates of incorporation or establishment. These companies are newly incorporated and have not carried out any businesses since their incorporation, except for the transactions relating to the Reorganisation referred to herein.

The statutory accounts of the subsidiaries of the Company established in the PRC for the Relevant Period were prepared in accordance with the applicable accounting principles and relevant financial regulations in the PRC. For the purpose of this report, we have performed an independent audit of the accounts of all the companies and business operations now comprising the Group for the Relevant Period in accordance with Auditing Standards issued by the Hong Kong Society of Accountants ("HKSA"). In addition, we have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA. Adjustments have been made to the accounts of the subsidiaries for the purposes of this report to ensure that they comply with accounting principles generally accepted in Hong Kong and the accounting policies adopted by the Group.

The summaries of the combined results of the Group for the Relevant Period and of the combined net tangible assets of the Group as at 30th June, 1998 as set out in this report have been prepared based on the audited and management accounts of the companies comprising the Group, on the basis set out in section 1 below, after making such adjustments as we consider appropriate.

The directors of the respective companies are responsible for preparing the financial information and management accounts of the Group, which give a true and fair view. In preparing such financial information and management accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are also responsible for the summaries of the combined results of the Group for the Relevant Period and of the combined net tangible assets of the Group as at 30th June, 1998.

It is our responsibility to form an independent opinion on the summaries of the combined results of the Group and of the combined net tangible assets of the Group.

In our opinion, the financial information set out below together with the notes thereto gives, for the purpose of this report, a true and fair view of the combined results of the Group for each of the three years ended 31st December, 1997 and the six months ended 30th June, 1998 and of the combined net tangible assets of the Group as at 30th June, 1998.

## **1 BASIS OF PRESENTATION**

The summary of the combined results includes the combined results of the companies comprising the Group which have been prepared as if the current group structure and operation had been in existence throughout the Relevant Period, or since their respective dates of incorporation or establishment, whichever is later. The summary of the combined net tangible assets of the Group as at 30th June, 1998 has been prepared to present the assets and liabilities of the Group as if the current group structure and operation had been in existence at that date.

All significant intra-group transactions and balances have been eliminated on combination.

Minority interests represent the interests of third parties outside the Group in the results and net assets of the non-wholly owned subsidiaries.

## **2 PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted by the Group in arriving at the financial information included in this report are set out below. These policies conform with the Statements of Standard Accounting Practice issued by the HKSA.

### **(a) Revenue recognition**

Revenue from the sale of goods is recognised upon delivery of goods net of value added tax, where applicable.

Interest income is recognised on an accrual basis.

### **(b) Taxation**

The charge for taxation is based on the results for the year/period as adjusted for items which are non-assessable or disallowable. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in this report. The deferred tax effect of timing differences, computed under the liability method, is recognised in this report to the extent that it is probable a liability or an asset will crystallise in the foreseeable future.

(c) **Repairs and maintenance**

Repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

(d) **Fixed assets**

(i) *Leasehold land and buildings*

Leasehold land and buildings are stated at cost less accumulated amortisation or depreciation and any provisions required to reflect the recoverable amount. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(ii) *Amortisation/depreciation of leasehold land and buildings*

Amortisation/depreciation of leasehold land and buildings is calculated to write-off their costs on the straight line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The lease periods/expected useful lives used for this purpose range from 15 to 25 years.

(iii) *Other tangible fixed assets*

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of other tangible fixed assets is calculated to write-off their costs on the straight line basis over their expected useful lives to the Group. The expected useful lives used for this purpose are:—

Plant and machinery	10 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years

(iv) *Impairment of fixed assets*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the assets, including its residual value on disposal. The amount of the reduction to recoverable amount is charged to the profit and loss account.

(v) *Gain or loss on disposal of fixed assets*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

**(e) Construction-in-progress**

Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

**(f) Borrowing costs**

Borrowing costs incurred on the acquisition and construction of assets that take a substantial period of time to get ready for their intended use are capitalised as part of the costs of those assets. The capitalisation rate is based on the weighted average cost of borrowings and capitalisation of such borrowing costs ceases when the assets are ready for their intended use. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

**(g) Inventories**

Inventories, other than spare parts and consumable, are stated at the lower of cost and net realisable value. Cost includes direct materials, direct labour and an appropriate proportion of production overheads. In general, costs are assigned to individual items on a weighted average basis.

Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

Spare parts and consumables are stated at cost less provision for obsolescence.

**(h) Accounts receivable**

Provision is made by the directors of the Company against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the summary of combined net tangible assets are stated net of such provision.

**(i) Joint venture companies**

Joint venture companies are Sino-foreign joint ventures and joint operation enterprises operating in the PRC as independent business entities. The joint venture agreements stipulate the composition of joint venture parties' capital contributions, the duration of the joint ventures, and the basis on which assets are to be realised upon their dissolution. The profit and loss from operations and any distribution of surplus assets are shared by the joint venture parties in proportion to their respective capital contributions or under the terms of the joint venture agreements.

All of the joint venture companies of the Group are treated as subsidiaries by virtue of the fact that the Group holds more than 50 per cent. of the registered capital of the joint venture companies and is able to control the composition of the boards of directors.

**(j) Related companies**

A related company is a company in which one or more of the directors or major shareholders of the Company have a significant direct or indirect beneficial interest either as directors or shareholders.

**(k) Translation of foreign currencies**

Foreign currency transactions are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the above translation policy are dealt with in operating results.

The accounts of overseas subsidiaries and subsidiaries in the PRC are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are taken directly to the exchange fluctuation reserve.

**(l) Retirement benefits**

The Group contributes to a defined contribution pension scheme for certain of its employees. Both the Group and the relevant employees are required to make monthly cash contribution equivalent to 10 per cent. of the relevant employees' salaries. The maximum contribution by the Group and relevant employees is subject to a cap of RMB100 per month. The assets of the scheme are managed by an independent administrator. The Group's contributions to this scheme are expensed as incurred.

**3 RESULTS**

The following is a summary of the combined results of the Group for the Relevant Period prepared on the basis set out in section 1 above, after making such adjustments as we consider appropriate:—

		<b>Year ended 31st December,</b>			<b>Six months ended</b>
		<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>30th June, 1998</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(a)&(b)	454,954	584,518	794,006	641,626
Cost of goods sold		<u>(356,671)</u>	<u>(425,570)</u>	<u>(527,217)</u>	<u>(394,603)</u>
Gross profit		98,283	158,948	266,789	247,023
Operating expenses					
Selling and administration expenses		(57,595)	(68,444)	(94,671)	(81,626)
Finance expenses, net		<u>(5,246)</u>	<u>(5,264)</u>	<u>(8,194)</u>	<u>(6,102)</u>
Profit before taxation	(c)	35,442	85,240	163,924	159,295
Taxation	(e)	<u>(5,276)</u>	<u>(9,395)</u>	<u>(18,745)</u>	<u>(19,179)</u>
Profit after taxation		30,166	75,845	145,179	140,116
Minority interests		<u>(258)</u>	<u>(523)</u>	<u>(879)</u>	<u>(917)</u>
Profit attributable to shareholders		<u>29,908</u>	<u>75,322</u>	<u>144,300</u>	<u>139,199</u>
Dividends	(f)	<u>6,755</u>	<u>62,033</u>	<u>157,172</u>	<u>150,713</u>

Notes:

(a) **Turnover**

Turnover represents sales at invoiced value to customers and is stated net of returns and value added tax, where applicable.

(b) **Revenue**

The amounts of each significant category of revenue recognised during the Relevant Period are as follows:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of goods				
Sanitary napkins	451,005	572,635	764,660	600,134
Disposable baby diapers	—	4,809	21,737	28,852
Sanitary napkin materials	3,949	7,074	7,609	12,640
	454,954	584,518	794,006	641,626
Interest income	472	996	777	863

(c) **Profit before taxation**

The profit before taxation is stated after charging or crediting the following:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Charging:</b>				
Directors' emoluments	302	306	474	981
Auditors' remuneration	93	108	139	600
Depreciation of fixed assets	10,231	13,070	23,006	18,205
Interest on bank loans wholly repayable within five years	3,174	2,399	9,368	6,237
Less: Amount capitalised as construction in progress	(1,222)	(1,605)	(1,848)	(998)
	1,952	794	7,520	5,239
Interest on other loans wholly repayable within five years	3,081	2,914	2,148	534
Provision for doubtful debts	937	1,219	3,361	5,911
Rental for lease of factory premises	1,401	2,374	4,034	2,441
Repairs and maintenance expenses	1,738	2,107	2,959	2,082
Contribution to retirement fund	287	373	487	273
Exchange loss	287	2,256	772	496
Loss on disposal of fixed assets	132	139	27	2,327
<b>Crediting:</b>				
Bank interest income	472	996	777	863

(d) **Emoluments of directors and senior management**

(i) Details of the emoluments paid to the directors are as follows:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and allowances	197	199	332	887
Bonuses	105	107	142	94
	<u>302</u>	<u>306</u>	<u>474</u>	<u>981</u>

The number of directors whose emoluments fall into the following band:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
HK\$Nil - HK\$1,000,000	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>

No directors waived any emoluments during the Relevant Period.

(ii) In addition to the above analysis for the directors, there were employees whose emoluments were among the five highest in the Group. Details of their emoluments are as follows:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Basic salaries, bonuses and allowances	<u>47</u>	<u>59</u>	<u>156</u>	<u>—</u>

The number of these employees whose emoluments fall within the following emolument band:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
HK\$Nil — HK\$1,000,000	<u>1</u>	<u>1</u>	<u>2</u>	<u>—</u>

## (e) Taxation

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC income tax (Note (ii))	<u>5,276</u>	<u>9,395</u>	<u>18,745</u>	<u>19,179</u>

*Notes:*

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong during the Relevant Period.
- (ii) The PRC income tax during the Relevant Period represented the tax charges on the assessable profits of the PRC subsidiaries of the Group and is detailed as follows:—
- Foreign Investment Enterprises, except for Hengan Fujian, are entitled to full exemption from PRC income tax for two years (“tax exemption period”) starting from their first profit-making year followed by a 50 per cent. reduction for the next consecutive three years (“tax reduction period”), in accordance with the relevant tax laws and regulations applicable to Foreign Investment Enterprises in the PRC. With respect to Hengan Fujian, pursuant to a notice issued in 1985 by the Tax Bureau of Fujian Province, the PRC, Hengan Fujian was granted a tax incentive available to enterprises established by overseas Chinese in the PRC, which included tax exemption period and tax reduction period of three and four years respectively. The income tax rates applicable to these subsidiaries during the Relevant Period ranged from 15 per cent. to 27 per cent. after taking into consideration of the tax incentives granted.
  - Domestic Enterprises were subject to PRC income tax at a rate of 33 per cent., except for certain subsidiaries which were categorised as welfare enterprises under the relevant PRC jurisdictions. In accordance with Chishizi 1994 No.1, welfare enterprises are entitled to full exemption from PRC income tax liability, subject to the satisfaction of certain requirements.
- (iii) Subsequent to the Reorganisation, the PRC income tax incentives available to Foreign Investment Enterprises continue. With respect to Domestic Enterprises other than Hengan Hefei and Hengan Shangyu, these enterprises have been converted from Domestic Enterprises to Foreign Investment Enterprises pursuant to the Reorganisation. As a result, they are entitled to enjoy the PRC income tax incentives available to Foreign Investment Enterprises, including full exemption from PRC income tax for two years starting from their first profit-making year followed by a 50 per cent. reduction for the next consecutive three years. Hengan Hefei and Hengan Shangyu are welfare enterprises and continue to enjoy the PRC income tax incentive available to welfare enterprises.
- (iv) No provision for deferred taxation has been made in the accounts as the effect of timing differences is immaterial to the Group.

(f) **Dividends**

No dividends have been paid or declared by the Company since its incorporation. The dividends declared by the Company's subsidiaries to their then shareholders during the Relevant Period were as follows:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Dividends declared	<u>6,755</u>	<u>62,033</u>	<u>157,172</u>	<u>150,713</u>

The rates of dividend and number of shares ranking for dividends are not presented as such information is not meaningful to the purpose of this report.

(g) **Related party transactions**

During the Relevant Period, the Group had the following material transactions with related companies:—

Nature of transaction and name of related company	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Purchase of raw materials, fixed assets and spare parts through:				
— Tin Lee Trading Company ("Tin Lee") (Note (i))	12,126	10,184	27,136	58,029
— Foundation Development Limited ("Foundation") (Note (i))	—	849	15,330	11,352
Sale of raw materials to:				
— Jinjiang Hengan Hearttex Paper Co., Ltd. (Note (ii))	—	450	645	1,288

*Notes:*

- (i) Tin Lee and Foundation are beneficially owned by Mr Sze Man Bok, a director and major shareholder of the Company.
- (ii) The company is beneficially owned by the major shareholders of the Company, Mr Sze Man Bok, Mr Hui Chi Lin, Mr Yeung Wing Chun and Mr Hung Ching Shan.
- (iii) In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of business of the Group. The directors of the Company have confirmed that the transactions will not continue subsequent to the successful listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(h) **Transfer to and from reserves**

The movements in reserves during the Relevant Period were as follows:—

	Year ended 31st December,			Six months ended
	1995	1996	1997	30th June, 1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange fluctuation reserve arising from translation of accounts of subsidiaries in the PRC	<u>2,412</u>	<u>957</u>	<u>1,903</u>	<u>51</u>
Transferred from profit after taxation to:				
— Statutory surplus reserve	<u>1,086</u>	<u>1,874</u>	<u>7,105</u>	<u>4,324</u>
— Statutory public welfare reserve	<u>389</u>	<u>636</u>	<u>1,846</u>	<u>681</u>

The Company's subsidiaries in the PRC are required to maintain certain statutory reserves by appropriating from the profit after taxation in accordance with the relevant laws and regulations in the PRC and articles of association of the PRC subsidiaries, where applicable, before the declaration or payment of dividends. The reserves form part of the equity of the PRC subsidiaries.

The appropriations to the statutory surplus reserve and statutory public welfare reserve represent 10 per cent. and 5 per cent. of the profits after taxation of the relevant subsidiaries respectively. In accordance with the laws and regulations in the PRC, the appropriations to statutory surplus reserve can cease when the balances of the reserve reach 50 per cent. of the paid up capital or registered capital of the relevant subsidiaries.

## 4 NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets of the Group as at 30th June, 1998 prepared on the basis set out in section 1 above, after making such adjustments as we consider appropriate:—

	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Fixed assets</b>	(a)		402,735
<b>Construction in progress</b>	(b)		44,412
<b>Current assets</b>			
Inventories	(c)	191,840	
Due from related companies	(d)	19,888	
Accounts receivable		150,963	
Other receivables, prepayments and deposits		49,395	
Cash and bank balances		121,122	
		533,208	
<b>Current liabilities</b>			
Accounts payable		65,422	
Other payables and accrued charges		31,040	
Dividends payable		140,393	
Taxation	(e)	68,466	
Short-term borrowings - unsecured	(f)	122,191	
		427,512	
<b>Net current assets</b>			105,696
			552,843
Deduct:—			
Minority interest			6,086
<b>Net tangible assets</b>			<u>546,757</u>

*Notes:*

## (a) Fixed assets

	<b>Cost</b> <i>HK\$'000</i>	<b>Accumulated depreciation</b> <i>HK\$'000</i>	<b>Net book value</b> <i>HK\$'000</i>
Leasehold land and buildings	94,966	(8,550)	86,416
Plant and machinery	364,980	(58,071)	306,909
Office equipment, furniture and fixtures	4,928	(1,910)	3,018
Motor vehicles	10,280	(3,888)	6,392
	<u>475,154</u>	<u>(72,419)</u>	<u>402,735</u>

All of the Group's land and buildings are located in the PRC and the land use rights of the land where the Group's buildings are situated are for periods ranging from 45 to 50 years expiring in year 2043 to 2048.

(b) **Construction in progress**

Construction in progress comprises expenditure, including interest, incurred on buildings, plant and machinery not yet commissioned at 30th June, 1998.

(c) **Inventories**

	<i>HK\$ '000</i>
Raw materials	126,719
Work in progress	2,417
Finished goods	45,404
Spare parts and consumable	17,300
	<u>191,840</u>

(d) **Due from related companies**

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:—

<b>Name of related companies</b>	<b>30th June, 1998 <i>HK\$ '000</i></b>	<b>Maximum outstanding during the period <i>HK\$ '000</i></b>	<b>1st January, 1998 <i>HK\$ '000</i></b>
安鄉縣恒安紙品有限公司 *Anxiang Hengan Paper Products Co., Ltd.	<u>4,706</u>	<u>4,706</u>	<u>—</u>
湖南安鄉恒安衛生材料有限公司 *Anxiang Hengan Hygiene Material Co., Ltd.	<u>5,365</u>	<u>5,365</u>	<u>—</u>
常德恒安紙業有限公司 Changde Hengan Paper Products Co., Ltd.	<u>1,534</u>	<u>1,672</u>	<u>1,672</u>
常德恒安特種水產有限公司 *Changde Special Marine Products Co., Ltd.	<u>2,544</u>	<u>2,544</u>	<u>1,125</u>
撫順恒安織棉服飾公司 *Fushun Hengan Fibre Cotton & Clothes Company	<u>2,407</u>	<u>2,407</u>	<u>824</u>
福建省晉江恒安織綿服飾有限公司 Hang On Fibre & Cotton Dress Adornment Co., Ltd.	<u>3,332</u>	<u>3,332</u>	<u>416</u>

\* *Direct translation of the name of the companies in Chinese*

The executive directors of the Company, except for Mr Yue Wai Leung, Stan, have beneficial interests in these companies. The amounts were unsecured, interest free and have been fully settled in cash subsequent to 30th June, 1998.

(e) **Taxation**

	<i>HK\$ '000</i>
PRC value added tax payable	26,989
PRC income tax payable	41,477
	<u>68,466</u>

**(f) Short-term borrowings — unsecured**

Short term borrowings comprise loans from:—

	<i>HK\$'000</i>
Banks	120,318
Other financial institutions	1,873
	<u>122,191</u>

The loans from banks and other financial institutions are interest bearing at 6.4 per cent. to 7.9 per cent. per annum.

**(g) Commitments**

As at 30th June, 1998, the Group had the following commitments:

(i) Commitments to make payments in the next financial year under non-cancellable operating leases in respect of land and buildings as follows:—	<i>HK\$'000</i>
Leases which expire	
— in the second to fifth years inclusive	1,541
— after five years	<u>3,216</u>
	<u>4,757</u>

**(ii) Capital commitments in respect of:—**

	<i>HK\$'000</i>
Capital contribution to subsidiaries in the PRC	
Contracted but not provided for	<u>74,087</u>
Land and buildings	
Authorised but not contracted for	3,016
Contracted but not provided for	<u>22,726</u>
	<u>25,742</u>
Plant and machinery and office equipment	
Authorised but not contracted for	5,784
Contracted but not provided for	<u>64,367</u>
	<u>70,151</u>
	<u>169,980</u>

**(h) Banking facilities and contingent liabilities**

As at 30th June, 1998, the Group was granted a letter of credit facility in the amount of US\$6 million (equivalent to approximately HK\$46 million) by a bank in the PRC, of which approximately HK\$17,125,000 has been utilized.

As at 30th June, 1998, the Group had provided guarantees to a financial institution in the PRC for loans granted to a related company amounting to approximately HK\$2.9 million. The guarantees have been released subsequently in September 1998.

**(i) Net tangible assets of the Company**

The Company was incorporated on 22nd July, 1998. On the basis set out in Section 1 above, the net tangible assets of the Company as at 30th June, 1998 would have been HK\$547 million, representing its investment in the subsidiaries.

**5 DIRECTORS' REMUNERATION**

Save as disclosed in Section 3 note (d), no remuneration has been paid or is payable in respect of the Relevant Period by the Company or any of its subsidiaries to directors of the Company. Under the arrangements currently in force, it is estimated that an aggregate sum of approximately HK\$3.2 million will be paid to the Directors as remuneration and benefits in kind by the Group in respect of the year ending 31st December, 1998, before discretionary bonuses and share options, if any, which are subject to the approval of the Board of Directors.

**6 SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30th June, 1998:—

- (a) The companies now comprising the Group underwent a reorganisation in preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited. The details of the reorganisation are set out in the section headed "Reorganisation" in Appendix VII of the Prospectus.
- (b) The Group's leasehold land and buildings situated in the PRC have been revalued by an independent property valuer, Chesterton Petty Limited, as at 31st August, 1998. The aggregate surplus on revaluation amounting to approximately HK\$50 million is not reflected in the net tangible assets of the Company as at 30th June, 1998, and will be incorporated into the Company's accounts for the year ending 31st December, 1998.
- (c) The capital commitments in respect of capital contribution to certain subsidiaries in the PRC of the Group as at 30th June, 1998 of HK\$74 million had been made after 30th June, 1998 by the then shareholders re-investing dividends declared by the Group to them for the six months ended 30th June, 1998 (amounting to approximately HK\$60 million) and by cash and machinery (amounting to approximately HK\$14 million).

Save as aforesaid, no other material events took place subsequent to 30th June, 1998.

**7 SUBSEQUENT ACCOUNTS**

No audited accounts have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 30th June, 1998 and, save as disclosed in this report, no dividend or other distribution has been declared by the Company or any of its subsidiaries in respect of any period subsequent to 30th June, 1998.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

The forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31st December, 1998 is set out in the section headed “Profit forecast, dividends and working capital” in this prospectus.

### **1. BASES AND ASSUMPTIONS**

The Directors have prepared the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31st December, 1998 based on the audited combined results of the Group for the six months ended 30th June, 1998, the unaudited combined results based on management accounts of the Group for the two months ended 31st August, 1998 and a forecast of the combined results of the Group for the remaining four months ending 31st December, 1998. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31st December, 1998. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those adopted by the Group as summarised in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

The Directors have adopted the following assumptions in the preparation of the forecast:

- (i) there will be no material changes in the existing government policies or political, legal, fiscal, market or economic conditions in Hong Kong, the PRC or any other places in which any member of the Group carries on business or from which it imports or exports its products or materials;
- (ii) apart from the changes in tax incentives applicable to the subsidiaries of the Company in the PRC as a result of the Reorganisation as disclosed in the section headed “Financial Information — Taxation” of this prospectus, there will be no material changes in the bases or rates of taxation applicable to the activities of the Group; and
- (iii) there will be no material changes in inflation, exchange rates or interest rates from those currently prevailing.

**2. LETTERS**

Set out below are texts of the letters received (i) by the Directors and the Sponsors from PricewaterhouseCoopers, the auditors and reporting accountants of the Company, and (ii) by the Directors from the Sponsors, prepared for the purpose of incorporation in this prospectus, in connection with the profit forecast of the Group for the year ending 31st December, 1998.



羅兵咸永道會計師事務所

23rd Floor  
Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

27th November, 1998

The Directors  
Hengan International Group Company Limited  
BNP Prime Peregrine Capital Limited  
Jardine Fleming Securities Limited  
China Everbright Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profit after taxation and minority interests but before extraordinary items of Hengan International Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31st December, 1998 (the "Forecast"), for which the Directors of the Company are solely responsible, as set out in the section headed "Profit forecast, dividends and working capital" in the prospectus of the Company dated 27th November, 1998 (the "Prospectus").

The Forecast has been prepared by the Directors of the Company based on the audited combined results of the Group for the six months ended 30th June, 1998, the unaudited combined results based on management accounts of the Group for the two months ended 31st August, 1998 and a forecast of the combined results of the Group for the remaining four months ending 31st December, 1998.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors of the Company as set out in Appendix II to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

**BNP Prime Peregrine Capital Limited**

23rd Floor, New World Tower  
16-18 Queen's Road Central  
Hong Kong

**Jardine Fleming Securities Limited**

46th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

**China Everbright Capital Limited**

36th Floor, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

27th November, 1998

The Directors  
Hengan International Group Company Limited  
Unit 502A, 503 and 503A  
5th Floor, Admiralty Centre  
Tower 2, 18 Harcourt Road  
Hong Kong

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of Hengan International Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31st December, 1998 (the "Forecast") as set out in the prospectus of the Company dated 27th November, 1998.

We have discussed with you the bases and assumptions upon which the Forecast has been made. We have also considered the letter dated 27th November, 1998 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and on the accounting policies and calculations reviewed by PricewaterhouseCoopers, we have formed the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of

**BNP Prime Peregrine Capital Limited**

**Tim Fu Ting Mei**

*Deputy Managing Director*

For and on behalf of  
**Jardine Fleming Securities Limited**

**Albert Cheng**

*Director*

For and on behalf of  
**China Everbright Capital Limited**

**Wong Wai Ming**

*Managing Director*

The following is the text of the letter, summary of values and valuation certificate received from Chesterton Petty Limited, an independent property valuer, in connection with their valuation of the property interests held and leased by the Group as at 31st August, 1998.



International Property Consultants

Chesterton Petty Ltd  
16/F CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

27th November, 1998

The Directors  
Hengan International Group Company Limited  
Unit 502A, 503 and 503A  
5th Floor, Admiralty Centre  
Tower 2, 18 Harcourt Road  
Hong Kong

Dear Sirs

In accordance with your instructions to value the property interests held and leased by Hengan International Group Company Limited (the “Company”) or its subsidiaries and associated companies (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”) and in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at 31st August, 1998.

Our valuation is our opinion of the open market value which we would define as intended to mean “the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:—

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation; and

(d) that no account is taken of any additional bid by a purchaser with a special interest”.

Our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

Due to the specific purposes for which properties in Group I have been constructed, there are no readily identifiable market comparables, and the buildings and structures of these properties cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of depreciated replacement cost. We would define “depreciated replacement cost” to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparables sales.

The property interests in Group II, which are under construction, have been valued on the basis of their prevailing cost level and status of construction as at the date of valuation. We have assumed that all consents, approvals and licences from the relevant Government authorities for these developments will be granted without any onerous conditions or undue delay which might affect their values.

The property interests in Group III and Group IV which are leased by the Group have no commercial value due to the prohibition against assignment or sub-letting.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies provided to us. We have relied on the information given by the Group and its legal advisers on the PRC laws, Jingtian Associates, regarding the titles of the properties.

We have relied to a very considerable extent on information given by the Group and the legal opinion of the Group’s PRC legal advisers. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/or its PRC legal advisers which is material to the valuations. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, identification of the properties, site and floor areas and all other relevant information. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents and leases provided to us and are therefore only approximations. No on-site measurements have been made. We have been advised by the Group that no material facts have been omitted from the information supplied.

We understand that the Group's PRC legal advisers have collected and perused those documents which they think necessary and have made relevant enquiries with the Group for the purpose of issuing the above-mentioned legal opinion. However, we are unable to identify whether they have conducted searches at the relevant land authorities to verify the information and documents provided by the Group. We have assumed that all information and documents provided by the Group to its PRC legal advisers are consistent with the information and records registered with the relevant land authorities.

We have inspected the exterior of the properties valued and where possible, we have also inspected the interior of these premises. No structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No test were carried out on any of the services.

We have not carried out site investigations of the properties in Group II to determine the suitability of the ground conditions and the services, etc. for the development. Our valuations are prepared on the assumptions that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In preparing our valuation report, we have had regard to the requirements contained in the provisions of Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise specified, all amounts are denominated in Renminbi. The exchange rate adopted for conversion is HK\$1 = RMB1.069, being the PBOC Exchange Rate prevailing on the date of valuation.

Our summary of values and valuation certificate are attached herewith.

Yours faithfully  
For and on behalf of  
**Chesterton Petty Limited**  
**Charles C K Chan**  
*Chartered Estate Surveyor*  
ARICS FHKIS ACIArb RPS(GP)  
*Executive Director*

*Note: Mr Charles C K Chan, Chartered Estate Surveyor, A.R.I.C.S., F.H.K.I.S., A.C.I.Arb., R.P.S.(G.P.), has been a qualified valuer with Chesterton Petty Limited since June 1987 and has about 14 years' experience in the valuation of properties in Hong Kong and has extensive experience in the valuation of properties in the People's Republic of China.*

## SUMMARY OF VALUES

Property	Open market value in existing state as at 31st August, 1998		Interest attributable to the Group (%)	Capital value in existing state as at 31st August, 1998	
	RMB	HK\$		RMB	HK\$
	<b>Group I — Property interests held by the Group in the PRC</b>				
1. Anhai Plant I at Gongye Road, Anhai Town, Jinjiang, Fujian Province, The PRC	15,760,000	14,742,750	98.32	15,495,232	14,495,072
2. Anhai Plant II at Gongye Road, Anhai Town, Jinjiang, Fujian Province, The PRC	13,490,000	12,619,270	98.96	13,349,704	12,488,030
3. Part I of Hengan Industry City at Quanan Road, Anhai Town, Jinjiang, Fujian Province, The PRC	33,350,000	31,197,381	98.32	32,789,720	30,673,265
4. Part II of Hengan Industry City at Quanan Road, Anhai Town, Jinjiang, Fujian Province, The PRC	37,730,000	35,294,668	100	37,730,000	35,294,668
5. Tianjin Plant at Xinghua Yizhi Road in Xiqing Economic Development Zone, Xiqing District, Tianjin, The PRC	14,010,000	13,105,706	100	14,010,000	13,105,706
6. Fushun Plant at Xincheng Road, Shuncheng District, Fushun, Liaoning Province, The PRC	1,930,000	1,805,426	51	984,300	920,767
7. Xiaogan Plant in Nanda Economic Development Zone, Xiaonan District, Xiaogan, Hubei Province, The PRC	8,630,000	8,072,965	100	8,630,000	8,072,965

**APPENDIX III****PROPERTY VALUATION**

<b>Property</b>	<b>Open market value in existing state as at 31st August, 1998</b>		<b>Interest attributable to the Group (%)</b>	<b>Capital value in existing state as at 31st August, 1998</b>	
	<i>RMB</i>	<i>HK\$</i>		<i>RMB</i>	<i>HK\$</i>
8. Linying Plant at 288 Wuyi Road in Tiexi Industry Zone, Linying County, Henan Province, The PRC	12,310,000	11,515,435	100	12,310,000	11,515,435
9. Anxiang Plant at Wenyinan Road, Chengguan Town, Anxiang County, Hunan Province, The PRC	10,380,000	9,710,009	100	10,380,000	9,710,009
Sub-total:	147,590,000	138,063,610		145,678,956	136,275,917
<b>Group II — Property interests held by the Group under construction in the PRC</b>					
10. Two Buildings in Hengan Industry City at Quanan Road, Anhai Town, Jinjiang, Fujian Province, The PRC	20,870,000	19,522,919	98.32	20,519,384	19,194,934
11. A Building in Fushun Plant at Xincheng Road, Shuncheng District, Fushun, Liaoning Province, The PRC	1,250,000	1,169,317	51	637,500	596,352
12. A Warehouse in Xiaogan Plant in Nanda Economic Development Zone, Xiaonan District, Xiaogan, Hubei Province, The PRC	440,000	411,600	100	440,000	411,600
Sub-total:	22,560,000	21,103,836		21,596,884	20,202,886
Grand total:	170,150,000	159,167,446		167,275,840	156,478,803

<b>Property</b>	<b>Open market value in existing state as at 31st August, 1998</b>
<b>Group III — Property interest leased by the Group in Hong Kong</b>	
13. Units 502A, 503 and 503A, 5/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong	No commercial value
<b>Group IV — Property interests leased by the Group in the PRC</b>	
14. Xian Plant at Sihao Road, Hu County, Shaanxi Province, The PRC	No commercial value
15. Chengdu Plant at Wu Cha Zi Cun Qi Zu, Guixi Xiang, Gaoxin District, Chengdu, Sichuan Province, The PRC	No commercial value
16. Chongqing Plant at 13 Shanqiao Sancun, Shapingba District, Chongqing, The PRC	No commercial value
17. Shangyu Plant at Juying Road in Caoe Development Zone, Baiguan Town, Shangyu, Zhejiang Province, The PRC	No commercial value
18. Hefei Plant at 2 Zhanbei Sicun, Fengyangxi Road, Dong District, Hefei, Anhui Province, The PRC	No commercial value
19. Binyang Plant at Zhonghua Street, Zhonghua Town, Binyang County, Guangxi Zhuangzu Autonomous Region, The PRC	No commercial value

<b>Property</b>	<b>Open market value in existing state as at 31st August, 1998</b>
20. Weifang Plant at Second Road, Fangzi District, Weifang, Shandong Province, The PRC	No commercial value
21. Dongxiang Plant at Donghong Road, Yushangqiao Town, Dongxiang County, Jiangxi Province, The PRC	No commercial value

## VALUATION CERTIFICATE

## Group I — Property interests held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998															
			(RMB)	(HK\$)														
1. Anhai Plant I at Gongye Road, Anhai Town, Jinjiang, Fujian Province, The PRC	<p>The property comprises 4 adjoining level sites with a total area of approximately 10,507.00 sq m (113,097 sq ft).</p> <p>Currently standing on the sites is an industrial compound comprising 7 single or multi-storey buildings of reinforced concrete structure or concrete/brick construction and other structures completed between 1988 and 1993. Details of the said buildings are as follows:—</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops/ Warehouses</td> <td>17,705.70</td> <td>(190,584)</td> </tr> <tr> <td>Power Room</td> <td>567.69</td> <td>(6,111)</td> </tr> <tr> <td>Total</td> <td><u>18,273.39</u></td> <td><u>(196,695)</u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for a term expiring on 30th June, 2048 and 14th August, 2048 respectively for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops/ Warehouses	17,705.70	(190,584)	Power Room	567.69	(6,111)	Total	<u>18,273.39</u>	<u>(196,695)</u>	The property is occupied by the Group for manufacturing purposes.	15,760,000	14,742,750
Item	Gross Floor Area																	
	sq m	(sq ft)																
Workshops/ Warehouses	17,705.70	(190,584)																
Power Room	567.69	(6,111)																
Total	<u>18,273.39</u>	<u>(196,695)</u>																
			(98.32% interest attributable to the Group: RMB15,495,232 (HK\$14,495,072))															

## Notes:

- (1) Pursuant to 2 Contracts for Grant of State-owned Land Use Right both dated 30th June, 1998 made between Jinjiang Land Administration Bureau (party A) and Hengan Fujian (a 98.32% interest owned subsidiary within the Group) (party B), the land use rights with a total site area of 2,519.00 sq m have been granted to party B for a term of 50 years commencing from the signing date of the said contracts at a total consideration of RMB122,423.00.
- (2) Pursuant to the Contract for Grant of State-owned Land Use Right dated 30th June, 1998 made between Jinjiang Land Administration Bureau (party A) and 福建省晉江市安海對外加工裝配廠 (Anhai Processing Factory) (party B), the land use rights with a site area of 1,182.00 sq m have been granted to party B for a term of 50 years commencing from the signing date of the said contract at a consideration of RMB57,445.20.
- (3) Pursuant to the Contract for Transfer of Land Use Right dated 28th June, 1998 made between Hengan Fujian (party A) and Anhai Processing Factory (party B), party B agreed to transfer the land use rights with a site area of 1,182.00 sq m to party A on nil consideration.

- (4) Pursuant to the Contract for Grant of State-owned Land Use Right dated 14th August, 1998 made between Jinjiang Land Administration Bureau (party A) and Hengan Fujian (party B), the land use rights with a site area of 6,806.00 sq m has been granted to party B for a term of 50 years commencing from the signing date of the said contract at a consideration of RMB413,464.50.
- (5) Pursuant to 2 State-owned Land Use Right Certificates both dated 8th July, 1998 issued by Jinjiang Land Administration Bureau, the registered land user of the property with a total site area of 2,519.00 sq m is Hengan Fujian for a term of 50 years commencing from 30th June, 1998 to 30th June, 2048 for industrial purpose.
- (6) Pursuant to a State-owned Land Use Right Certificate dated 17th July, 1998 issued by Jinjiang Land Administration Bureau, the registered land user of the property with a site area of 1,182.00 sq m is Hengan Fujian for a term commencing from 17th July, 1998 to 30th June, 2048 for industrial purpose.
- (7) Pursuant to a State-owned Land Use Right Certificate dated 26th August, 1998 issued by Jinjiang Land Administration Bureau, the registered land user of the property with a site area of 6,806.00 sq m is Hengan Fujian for a term of 50 years commencing from 14th August, 1998 to 14th August, 2048 for industrial purpose.
- (8) Pursuant to 2 Building Ownership Certificates issued dated 27th March, 1996 and 6th October, 1998 respectively by Jinjiang Construction Committee, the title of the said buildings with a total gross floor area of 18,273.39 sq m is held by Hengan Fujian.
- (9) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
- (i) Hengan Fujian is a sino-foreign equity joint venture company (98.32% interest held by the Group).
- (ii) Pursuant to the land use right certificates, the land use rights of the property with a total area of 10,507.00 sq m are held by Hengan Fujian for terms of 50 years expiring on 30th June, 2048 and 14th August, 2048 all for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Fujian.
- (iii) Pursuant to the building ownership certificates, Hengan Fujian has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Fujian.
- (iv) The property is free from any mortgage.
- (10) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:—
- |  |     |
|--|-----|
| Joint Venture Contract                           | Yes |
| State-owned Land Use Right Certificate           | Yes |
| Contract for Grant of State-owned Land Use Right | Yes |
| Contract for Transfer of Land Use Right          | Yes |
| Building Ownership Certificate                   | Yes |
| Business Licence                                 | Yes |

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998															
			(RMB)	(HK\$)														
2. Anhai Plant II at Gongye Road, Anhai Town, Jinjiang, Fujian Province, The PRC	<p>The property comprises a level site with an area of approximately 10,579.90 sq m (113,882 sq ft).</p> <p>Currently standing on the site is an industrial compound comprising 5 single or multi-storey buildings of reinforced concrete structure or concrete/brick construction and other structures completed between 1991 and 1995. Details of the said buildings are as follows:—</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshop/ warehouse</td> <td>10,232.69</td> <td>(110,145)</td> </tr> <tr> <td>Canteen/ staff quarters</td> <td><u>4,243.03</u></td> <td><u>(45,672)</u></td> </tr> <tr> <td>Total</td> <td><u><u>14,475.72</u></u></td> <td><u><u>(155,817)</u></u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for a term expiring on 14th August, 2048 for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshop/ warehouse	10,232.69	(110,145)	Canteen/ staff quarters	<u>4,243.03</u>	<u>(45,672)</u>	Total	<u><u>14,475.72</u></u>	<u><u>(155,817)</u></u>	The property is occupied by the Group for manufacturing purposes.	13,490,000	12,619,270
Item	Gross Floor Area																	
	sq m	(sq ft)																
Workshop/ warehouse	10,232.69	(110,145)																
Canteen/ staff quarters	<u>4,243.03</u>	<u>(45,672)</u>																
Total	<u><u>14,475.72</u></u>	<u><u>(155,817)</u></u>																
			(98.96% interest attributable to the Group: RMB13,349,704 (HK\$12,488,030))															

## Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right dated 14th August, 1998 made between Jinjiang Land Administration Bureau (party A) and Hengan Articles (party B) (a 98.96% interest owned subsidiary within the Group), the land use rights with a site area of 17,140.00 sq m have been granted to party B for a term of 50 years commencing from the signing date of the said contract at a consideration of RMB1,041,255.
- (2) Pursuant to the Contract for Transfer of State-owned Land Use Right dated 30th September, 1998 made between Hengan Articles (party A) and Hang On Fibre & Cotton Dress Adornment Co Ltd (party B), party A agreed to transfer the land use rights with a site area of 2,114.60 sq m to party B at a consideration of RMB1.
- (3) Pursuant to the Contract for Transfer of State-owned Land Use Right dated 25th October, 1998 made between Hengan Articles (party A) and Hang On Fiber & Cotton Dress Adornment Co Ltd (party B), party A agreed to transfer the land use rights with a site area of 4,445.50 sq m to party B at a consideration of RMB1.
- (4) Pursuant to the Contract for Transfer of Building Ownership dated 10th October, 1998 made between Hengan Articles (party A) and Hang On Fiber & Cotton Dress Adornment Co Ltd (party B), party A agreed to transfer 2 buildings with a total gross floor area of 7,250.32 sq m to party B at a consideration of RMB1.

- (5) Pursuant to the Contract for Transfer of Building Ownership dated 30th October, 1998 made between Hengan Articles (party A) and Hang On Fiber & Cotton Dress Adornment Co Ltd (party B), party A agreed to transfer two workshops with a total gross floor area of 4,111.00 sq m to party B at a consideration of RMB1.
- (6) Pursuant to a State-owned Land Use Right Certificate dated 9th November, 1998 issued by Jinjiang Land Administration Bureau, the registered land user of the property with a site area of 10,579.90 sq m is Hengan Articles for a term commencing from 9th November, 1998 to 14th August, 2048 for industrial purpose.
- (7) Pursuant to a Building Ownership Certificate issued dated 9th November, 1998 by Jinjiang Construction Committee, the title of the said buildings with a total gross floor area of 14,475.72 sq m is held by Hengan Articles.
- (8) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the follows:—
- (i) Hengan Article is a sino-foreign equity joint venture company (98.96% interest held by the Group).
- (ii) Pursuant to the land use right certificate, the land use rights of the property with an area of 10,579.90 sq m are held by Hengan Articles for a term of 50 years expiring on 14th August, 2048 for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Articles.
- (iii) Pursuant to the building ownership certificate, Hengan Articles has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Articles.
- (iv) The property is free from any mortgage.
- (9) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:—

Joint Venture Contract	Yes
State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Contract for Transfer of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998															
			(RMB)	(HK\$)														
3. Part I of Hengan Industry City at Quanan Road, Anhai Town, Jinjiang, Fujian Province, The PRC	<p>The property comprises a level site with an area of approximately 34,785.00 sq m (374,426 sq ft).</p> <p>Currently standing on the sites is an industrial compound comprising 8 single or multi-storey buildings of reinforced concrete construction and other structures completed between 1996 and 1998. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops/ Warehouses</td> <td>27,389.62</td> <td>(294,822)</td> </tr> <tr> <td>Canteen</td> <td>3,393.47</td> <td>(36,527)</td> </tr> <tr> <td>Total</td> <td><u>30,783.09</u></td> <td><u>(331,349)</u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for terms of 50 years commencing from 6th July, 1998 to 6th July, 2048 for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops/ Warehouses	27,389.62	(294,822)	Canteen	3,393.47	(36,527)	Total	<u>30,783.09</u>	<u>(331,349)</u>	<p>A portion of the property with a total gross floor area of 8,767.75 sq m is leased to Hengan Hygiene Material (a wholly owned subsidiary of the Group) under a confirmation letter for a term expiring on 21st October, 2001 on nil rental.</p> <p>The remaining portion of the property is occupied by the Group for manufacturing purposes.</p>	33,350,000	31,197,381
Item	Gross Floor Area																	
	sq m	(sq ft)																
Workshops/ Warehouses	27,389.62	(294,822)																
Canteen	3,393.47	(36,527)																
Total	<u>30,783.09</u>	<u>(331,349)</u>																
			(98.32% interest attributable to the Group: RMB32,789,720 (HK\$30,673,265))															

## Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right dated 6th July, 1998 made between Jinjiang Land Administration Bureau (party A) and Hengan Fujian (party B), the land use rights of the property with a site area of 34,785.00 sq m have been granted to party B and party C respectively for a term of 50 years commencing from the signing date of the said contract at a consideration of RMB1,173,993.75.
- (2) Pursuant to a State-owned Land Use Right Certificate dated 8th July, 1998 issued by Jinjiang Land Administration Bureau, the registered land user of the property with an area of 34,785.00 sq m is Hengan Fujian for a term of 50 years commencing from 6th July, 1998 to 6th July, 2048 for industrial purpose.
- (3) Pursuant to 7 Building Ownership Certificates dated 29th June, 1998 issued by Jinjiang Construction Committee, the title of the said buildings with a total gross floor area of 30,783.09 sq m is held by Hengan Fujian.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
  - (i) Hengan Fujian is a sino-foreign equity joint venture company (98.32% interest held by the Group).
  - (ii) Pursuant to the land use right certificate, the land use rights of the property with an area of 34,785.00 sq m are held by Hengan Fujian for a term of 50 years commencing from 6th July, 1998 to 6th July, 2048 for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Fujian.

- (iii) Pursuant to the building ownership certificates, Hengan Fujian has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Fujian.
- (iv) The property is free from any mortgage.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998																		
			(RMB)	(HK\$)																	
4. Part II of Hengan Industry City at Quanan Road, Anhai Town, Jinjiang, Fujian Province, The PRC	<p>The property comprises a level site with an area of approximately 29,820.00 sq m (320,982 sq ft).</p> <p>Currently standing on the sites is an industrial compound comprising 11 single or multi-storey buildings of reinforced concrete construction and other structures completed between 1996 and 1998. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops/ Warehouses</td> <td>33,335.95</td> <td>(358,828)</td> </tr> <tr> <td>Power Room</td> <td>527.56</td> <td>(5,679)</td> </tr> <tr> <td>Miscellaneous</td> <td><u>272.83</u></td> <td><u>(2,937)</u></td> </tr> <tr> <td>Total</td> <td><u><u>34,136.34</u></u></td> <td><u><u>(367,444)</u></u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for a term commencing from 28th September, 1998 to 6th July, 2048 for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops/ Warehouses	33,335.95	(358,828)	Power Room	527.56	(5,679)	Miscellaneous	<u>272.83</u>	<u>(2,937)</u>	Total	<u><u>34,136.34</u></u>	<u><u>(367,444)</u></u>	<p>A portion of the property with a total gross floor area of 2,298.49 sq m is leased under a tenancy for a term of 2 years expiring on 10th November, 2000 at a monthly rental of RMB12,182 including the land management fees.</p> <p>The remaining portion of the property is occupied by the Group for manufacturing purposes.</p>	37,730,000	35,294,668
Item	Gross Floor Area																				
	sq m	(sq ft)																			
Workshops/ Warehouses	33,335.95	(358,828)																			
Power Room	527.56	(5,679)																			
Miscellaneous	<u>272.83</u>	<u>(2,937)</u>																			
Total	<u><u>34,136.34</u></u>	<u><u>(367,444)</u></u>																			
				(100% interest attributable to the Group: RMB37,730,000 (HK\$35,294,668))																	

Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right dated 6th July, 1998 made between Jinjiang Land Administration Bureau (party A) and Jinjiang Hengan Paper Products Co Ltd (renamed as Hengan Hygiene Products) (party B) (a wholly owned subsidiary of the Group), the land use rights of the property with a site area of 29,820.00 sq m have been granted to party B for a term of 50 years commencing from the signing date of the said contract at a consideration of RMB1,006,425.
- (2) Pursuant to a State-owned Land Use Right Certificate dated 28th September, 1998 issued by Jinjiang Land Administration Bureau, the registered land user of the property with an area of 29,820.00 sq m is Hengan Hygiene Products for a term commencing from 28th September, 1998 to 6th July, 2048 for industrial purpose.
- (3) Pursuant to 9 Building Ownership Certificates dated 6th October, 1998 issued by Jinjiang Construction Committee, the title of the said buildings with a total gross floor area of 34,136.34 sq m is held by Hengan Hygiene Products.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
  - (i) Hengan Hygiene Products is a wholly owned subsidiary within the Group.
  - (ii) Pursuant to the land use right certificate, the land use rights of the property with an area of 29,820.00 sq m are held by Hengan Hygiene Products for a term commencing from 28th September, 1998 to 6th July, 2048 for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Hygiene Products.

- (iii) Pursuant to the building ownership certificates, Hengan Hygiene Products has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Hygiene Products.
- (iv) The property is free from any mortgage.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998																		
			(RMB)	(HK\$)																	
5. Tianjin Plant at Xinghua Yizhi Road in Xiqing Economic Development Zone, Xiqing District, Tianjin, The PRC	<p>The property comprises a level site with an area of approximately 15,844.00 sq m (170,545 sq ft).</p> <p>Currently standing on the site is an industrial compound comprising 6 single or multi-storey buildings of reinforced concrete construction and others structures completed between 1995 and 1996. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops/ Warehouses</td> <td>4,763.92</td> <td>(51,279)</td> </tr> <tr> <td>Office/Staff Quarters</td> <td>3,016.79</td> <td>(32,473)</td> </tr> <tr> <td>Miscellaneous</td> <td><u>1,186.87</u></td> <td><u>(12,775)</u></td> </tr> <tr> <td>Total</td> <td><u>8,967.58</u></td> <td><u>(96,527)</u></td> </tr> </tbody> </table> <p>The land use right of the property has been granted for a term of 50 years commencing from 3rd October, 1994 to 2nd October, 2044 for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops/ Warehouses	4,763.92	(51,279)	Office/Staff Quarters	3,016.79	(32,473)	Miscellaneous	<u>1,186.87</u>	<u>(12,775)</u>	Total	<u>8,967.58</u>	<u>(96,527)</u>	The property is occupied by the Group for manufacturing purposes.	14,010,000	13,105,706
Item	Gross Floor Area																				
	sq m	(sq ft)																			
Workshops/ Warehouses	4,763.92	(51,279)																			
Office/Staff Quarters	3,016.79	(32,473)																			
Miscellaneous	<u>1,186.87</u>	<u>(12,775)</u>																			
Total	<u>8,967.58</u>	<u>(96,527)</u>																			
				(100% interest attributable to the Group: RMB14,010,000 (HK\$13,105,706))																	

## Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right dated 3rd October, 1994 made between Tianjin Xiqing District Planning Land Administration Bureau (party A) and Hengan Fujian (party B), the land use rights of the property with a site area of 15,844.00 sq m have been granted to party B for a term of 50 years commencing from the date of issue of the State-owned Land Use Right Certificate at a consideration of RMB3,802,560.
- (2) Pursuant to the Contract for Transfer of Land Use Right dated 13th June, 1997 made between Hengan Fujian (party A) and Xielong (Tianjin) Hygiene Products Co. Ltd. (renamed as Hengan Tianjin) (party B) (a wholly owned subsidiary within the Group), the land use rights of the property with a site area of 15,844.00 sq m have been transferred to party B at a consideration of RMB1.
- (3) Pursuant to a State-owned Land Use Right Certificate dated 1st September, 1998 issued by Tianjin Xiqing District Planning Land Administration Bureau, the registered land user of the property with an area of 15,844.00 sq m is Hengan Tianjin for a term of 50 years commencing from 3rd October, 1994 to 2nd October, 2044 for industrial purpose.
- (4) Pursuant to a Building Ownership Certificate dated 9th October, 1998 issued by Tianjing Real Estate Administration Bureau, the title of the said buildings with a total gross floor area of 8,967.58 sq m is held by Hengan Tianjin.

- (5) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
- (i) Hengan Tianjin is a wholly owned subsidiary within the Group.
  - (ii) Pursuant to the land use right certificate, the land use rights of the property with an area of 15,844.00 sq m are held by Hengan Tianjin for a term of 50 years expiring on 2nd October, 2044 for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Tianjin.
  - (iii) Pursuant to the building ownership certificate, Hengan Tianjin has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Tianjin.
  - (iv) The property is free from any mortgage.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Contract for Transfer of Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998															
			(RMB)	(HK\$)														
6. Fushun Plant at Xincheng Road, Shuncheng District, Fushun, Liaoning Province, The PRC	<p>The property comprises 2 adjoining level sites with a total area of approximately 12,636.75 sq m (136,022 sq ft).</p> <p>Currently standing on the sites are an industrial compound comprising 5 single storey buildings of reinforced concrete construction and other structures completed between 1988 and 1994. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops</td> <td>2,419.10</td> <td>(26,039)</td> </tr> <tr> <td>Office</td> <td>997.00</td> <td>(10,732)</td> </tr> <tr> <td>Total</td> <td><u>3,416.10</u></td> <td><u>(36,771)</u></td> </tr> </tbody> </table>	Item	Gross Floor Area		sq m	(sq ft)	Workshops	2,419.10	(26,039)	Office	997.00	(10,732)	Total	<u>3,416.10</u>	<u>(36,771)</u>	The property is occupied by the Group for manufacturing purposes.	1,930,000	1,805,426
Item	Gross Floor Area																	
	sq m	(sq ft)																
Workshops	2,419.10	(26,039)																
Office	997.00	(10,732)																
Total	<u>3,416.10</u>	<u>(36,771)</u>																
				(51% interest attributable to the Group: RMB984,300 (HK\$920,767))														

## Notes:

- (1) Pursuant to 2 Collective Land Construction Land Use Right Certificates both dated 18th June, 1998 issued by Fushun Shuncheng District Land Administration Bureau, the registered land user of the property with a total area of 12,636.75 sq m is Hengan Fushun (a 51% interest owned subsidiary within the Group) for industrial purpose.
- (2) Pursuant to 5 Building Ownership Certificates dated 13th October, 1998 issued by Fushun Shuncheng Urban Construction Administration Bureau, the title of the said buildings with a total gross floor area of 3,416.10 sq m is held by Hengan Fushun.
- (3) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
  - (i) Hengan Fushun is a sino-foreign cooperation joint venture company (51% interest held by the Group).
  - (ii) Pursuant to the collective land use right certificates, the land use rights of the property with a total area of 12,636.75 sq m are held by Hengan Fushun for industrial use. The land use rights cannot be freely transferred, leased and mortgaged by Hengan Fushun.
  - (iii) Pursuant to the building ownership certificates, Hengan Fushun has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged by Hengan Fushun.
  - (iv) The property is free from any mortgage.

- (4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
Collective Land Construction Land Use Right Certificate	Yes
State-owned Land Use Right Certificate	N/A
Contract for Grant of Land Use Right	N/A
Building Ownership Certificate	Yes
Business Licence	Yes

- (5) Pursuant to the said legal opinion, the land use rights of the property are collective land use rights and are not legally transferable and thus the land use rights have no commercial value. The above valuation figure represents the depreciated replacement cost of the buildings and structures only.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998																					
			(RMB)	(HK\$)																				
7. Xiaogan Plant in Nanda Economic Development Zone, Xiaonan District Xiaogan, Hubei Province, The PRC	<p>The property comprises a level site with an area of approximately 21,447.80 sq m (230,864 sq ft).</p> <p>Currently standing on the site is an industrial compound comprising 12 single or multi-storey buildings of reinforced concrete construction and other structures completed between 1995 to 1997. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops</td> <td>2,846.00</td> <td>(30,634)</td> </tr> <tr> <td>Warehouses</td> <td>2,859.00</td> <td>(30,774)</td> </tr> <tr> <td>Office / Staff Quarters</td> <td>2,840.00</td> <td>(30,570)</td> </tr> <tr> <td>Miscellaneous</td> <td>595.00</td> <td>(6,405)</td> </tr> <tr> <td>Total</td> <td><u>9,140.00</u></td> <td><u>(98,383)</u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for a term of 50 years commencing from 18th December, 1995 to 18th December, 2045 for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops	2,846.00	(30,634)	Warehouses	2,859.00	(30,774)	Office / Staff Quarters	2,840.00	(30,570)	Miscellaneous	595.00	(6,405)	Total	<u>9,140.00</u>	<u>(98,383)</u>	The property is occupied by the Group for manufacturing purposes.	8,630,000	8,072,965
Item	Gross Floor Area																							
	sq m	(sq ft)																						
Workshops	2,846.00	(30,634)																						
Warehouses	2,859.00	(30,774)																						
Office / Staff Quarters	2,840.00	(30,570)																						
Miscellaneous	595.00	(6,405)																						
Total	<u>9,140.00</u>	<u>(98,383)</u>																						
				(100% interest attributable to the Group: RMB8,630,000 (HK\$8,072,965))																				

## Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right dated 18th December, 1995 made between Xiaogan Xiaonan District Land Administration Bureau (party A) and Xiaogan Hengan Products For Health Co Ltd (renamed as Hengan Xiaogan) (party B) (a wholly owned subsidiary within the Group), the land use rights of the property with a site area of 21,447.80 sq m have been granted to party B for a term of 50 years commencing from the issue date of the State Owned Land Use Right Certificate.
- (2) Pursuant to a State-owned Land Use Right Certificate dated 10th August, 1998 issued by Xiaogan Xiaonan District Land Administration Bureau, the registered land user of the property with an area of 21,447.80 sq m is Hengan Xiaogan for a term of 50 years commencing from 18th December, 1995 to 18th December, 2045 for industrial purpose.
- (3) Pursuant to a Building Ownership Certificate dated 28th September, 1998 issued by Xiaogan Real Estate Administration Bureau, the title of the said buildings with a total gross floor area of 9,140.00 sq m is held by Xiaogan Hengan.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
  - (i) Hengan Xiaogan is a wholly owned subsidiary within the Group.

- (ii) Pursuant to the land use right certificate, the land use rights of the property with an area of 21,447.80 sq m are held by Hengan Xiaogan for a term of 50 years expiring on 18th December, 2045 for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Xiaogan.
  - (iii) Pursuant to the building ownership certificate, Hengan Xiaogan has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Xiaogan.
  - (iv) The property is free from any mortgage.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998																		
			(RMB)	(HK\$)																	
8. Linying Plant at 288 Wuyi Road in Tiexi Industry Zone, Linying County, Henan Province, The PRC	<p>The property comprises 6 adjoining level sites with a total area of approximately 35,508.96 sq m (382,218 sq ft).</p> <p>Currently standing on the sites is an industrial compound comprising 12 single or multi-storey buildings of reinforced concrete construction and other structures completed between 1994 and 1998. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops</td> <td>5,297.14</td> <td>(57,018)</td> </tr> <tr> <td>Warehouses</td> <td>713.39</td> <td>(7,679)</td> </tr> <tr> <td>Office / Staff Quarters</td> <td><u>3,578.70</u></td> <td><u>(38,521)</u></td> </tr> <tr> <td>Total</td> <td><u><u>9,589.23</u></u></td> <td><u><u>(103,218)</u></u></td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for a term of 50 years commencing from 6th March, 1993, 5th June, 1994, 4th July, 1995, 23rd February, 1996, 7th November, 1996 and 19th August, 1997 respectively for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops	5,297.14	(57,018)	Warehouses	713.39	(7,679)	Office / Staff Quarters	<u>3,578.70</u>	<u>(38,521)</u>	Total	<u><u>9,589.23</u></u>	<u><u>(103,218)</u></u>	<p>A portion of the property with a total gross floor area of 1,431.00 sq m is lease under a tenancy for a term of 2 years expiring on 10th November, 2000 at a monthly rental of RMB6,868.80 including the land management fees.</p> <p>The remaining portion of the property is occupied by the Group for manufacturing purposes.</p>	12,310,000	11,515,435
Item	Gross Floor Area																				
	sq m	(sq ft)																			
Workshops	5,297.14	(57,018)																			
Warehouses	713.39	(7,679)																			
Office / Staff Quarters	<u>3,578.70</u>	<u>(38,521)</u>																			
Total	<u><u>9,589.23</u></u>	<u><u>(103,218)</u></u>																			
				(100% interest attributable to the Group: RMB12,310,000 (HK\$11,515,435))																	

## Notes:

- (1) Pursuant to 6 Contracts for Grant of State-owned Land Use Right dated 6th March, 1993, 5th June, 1994, 4th July, 1995, 23rd February, 1996, 7th November, 1996 and 19th August, 1997 respectively made between Linying County Land and Building Administration Bureau (party A) and Hengan Linying (party B) (a wholly owned subsidiary within the Group), the land use rights of the property with a total site area of 35,508.96 sq m have been granted to party B for a term of 50 years commencing from the signing date of the said contracts at a total consideration of RMB159,790.33.
- (2) Pursuant to 6 State-owned Land Use Right Certificates dated 6th March, 1993, 5th June, 1994, 4th July, 1995, 23rd February, 1996, 7th November, 1996 and 19th August, 1997 respectively issued by Linying County Building and Land Administration Bureau, the registered land user of the property with a total site area of 35,508.96 sq m is Hengan Linying for a term of 50 years commencing from the respective issue date of the said certificates for industrial purposes.
- (3) Pursuant to 10 Building Ownership Certificates dated 18th May, 1995, 14th August, 1995, 12th September, 1997 and 15th April, 1998 respectively issued by Linying People's Government, the title of the said buildings with a total gross floor area of 9,589.23 sq m is held by Hengan Linying.

- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
- (i) Hengan Linying is a wholly owned subsidiary within the Group.
  - (ii) Pursuant to the land use right certificates, the land use rights of the property with a total site area of 35,508.96 sq m is held by Hengan Linying for a term of 50 years commencing from 6th March, 1993, 5th June, 1994, 4th July, 1995, 23rd February, 1996, 7th November, 1996 and 19th August, 1997 respectively for industrial use. The land use rights can be freely transferred, leased and mortgaged it by Hengan Linying.
  - (iii) Pursuant to the building ownership certificates, Hengan Linying has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Linying.
  - (iv) The property is free from any mortgage.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998																					
			(RMB)	(HK\$)																				
9. Anxiang Plant at Wenyinan Road, Chengguan Town, Anxiang County, Hunan Province, The PRC	<p>The property comprises a level site with a area of approximately 25,383.00 sq m (273,223 sq ft).</p> <p>Currently standing on the site is an industrial compound comprising 24 single or multi-storey buildings of reinforced concrete construction and other structures completed in 1995. Details of the said buildings are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Workshops</td> <td>3,831.78</td> <td>(41,245)</td> </tr> <tr> <td>Warehouses</td> <td>5,505.88</td> <td>(59,265)</td> </tr> <tr> <td>Office / Staff Quarters</td> <td>2,864.73</td> <td>(30,836)</td> </tr> <tr> <td>Miscellaneous</td> <td><u>1,478.29</u></td> <td><u>(15,912)</u></td> </tr> <tr> <td>Total</td> <td><u>13,680.68</u></td> <td><u>(147,258)</u></td> </tr> </tbody> </table> <p>The land use right of the property has been granted for a term of 45 years expiring on 19th June, 2048 for industrial use.</p>	Item	Gross Floor Area		sq m	(sq ft)	Workshops	3,831.78	(41,245)	Warehouses	5,505.88	(59,265)	Office / Staff Quarters	2,864.73	(30,836)	Miscellaneous	<u>1,478.29</u>	<u>(15,912)</u>	Total	<u>13,680.68</u>	<u>(147,258)</u>	The property is occupied by the Group for manufacturing purposes.	10,380,000	9,710,009 (100% interest attributable to the Group: RMB10,380,000 (HK\$9,710,009))
Item	Gross Floor Area																							
	sq m	(sq ft)																						
Workshops	3,831.78	(41,245)																						
Warehouses	5,505.88	(59,265)																						
Office / Staff Quarters	2,864.73	(30,836)																						
Miscellaneous	<u>1,478.29</u>	<u>(15,912)</u>																						
Total	<u>13,680.68</u>	<u>(147,258)</u>																						

## Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right dated 14th December, 1994 made between Anxiang County Land Administration Bureau (party A) and 湖南省常德包裝廠安鄉分廠 (Anxiang Packing Factory) (party B), the land use right of the property with a site area of 3,843.00 sq m has been granted to party B for a term of 50 years commencing from the issue date of the State-owned Land Use Right Certificate at a consideration of RMB103,761.
- (2) Pursuant to the Contract for Grant of Land Use Right dated 14th December, 1994 made between Anxiang County Land Administration Bureau (party A) and 安鄉縣穗安紙品有限公司 (Suian Factory) (party B), the land use right of the property with a site area of 6,450.00 sq m has been granted to party B for a term of 50 years commencing from the issue date of the State-owned Land Use Right Certificate at a consideration of RMB174,150.
- (3) Pursuant to the Contract for Grant of Land Use Right dated 14th December, 1994 made between Anxiang County Land Administration Bureau (party A) and Hunan Anxiang Hengan Hygienic Products Co Ltd (Hunan Anxiang Hengan) (renamed as Hengan Anxiang) (party B) (a wholly owned subsidiary within the Group), the land use right of the property with a site area of 15,510.00 sq m has been granted to party B for a term of 50 years commencing from the issue date of the State-owned Land Use Right Certificate at a consideration of RMB418,770.
- (4) Pursuant to the Contract for Transfer of State-owned Land Use Right dated 19th September, 1998 made between Anxiang Packing Factory (party A) and Hunan Anxiang Hengan (party B), party A agreed to transfer the land use right with an area of 5.765 mu (3,843.33 sq m) to party B.

- (5) Pursuant to the Contract for Transfer of State-owned Land Use Right dated 22nd September, 1998 made between Suian Factory (party A) and Hunan Anxiang Hengan (party B), party A agreed to transfer the land use rights with a site area of 9.675 mu (6,450.00 sq m) to party B.
- (6) Pursuant to a State-owned Land Use Right Certificate dated 7th October, 1998 issued by Anxiang County Land Administration Bureau, the registered land user of the property with an area of 25,383.00 sq m is Hengan Anxiang for a term of 45 years for industrial purpose.
- (7) Pursuant to 24 Building Ownership Certificates dated 1st, 2nd and 12th June, 1998 respectively issued by Anxiang County People's Government, the title of the said buildings with a total gross floor area of 13,680.68 sq m is held by Hengan Anxiang .
- (8) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—
- (i) Hengan Anxiang is a wholly owned subsidiary of the Group.
- (ii) Pursuant to the land use right certificate, the land use right of the property with an area of 25,383.00 sq m is held by Hengan Anxiang for a term of 45 years expiring on 19th June, 2048 for industrial use. The land use rights can be freely transferred, leased and mortgaged by Hengan Anxiang.
- (iii) Pursuant to the building ownership certificates, Hengan Anxiang has a proper title in respect of the buildings of the property and these buildings can be transferred, leased and mortgaged during the term of the land use rights by Hengan Anxiang.
- (iv) The property is free from any mortgage.
- (9) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Contract for Transfer of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

## Group II — Property interests held by the Group under construction in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998																
			(RMB)	(HK\$)															
10. Two Buildings in Hengan Industry City at Quanan Road, Anhai Town, Jinjiang, Fujian Province, The PRC	<p>The property is planned to be developed into an office building and a staff quarter of reinforced concrete structures in Hengan Industry City with approximate gross floor area as follows:—</p> <table border="1"> <thead> <tr> <th>Item</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <td></td> <th>sq m</th> <th>(sq ft)</th> </tr> </thead> <tbody> <tr> <td>Office building</td> <td>15,054.24</td> <td>(162,044)</td> </tr> <tr> <td>Staff Quarters</td> <td><u>3,667.61</u></td> <td><u>(39,478)</u></td> </tr> <tr> <td>Total</td> <td><u>18,721.85</u></td> <td><u>(201,522)</u></td> </tr> </tbody> </table> <p>The development is scheduled to be completed by the end of 1998.</p>	Item	Gross Floor Area			sq m	(sq ft)	Office building	15,054.24	(162,044)	Staff Quarters	<u>3,667.61</u>	<u>(39,478)</u>	Total	<u>18,721.85</u>	<u>(201,522)</u>	The property was under construction as at 31st August, 1998. The property has now been completed and is occupied by the Group for manufacturing purposes.	20,870,000	19,522,919
Item	Gross Floor Area																		
	sq m	(sq ft)																	
Office building	15,054.24	(162,044)																	
Staff Quarters	<u>3,667.61</u>	<u>(39,478)</u>																	
Total	<u>18,721.85</u>	<u>(201,522)</u>																	
				(98.32% interest attributable to the Group: RMB20,519,384 (HK\$19,194,934))															

## Notes:

- Pursuant to 2 building ownership certificates dated 9th November, 1998 issued by Jinjiang Construction Committee, the office building with a gross floor area of 15,054.24 sq m and the staff quarters with a gross floor area of 3,667.61 sq m are held by Hengan Fujian.
- The estimated outstanding construction cost as at date of valuation is approximately RMB4,100,000 (HK\$3,835,360).
- The capital value when completed as at date of valuation is approximately RMB26,070,000 (HK\$24,387,278).
- We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—

Pursuant to the building ownership certificates, Hengan Fujian has a proper title in respect of the property and it can be transferred, leased or mortgaged.

- The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Construction and Engineering Planning Permit	No

- Accordingly to the legal opinion and the building ownership certificates, the property has a legal title held by Hengan Fujian.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998	
			(RMB)	(HK\$)
11. A Building in Fushun Plant at Xincheng Road, Shuncheng District, Fushun, Liaoning Province, The PRC	<p>The property is planned to be developed into a 6-storey building of reinforced concrete or concrete/brick structures in Fushun Plant with a gross floor area of approximately 2,322.20 sq m (24,996 sq ft).</p> <p>The development is scheduled to be completed in September 1998.</p>	The property was under construction as at 31st August, 1998. The property has now been completed and is occupied by the Group for manufacturing purposes.	1,250,000	1,169,317

(51% interest attributable to the Group: RMB637,500 (HK\$596,352))

*Notes:*

- (1) Pursuant to a building ownership certificate dated 16th October, 1998 issued by Fushun Shuncheng Urban Construction Administration Bureau, the building with a gross floor area of 2,322.20 sq m is held by Hengan Fushun.
- (2) The estimated outstanding construction cost as at date of valuation is approximately RMB520,000 (HK\$486,436).
- (3) The capital value when completed as at date of valuation is approximately RMB1,920,000 (HK\$1,796,071).
- (4) We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:—

Pursuant to the building ownership certificate, Hengan Fushun has a proper title in respect of the property and it can be transferred, leased or mortgaged.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Collective Land Construction Land Use Right Certificate	Yes
State-owned Land Use Right Certificate	N/A
Contract for Grant of Land Use Right	N/A
Building Ownership Certificate	Yes
Construction and Engineering Planning Permit	No

- (6) According to the legal opinion and the building ownership certificate, the property has a legal title held by Hengan Fushun.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st August, 1998	
			(RMB)	(HK\$)
12. A Warehouse in Xiaogan Plant in Nanda Economic Development Zone, Xiaonan District, Xiaogan, Hubei Province, The PRC	<p>The property is planned to be developed into a 1-storey building of concrete/brick structures with a total gross floor area of approximately 1,120.00 sq m (12,056 sq ft) situated in Xiaogan Plant.</p> <p>The property is scheduled to be completed in October 1998.</p>	The property was under construction as at 31st August, 1998. The property has now been completed and is occupied by the Group for manufacturing purposes.	440,000	411,600

(100% interest attributable to the Group: RMB440,000 (HK\$411,600)).

*Notes:*

- (1) Pursuant to a building ownership certificate dated 28th September, 1998 issued by Xiaogan Real Estate Administration Bureau, the warehouse with a gross floor area of 1,120.00 sq m is held by Hengan Xiaogan.
- (2) The estimated outstanding development cost as at date of valuation is approximately RMB182,000 (HK\$170,253).
- (3) The capital value when completed as at date of valuation is approximately RMB630,000 (HK\$589,336).
- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:—

Pursuant to the building ownership certificate, Hengan Xiaogan has a proper title in respect of the property and it can be transferred, leased and mortgaged in the term during the land use rights.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Contract for Transfer of State-owned Land Use Right	Yes
Building Ownership Certificate	Yes
Construction and Engineering Planning Permit	Yes

- (6) According to the legal opinion and the building ownership certificate, the property has a legal title held by Hengan Xiaogan.

**Group III — Property interest leased by the Group in Hong Kong**

	<b>Property</b>	<b>Approximately saleable area</b>	<b>Term of lease</b>	<b>Use</b>	<b>Open market value in existing state as at 31st August, 1998</b>
13.	Units 502A, 503 and 503A, 5/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong	162.11 sq m (1,745 sq ft)	2nd September, 1998 to 1st September, 2000	Office	No commercial value

**Group IV — Property interests leased by the Group in the PRC**

	<b>Property</b>	<b>Approximately gross floor area</b>	<b>Term of lease</b>	<b>Use</b>	<b>Open market value in existing state as at 31st August, 1998</b>
14.	Xian Plant at Sihao Road, Hu County, Shaanxi Province, The PRC	1,980.00 sq m (21,313 sq ft)	11th September, 1998 to 31st August, 2013	Manufacturing	No commercial value
15.	Chengdu Plant at Wu Cha Zi Cun Qi Zu, Guixi Xiang, Gaoxin District, Chengdu, Sichuan Province, The PRC	2,915.54 sq m (31,383 sq ft)	August 1998 to August 2008	Manufacturing	No commercial value
16.	Chongqing Plant at 13 Shanqiao Sancun, Shapingba District, Chongqing, The PRC	5,970.25 sq m (64,264 sq ft)	25th September, 1998 to 31st December, 2001	Manufacturing	No commercial value
17.	Shangyu Plant at Juying Road in Caoe Development Zone, Baiguan Town, Shangyu, Zhejiang Province, The PRC	6,411.15 sq m (69,010 sq ft)	18th September, 1998 to 17th September, 2008	Manufacturing	No commercial value
18.	Hefei Plant at 2 Zhanbei Sicun, Fengyangxi Road, Dong District, Hefei, Anhui Province, The PRC	2,060.55 sq m (22,180 sq ft)	1st September, 1998 to 11th March, 2013	Manufacturing	No commercial value

	<b>Property</b>	<b>Approximately gross floor area</b>	<b>Term of lease</b>	<b>Use</b>	<b>Open market value in existing state as at 31st August, 1998</b>
19.	Binyang Plant at Zhonghua Street, Zhonghua Town, Binyang County, Guangxi Zhuangzu Autonomous Region, The PRC	4,490.24 sq m (48,333 sq ft)	1st October, 1998 to 31st August, 2013	Manufacturing	No commercial value
20.	Weifang Plant at Second Road, Fangzi District, Weifang, Shandong Province, The PRC	8,343.36 sq m (89,808 sq ft)	9th September, 1998 to 8th September, 2013	Manufacturing	No commercial value
21.	Dongxiang Plant at Donghong Road, Yushangqiao Town, Dongxiang County, Jiangxi Province, The PRC	4,434.70 sq m (47,735 sq ft)	25th September, 1998 to 5th August, 2013	Manufacturing	No commercial value

Set out below is a summary of certain provisions of the current memorandum and articles of association (the “Memorandum and Articles of Association”) of the Company and of certain aspects of Cayman Islands company law.

**CONSTITUTION OF THE COMPANY****1. MEMORANDUM OF ASSOCIATION**

The Memorandum of Association of the Company was adopted on 10th November, 1998 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted (including acting as a holding and investment company) and the Company shall have full power and authority to carry out any object not prohibited by any law as provided by section 7(4) of the Companies Law, that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit as provided in section 27(2) of the Companies Law and (in view of the fact that the Company is an exempted company) that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

The objects of the Company are set out in full in clause 3 of the Memorandum of Association which is available for inspection at the address specified in Appendix VIII in the section headed “Documents available for inspection”.

**2. ARTICLES OF ASSOCIATION**

The Articles of Association were adopted on 10th November, 1998 and include provisions to the following effect:

**A. Classes of Shares**

The share capital of the Company consists of ordinary shares.

**B. Directors***(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors may determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the

Directors may determine. Subject to the Companies Law and to any special rights conferred on the holders of any Shares or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Management of the Company*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulations from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to any persons in order that they may buy Shares in the Company or any of its subsidiary or holding company provided always that any such assistance shall only be made in accordance with any relevant code, rules or regulations issued by the Stock Exchange or the Securities and Futures Commission of Hong Kong from time to time being in force.

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to

the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the Board at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of Directors in respect of any contract or arrangement or any other proposal in which he has any material interest but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company, its holding company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself guaranteed or secured in whole or in part;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;
  - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (vi) any contract or arrangement in which the Director is interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his interest in Shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as he may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an

addition to the existing Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a Director retiring at the meeting shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by some member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Board (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Board resolves that his office is vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association; or
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being shall retire from office by rotation. Each Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. Subject to the provision of the Articles of Association, the Company may at each annual general meeting at which the Directors retire fill each of the vacated offices by electing a person thereto.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet in any part of the world for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**C. Alteration to constitutional documents**

No alteration to the Memorandum or Articles of Association may be made except by special resolution.

**D. Variation of rights of existing Shares or classes of shares**

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the special rights attached to any class (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate general meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**E. Alteration of Capital**

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution increase its share capital by the creation of new Shares, such new capital to be of such amount and to be divided into Shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

**F. Special resolution — majority required**

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

**G. Voting rights (generally, on a poll and right to demand a poll)**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Share registered in his name in the register of members of the Company.

In the case of joint holders of any share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

No member shall, unless the Directors otherwise determine, be entitled to vote, or be reckoned in a quorum, at any general meeting in respect of any Share unless he is registered as a shareholder of the Company at the date of such meeting and all calls which have been made by the Directors, or other sums presently payable by him, in respect of such Share have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members present in person or by proxy and entitled to vote; or
- (c) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

- (d) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy and a person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

If a recognised clearing house (or its nominee) is a member of the Company it may appoint such person or persons as its proxy or proxies or authorise such person or persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so appointed or authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person appointed or authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual shareholder of the Company including the right to vote individually on a show of hands.

#### **H. Annual general meetings**

The Company shall in each year hold a general meeting as its general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next.

#### **I. Accounts and audit**

The Directors shall cause to be kept accounting records sufficient to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any account or book or document of the Company except as conferred by the Companies Law or as authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting profit and loss accounts, balance sheets and the Directors' and the auditors' reports thereon. Copies of these documents which are to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send printed copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any Shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting and shall fix his or their remuneration provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**J. Notice of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notices from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the

Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

**K. Transfer of Shares**

All transfers of shares may be effected by an instrument of transfer in the usual common form or in any other form which the Directors may approve.

The instrument of transfer of a Share shall be signed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer, when registered, shall be retained by the Company.

The Directors may decline to register any transfer of any Share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any other Shares unless:

- (a) the instrument of transfer is lodged at such place or places where the Board from time to time determines to keep a branch register of Shareholders and where (except where the Board otherwise determines) transfers of documents of title for Shares are to be lodged for registration and are to be registered, with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine (or such lesser sum as the Directors may from time to time require) is paid to the Company.

If the Directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers as the Directors may determine be suspended at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

**L. Power of the Company to purchase its own Shares**

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong or by any other recognised stock exchange.

**M. Power of any subsidiary of the Company to own Shares**

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

**N. Dividends and other methods of distributions**

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no such dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Except in so far as the rights attaching to, or the terms of issue of, any Share otherwise provides:

- (a) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on the Share; and
- (b) all dividends shall be apportioned and paid pro rata according to the amounts paid upon the Shares during any portion or portions of the period in respect of which the dividend is paid.

The Directors may also pay any dividend which is payable on any Shares half-yearly or on any other dates, whenever the position of the Company, in the opinion of the Directors, justifies such payment.

The Directors may retain any dividends or other moneys payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

In respect of any dividend proposed to be paid or declared on the share capital of the Company, the Directors may resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class or classes as the class or classes already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class or classes as the class or classes already held by the allottee. The Directors may also, with the sanction of the members of the Company in general meeting, resolve and direct in respect of any particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right of members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend or bonus may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and to such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute good discharge by the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct payment or satisfaction of any dividend wholly or in part by the distribution of specific assets, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may issue fractional certificates, disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

**O. Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in any common form or in such other form as the Directors may approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

**P. Calls on Shares and forfeiture of Shares**

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the Shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his Shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time serve a notice on the holder of such Shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the day and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted, cancelled or otherwise disposed of.

A person whose Shares have been forfeited shall thereupon cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with interest thereon at such rate not exceeding 15 per cent. per annum from the date of forfeiture until payment, and the Directors may enforce payment without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

#### **Q. Inspection of register of members**

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the Shares respectively held by them. The register may, on notice being given by advertisement in such one or more newspapers as the Directors may determine, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding \$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

**R. Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Save as otherwise provided by the Articles two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one shareholder of record the quorum shall be that one member present in person or by proxy.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of Shares of the Company is described in sub-paragraph D above.

**S. Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

**T. Procedure on liquidation**

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

**U. Untraceable members**

The Company shall be entitled to sell any Shares of a member or the Shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspaper, giving notice of its intention to sell such Shares and a period of three months has elapsed since such advertisement and the recognised Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

**SUMMARY OF CAYMAN ISLANDS COMPANY LAW****A. Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**B. Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22nd July, 1998 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

**C. Share capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other

company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 36 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **D. Dividends and distributions**

With the exception of section 33 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 33 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

#### **E. Shareholders' suits**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority) has been applied and followed by the courts in the Cayman Islands.

#### **F. Protection of minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

#### **G. Disposal of assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

**H. Accounting and auditing requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**I. Register of members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**J. Inspection of books and records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**K. Special resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

**L. Subsidiary owning shares in parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**M. Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

**N. Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**O. Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**P. Liquidation**

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**Q. Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**R. General**

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VIII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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## **APPENDIX V      SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS**

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The following is a summary of certain aspects of PRC laws and regulations, which are relevant to the Group's operations and business. These include laws and regulations relating to production of personal hygiene products, hygiene standards for disposable sanitary products, import and export commodity inspection, foreign investment enterprises, taxation and foreign exchange control.

### **1. PRODUCTION OF DISPOSABLE HYGIENE PRODUCTS**

The production and sale of disposable hygiene products including sanitary napkins and disposable baby diapers in PRC is governed by the Sterilisation Management Regulations.

Under the Sterilisation Management Regulations, the Ministry of Public Health carries out sterilisation checks of disposable hygiene products in accordance with the hygiene and sterilisation standards and issues hygiene permits. Sanitary products must satisfy the national hygiene standards. The packaging of the products must also specify details as to sterilisation.

Organisations without the hygiene permit are not allowed to produce or sell hygiene products. Where the sterilisation process does not satisfy the prescribed standards, the Ministry of Public Health or its local delegate can order the relevant organisation to improve the facilities. In case the facilities are not improved as required, the Ministry of Public Health or its local delegate may suspend the hygiene permits.

### **2. HYGIENE STANDARDS FOR DISPOSABLE SANITARY PRODUCTS**

The Hygiene Standard for Disposable Sanitary Products (GB15979-1995), as amended, stipulates a number of requirements which must be satisfied in the production of disposable sanitary products, including sanitary napkins and disposable baby diapers in the PRC. These hygiene standards and requirements relate to various aspects of the production process including production environment, sterilisation, product testing and packaging. These requirements mainly seek to prevent contamination of the sanitary products. In particular, the sanitary products, the production facilities, the production sites and the staff must pass the national hygiene standards. The products should also be packed individually and details as to sterilisation must be printed on the package.

National Technology Supervision Bureau has also issued detailed guidelines as to various aspects of the production process and the quality control of sanitary napkins.

### **3. IMPORT AND EXPORT COMMODITY INSPECTION**

Summarised below are certain provisions of the Law of the People's Republic of China in Import and Export Commodity Inspection (the "Import and Export Commodity Inspection Law") which was adopted by the National People's Congress on 21st February, 1989 and effective as of 1st August, 1989 and its Implementation Rules promulgated on 23rd October, 1992.

The State Administration for Import and Export Commodity Inspection (the "SAIECI") is responsible for the inspection of import commodities in the PRC. The SAIECI has published a list of commodities that are subject to inspection (the "List of Commodities") by the SAIECI or any other inspection organisations approved or designated by the SAIECI (the "Commodity Inspection Authorities"). No permission shall be granted for the sale or use of the import commodities specified in the List until they have undergone inspection.

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**APPENDIX V      SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS**

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Inspection on import commodities shall cover quality, specifications, quantity, weight, packing and the requirements for safety and hygiene. The Commodity Inspection Authorities shall ensure that the standards provided for by laws or administrative rules and regulations are complied with.

Pulp, one of the major raw materials in the production of sanitary napkins and disposable baby diapers, is imported by the Group. It is one of the import commodities in Section 10 of the List of Commodities and is subject to the Import and Export Commodity Inspection Law.

For import commodities which are subject to inspection by the Commodity Inspection Authority (“CIA”) in accordance with this Law, the consignee must:

- (a) register them with the CIA located at the port of discharge or the station of arrival. Import commodities which are included in the List of Commodities shall be checked and released by the Customs upon presentation of the seal of the CIA affixed to the Customs declaration; and
- (b) apply to the CIA for inspection in places and within the time limit specified by them. The CIA shall accomplish the procedures for inspection and issue an inspection certificate within the period of validity of claims prescribed in a foreign trade contract.

In case an applicant for the inspection of import commodities disagrees with the results of inspection presented by the CIA, it may apply for reinspection to the same authorities, to those at the next higher level or to the SAIECI. The conclusion on reinspection shall be made by the CIA or the SAIECI which has accepted the application for reinspection.

Any person who, in violation of the relevant provisions of this Import and Export Commodity Inspection Law, purposely markets or uses import commodities which are included in the List of Commodities or subject to inspection by the CIA in accordance with other laws or administrative rules and regulations without having such commodities inspected shall be fined by the CIA. If the circumstances are serious and cause serious economic losses, the criminal responsibility of the personnel directly responsible shall be investigated by applying *mutatis mutandis* the provisions of Article 187 of the Criminal Law.

If the falsifying or remaking of the certificates or documents, seals or stamps, marks, sealing or quality certification marks for commodity inspection constitutes a crime, the criminal responsibility of the personnel directly responsible shall be investigated by applying *mutatis mutandis* the provisions of Article 167 of the Criminal Law; if the circumstances are minor, the offender shall be fined by the CIA.

If a party refuses to accept the punishment decision of the CIA, it may, within 30 days of receiving the notice on the punishment, apply for reconsideration to the same authorities which have made the punishment decision or to those at the next higher level. If the party refuses to accept the decision on the reconsideration decision, bring a suit nor complies with the punishment decision within the prescribed time limit, the CIA which have made the punishment decision shall apply to a court of law for compulsory execution.

#### **4. ENTERPRISES**

15 companies within the Group are foreign investment enterprises established in the PRC and two companies are joint operation enterprises which also have the “welfare enterprises” status.

Set out below is a brief description of the principal features of the three types of foreign investment enterprise: (i) sino-foreign equity joint venture, (ii) wholly foreign-owned enterprise and (iii) sino-foreign cooperative joint venture.

##### **(i) Sino-foreign equity joint venture**

The establishment and operation of equity joint ventures are governed primarily by The Law of the People’s Republic of China on Joint Ventures Using Chinese and Foreign Investment (promulgated on 1st July, 1979 as amended on 4th April, 1990) and its Implementation Regulations promulgated on 20th September, 1983 (the “Equity Joint Venture Law”). In addition, equity joint ventures are also required to comply with the Company Law of the People’s Republic of China (the “Company Law”), details of which are set out below in the paragraph headed “Company Law”.

##### *(a) Establishment*

The establishment of an equity joint venture, together with its joint venture contract and articles of association, must be approved by the Ministry of Foreign Trade and Economic Co-operation (“MOFTEC”), or its local delegate in the province or city where the joint venture is located. The constitutive documents of an equity joint venture are the joint venture contract and its articles of association. All joint venture contracts and articles of association must be governed by PRC law. In accordance with Article 11 of the Implementation Regulations of the Law of the PRC on Joint Ventures using Chinese and Foreign Investment, an equity joint venture must apply to the relevant industrial and commercial administration bureau for a business licence within 30 days after the issue of the approval certificate by MOFTEC or its authorised delegates. Therefore, the date on which the business licence is granted may be 30 days after the date of the approval certificate.

An equity joint venture is a limited liability company under the Equity Joint Venture Law. It is an independent legal entity which has the right to own, use and dispose of property rights. The parties to the joint venture are required to make contributions to the registered capital of the joint venture. The parties share profits, risks and losses in proportion to their respective capital contributions and the liability of the parties is limited to the amount of registered capital they have agreed to contribute under the joint venture contract. Such registered capital must be fully paid in accordance with the terms of the joint venture contract, and may take the form of cash, land use rights, equipment or technology. The proportion of the registered capital contributed by the foreign party to equity joint venture must not be less than 25 per cent. Transfer of the contribution(s) in the registered capital of a joint venture party to any other person(s) requires the consent of the other joint venture party(ies) and the approval of MOFTEC or its local delegate.

Furthermore, each equity joint venture also has an authorised total investment amount. In practice, this is the sum of registered capital and loans obtained for the operation of the joint venture.

(b) *Management*

The Equity Joint Venture Law does not provide for the holding of shareholders' (or investors') meetings. Directors appointed by a joint venture party are expected to represent the interests of that joint venture party in the running of the business of the joint venture. The board of directors is the highest authority and exercises authority over all major corporate decisions of a joint venture including the appointment of officers, strategic planning and budgeting, decide on employee salaries and welfare, distribution of after tax profits and dissolution. The day-to-day management of a joint venture is conducted by a management body headed by the general manager who will act in accordance with the directions and guidance of the board of directors.

(c) *Profit distribution*

The Equity Joint Venture Law provides that after payment of income tax, a joint venture must make contributions to three special funds, namely enterprise expansion fund, employee welfare and bonuses Fund and a general reserve fund before profits of that joint venture may be distributed to the joint venture parties. The amount of after tax profits allocated to these three funds is determined at the discretion of the board of directors of the joint venture. As referred to above, profits of an equity joint venture must be distributed to the joint venture parties according to the proportion of their respective percentage contributions to the registered capital. A joint venture is prohibited from distributing dividends unless the losses of previous years, if any, have been made up.

(d) *Termination*

Under the Equity Joint Venture Law, apart from the expiry of the term of an equity joint venture, an equity joint venture may be terminated in certain other limited circumstances, including the inability of the joint venture to conduct its business owing to insolvency or to a breach of the joint venture contract by one of its parties or force majeure. Upon termination, the board of directors must establish a liquidation committee to dissolve the joint venture, which dissolution is subject to the review and approval of MOFTEC or its local delegate.

Upon the dissolution of the joint venture, a liquidation committee must be formed by the board of directors to formulate a liquidation plan. After settlement of the outstanding debts and payment of the taxes of the joint venture, the assets of the joint venture are normally distributed between the parties in accordance with their respective capital contribution ratios.

On 9th July, 1996, MOFTEC promulgated the Liquidation Provisions on Foreign-invested Enterprises, which prescribed detailed procedures for the liquidation (excluding liquidation upon bankruptcy) of foreign investment enterprises.

**(ii) Wholly foreign-owned enterprise**

The establishment and operation of wholly foreign-owned enterprises are governed primarily by The Law of the People's Republic of China Concerning Enterprises with Sole Foreign Investments, which was promulgated on 12th April, 1986, and its Implementation

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## APPENDIX V SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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Regulations promulgated on 12th December, 1990 (together the “Foreign Enterprises Law”). In addition, wholly foreign-owned enterprises are also required to comply with the Company Law, details of which are set out below in the paragraph headed “Company Law”.

### (a) *Establishment*

The establishment of a wholly foreign-owned enterprise together with its articles of association must be approved by MOFTEC or its local delegate in the province or city where the wholly foreign-owned enterprise is located. If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOFTEC or its local delegate for its record. A wholly foreign-owned enterprise must also obtain a business licence from the State Administration of Industry and Commerce before it can commence business.

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprises Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. Contributions of registered capital may be made in the form of cash, machinery and equipment, or technology. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOFTEC or its local delegate in accordance with relevant regulations. A wholly foreign-owned enterprise must either utilise advanced technological equipment or export 50 per cent. or more of its products, that is, on an annual basis 50 per cent. of the value of its total product output to overseas market. In addition, a wholly foreign-owned enterprise is prohibited from engaging in certain industries which include publishing, domestic commerce, broadcasting and telecommunication.

### (b) *Profit distribution*

The Foreign Enterprises Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent. of the after tax profits must be allocated to the reserve fund. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

### (c) *Termination*

Under the Foreign Enterprises Law, apart from the expiry of the term of its business, the operation of a wholly foreign-owned enterprise may be terminated in certain limited circumstances, including heavy losses suffered by the enterprise, force majeure or bankruptcy. The termination of the operations of a wholly foreign-owned enterprise is subject to the approval of MOFTEC or its local delegate. The enterprise may be liquidated after MOFTEC or its local delegate has approved the termination of the enterprise’s operations. Before the completion of liquidation, a foreign investor may not remit or transfer the enterprise’s assets of the PRC.

**(iii) Sino-foreign cooperative joint venture**

The establishment and operation of cooperative joint ventures are governed primarily by the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures which was adopted on 13th April, 1988 and its Implementation Regulations promulgated on 4th September, 1995 (the "Cooperative Joint Venture Law"). In addition to the Cooperative Joint Venture Law, regulations governing equity joint ventures are often either directly applicable or applicable by reference to cooperative joint ventures.

**(a) Establishment**

Cooperative joint ventures take one of two forms. They may or may not be registered as an independent legal entity. If a cooperative joint venture is not registered as an independent legal person, each party to the cooperative joint venture is responsible for making its own capital contribution and bearing its own liabilities for risks and losses. Parties to a cooperative joint venture without legal person status bear unlimited liability for the debts and liabilities of the joint venture. The parties to this type of joint venture may pay its own taxes on profits derived from the joint venture or the joint venture may, subject to the satisfaction of certain requirements, pay income tax on its profits. The parties' rights, liabilities and risks must be stipulated in the joint venture contract.

The second form is substantially similar to the form of an equity joint venture. The joint venture parties may establish a cooperative joint venture which is limited liability company with separate legal personality and the parties' liability is generally limited to their capital contributions and provisions of cooperative conditions. The contributions from the parties to the registered capital or provision of cooperative conditions may take the form of cash, technology, equipment, land use rights and other property rights.

The documentation required for the establishment of a cooperative joint venture and the approval procedures are essentially the same as those outlined above with respect to equity joint ventures.

Cooperative joint ventures with a separate legal personality are generally subject to the same restrictions as those applicable to equity joint ventures.

**(b) Management**

If a cooperative joint venture takes the form of a legal person, the highest management authority will be a board of directors; otherwise, a joint management body will be established by the parties for management purposes. The Cooperative Joint Venture Law permits the management of a cooperative joint venture to be delegated to a third party, subject to government approval.

**(c) Profit distribution**

The distribution of profits of a cooperative joint venture may be determined by agreement. Therefore, cooperative joint ventures are more flexible than equity joint ventures, permitting arrangements whereby the profit-sharing ratio of the parties does not have to be tied to the proportion of their respective contributions. As in the case of equity joint ventures, cooperative joint ventures are required to maintain the three funds in (c) above under "Sino-foreign equity joint ventures".

(d) *Termination*

The termination of the co-operative joint venture is similar to that of the equity joint venture as described above. Under the Cooperative Joint Venture Law, where the Chinese and foreign parties agree in the cooperative joint venture contract that ownership of all of the assets of the joint venture will revert to the Chinese party upon expiration of the joint venture term, they may agree in the joint venture contract that the foreign party can first recover its investment during the joint venture term.

**(iv) Joint Operation Enterprise**

The nature of a joint operation enterprise is similar to that of a sino-foreign co-operative joint venture. Such enterprise may take one of two forms, with or without legal person status. The Group currently has two subsidiaries which are joint operation enterprises with legal person status.

(a) *Establishment*

The establishment of joint operation enterprises are governed primarily by the General Principles of Civil Law of the People's Republic of China which was adopted on 12th April, 1986. Any two or more companies established in the PRC may enter into a joint venture contract for the establishment of this type of enterprise. The constitutive documents of a joint operation enterprise are the joint venture contract and its articles of association and they must be governed by PRC law.

If a joint operation enterprise is not registered as an independent legal person, each party of the joint operation agreement is responsible for making its own contribution and assuming civil liability in proportion to its contribution to the capital of the enterprises or as agreed between the parties in the joint operation agreement.

The partner may establish a joint operation enterprise which is a limited liability company with separate legal person status. Each party's rights and obligations will be as stipulated in the joint operation agreement and assume civil liability.

(b) *Profit distribution*

The relevant regulations provided that the profits, losses and liabilities of the joint operation enterprise are to be shared by the investors according to the proportion of their respective contributions to the registered capital of the enterprise, unless the investors otherwise agree in the joint operation contract. If there is a conflict between the two arrangements, the arrangement set out in the joint operation contract prevails.

(c) *Termination*

Under the Notice of the Supreme Court of the PRC in relation to disputes of joint operation agreements Fa (Jin) Fa (1990) No. 27, a joint operation enterprise can be terminated upon the expiry of the term of its business. If the joint operation enterprise has a legal person status, the properties of the joint operation enterprise should be divided in accordance with the provisions in the joint operation agreement or the respective capital contribution of the parties, after repayment of all the outstanding debts of the joint operation enterprise. If the

joint operation enterprise does not have separate legal status, the properties of the joint operation should be divided amongst the parties in accordance with the provisions in relation to the sharing of profits in the joint operation contract or in the absence of such provisions, in accordance with the respective capital contribution of the parties, after repayment of all the outstanding debts of the joint operation enterprise.

#### **(v) Company Law**

The Company Law of the People's Republic of China (the "Company Law") came into force on 1st July, 1994. The Company Law governs the establishment and operation of all limited liability companies and joint stock companies, which includes equity joint ventures, cooperative joint ventures with legal person status and wholly foreign-owned enterprises. However, Article 18 specifically stipulates that where the Equity Joint Venture Law, Cooperative Joint Venture Law and Foreign Enterprise Law provide otherwise, the provisions in these laws will prevail.

In any event, it is likely that the imposition of certain liabilities under the Company Law on the directors and officers of the company will be applicable to directors and officers of equity joint ventures, cooperative joint ventures and wholly foreign-owned enterprises alike. For example, criminal liability is imposed on persons who deposit the assets of a company in a personal account, prepare false financial accounting records, abuse their position in the company and accept bribes or obtain illegal gains or misappropriate company funds. Civil liability is imposed on directors and managers of companies who offer company assets as a guarantee for personal debts or engage in businesses which are in competition with the business of the company. Liabilities are also imposed on companies for failing to allocate profits to the required welfare funds, entering into mergers or liquidation without informing creditors, producing false balance sheets or inventories of assets or distributing the company's assets prior to the satisfaction of its debts upon a liquidation.

### **5. FOREIGN EXCHANGE CONTROL**

Prior to 31st December, 1993, any enterprises in the PRC requiring foreign currency were required to obtain quota from the State Administration for Foreign Exchange ("SAFE") before it could convert RMB into foreign currency, and such conversion had to be effected at the official rate prescribed by SAFE. RMB could also be converted into foreign currency at swap centres. The exchange rate used by swap centres were largely determined by the demand for, and supply of foreign currencies and RMB requirements.

On 28th December, 1993, the People's Bank of China announced that the dual exchange rate system for Renminbi against foreign currencies will be abolished with effect from 1st January, 1994 and would be replaced by a unified exchange rate system. Under the new system, the People's Bank of China publishes the Renminbi exchange rate against the US dollar daily. The daily exchange rate is set by reference to the Renminbi/US dollar trading price on the previous day on the "inter-bank foreign exchange market".

On 1st April, 1996, the Regulations on Exchange Control of the People's Republic of China (as amended on 14th January, 1997) came into effect. On 20th June, 1996, the People's Bank of China issued the Announcement on the Implementation of Sale and Purchase of Foreign Exchange for

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## APPENDIX V      SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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the Foreign Investment Enterprises which allows foreign investment enterprises to settle their forex-related transactions at designated banks or at swap centres from 1st July, 1996. On the same day, the Regulations on the Sale and Purchase of and Payment in Foreign Exchange were promulgated by the People's Bank of China and came into effect on 1st July, 1996.

On 25th October, 1998, the People's Bank of China and SAFE issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1st December, 1998, the buy and sell of foreign exchange for FIEs may only be conducted at designated banks. In addition, some of the swap centres will be abolished, while the others which are already linked up with the China Foreign Exchange Trading Centre (the "Centre") by the computerised network will be merged with the Centre and become sub-centres to the Centre.

In summary, the present position under PRC law relating to foreign exchange control, taking into account the promulgation of the recent new regulations and to the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, seems to be as follows:

- (1) The previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, published on each bank business day the exchange rates against major foreign currencies.
- (2) PRC enterprises are generally required to sell their foreign exchange earnings to designated banks unless specifically approved otherwise and purchase foreign exchange at designated banks for current account transactions.

Foreign investment enterprises, however, may have their own foreign currency account and are permitted to retain certain percentage of their recurrent foreign exchange earnings.

- (3) Foreign investment enterprises which require foreign exchange for their ordinary trading activities such as trade services, payment of interest on foreign debts and payment of staff remuneration may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
- (4) Foreign investment enterprises may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. If such foreign exchange is insufficient, enterprises may, upon the presentation of the resolutions of the directors on the profit distribution plan of that particular enterprise, purchase foreign exchange from designated foreign exchange banks.

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**APPENDIX V SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS**

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- (5) Foreign parties to equity or cooperative joint ventures and foreign investors in wholly foreign-owned enterprises may apply to the Bank of China or other designated foreign exchange banks to remit their profits out of the PRC.
- (6) Foreign-funded banks, branches of foreign banks and sino-foreign joint venture banks are permitted to carry on the business of foreign exchange settlement and payment for foreign investment enterprises and became designated foreign exchange banks.
- (7) The China Foreign Exchange Trading Centre, which came into operation on 1st January, 1994, has set up a computerised network with sub-centres in several major cities, forming an interbank market in which the designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. At present, foreign investment enterprises may still at their own discretion enter into exchange transactions through swap centres or designated banks. However, from 1st December, 1998, exchange transactions will have to be conducted through designated banks.

**6. TAXATION**

Summary of tax laws and regulations that are relevant to the Group's operation and business in the PRC are set out in Appendix VI to this prospectus under the section headed "PRC".

**7. LEGAL OPINION**

Jingtian Associates, the Company's legal advisers on PRC law, have sent to the Company a letter confirming that they have reviewed the summary of relevant PRC laws and regulations contained in this Appendix and that, in their opinion, the summary is a correct summary of the relevant PRC laws and regulations. A copy of this letter is available for inspection as referred to in the paragraph headed "Documents delivered and available for inspection" in Appendix VIII. Any person wishing to have detailed advice on PRC laws is recommended to seek independent legal advice.

The following is a summary of the tax laws and regulations which are relevant to the Group's operation and business in the PRC and tax consequences of the ownership of Shares by an investor that purchases such Shares in connection with the Share Offer and holds the Shares as capital assets. The following summary does not take into account or discuss the tax laws of any country other than the PRC, the Cayman Islands, Hong Kong or the United States nor does it take into account the individual circumstances of any investor. It does not purport to be a complete technical analysis or an examination of all potential tax effects relevant to a decision to purchase the Shares and investors are advised to consult their own tax advisers as to the PRC, Cayman Islands, Hong Kong, the United States or other tax consequences of the acquisition, ownership and disposition of the Shares.

## PRC

The types of PRC taxes relevant to the Group are summarised below:

### (1) Income tax

Pursuant to the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises, together with its Implementation Rules which came into effect on 1st July, 1994, (collectively the "Income Tax Law") sino-foreign equity joint ventures, sino-foreign cooperative joint ventures, wholly foreign-owned enterprises in the PRC (collectively "foreign investment enterprises") are subject to a 30 per cent. national income tax and a 3 per cent. local income tax.

Foreign investment enterprises engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50 per cent. reduction in the income tax payable for the next three years.

All foreign investment enterprises established in the five special economic zones of the PRC are entitled to pay a national income tax rate of 15 per cent. Preferential income tax rates are also available to, amongst others, foreign investment enterprises of a production nature and located in one of the designated "open economic zones" in the coastal regions of the PRC or "economic and technological development zones". The 3 per cent. local income tax may be reduced or waived by the local government at the provincial level of the place in which the foreign investment enterprises are located. Income tax is computed annually and payable on a quarterly basis.

Under the Income Tax Law, the foreign investor in a foreign investment enterprise is not required to pay income tax on profits or dividends derived from the foreign investment enterprise and will not be subject to any withholding tax on the outward remittance on such profits or dividends.

### (2) Value Added Tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax ("VAT Regulations") promulgated by the State Council which came into effect on 1st January, 1994 and its Implementation Rules, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

A foreign investment enterprise, if it is not qualified as a small-scale VAT tax payer, is subject to value added tax at the rate of 17 per cent. on the sale and import of goods (unless the goods fall within Article 2(2) of the VAT Regulations, such as grain, water, gas and newspapers, in which case the VAT rate is 13 per cent.) as well as on processing, repair and replacement services. Goods exported will be taxed at a rate of zero per cent. The amount of tax payable on the sale of goods or the provision of the above taxable services is the balance of the amount of tax on sales for the current period after deducting the amount of tax on purchase for the current period. A foreign investment enterprise importing goods will pay value added tax on the total value of the goods.

### (3) Welfare enterprises

Welfare enterprises refer to enterprises which employ handicapped persons up to certain required percentages. Only domestic enterprises may apply for “welfare enterprise” status. Under current PRC laws and regulations, depending on the percentage of handicapped persons employed by a welfare enterprise, it is exempted from income tax and from VAT. Set out below is the tax benefits which an enterprise with “welfare enterprise” status may enjoy, depending on the number of handicapped persons employed by the welfare enterprise as a percentage of its total production staff:—

- |              |   |  |
|--------------|---|--|
| 10 to 35%    | — | the enterprise is entitled to a 50 per cent. reduction in income tax;  |
| 35 to 50%    | — | the enterprise is entitled to full income tax exemption and, subject to certain exceptions, it is entitled to a full or partial refund of value added tax paid in a financial year in order to make up loss suffered by the enterprise in that financial year; and |
| 50% or above | — | subject to the satisfaction of certain requirements and certain exceptions, the enterprise is entitled to a full refund of value added tax paid at the county level and a full income tax exemption.   |

### Cayman Islands

Pursuant to section 6 of the Tax Concessions Law (1995 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1995 Revision).

The undertaking is for a period of twenty years from 4th August, 1998.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **Hong Kong**

#### *Taxation of Dividends*

No tax will be payable in Hong Kong in respect of dividends paid by the Company.

#### *Taxation of Capital Gains*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the Shares). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16 per cent. on corporations and at a maximum rate of 15 per cent. on individuals. Gains from sales of the Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sale of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

#### *Stamp Duty*

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the rate of HK\$1.25 per HK\$1,000 or part thereof of the consideration for, or (if greater) the value of, the Shares transferred (i.e., a total of HK\$2.50 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction of the Shares). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of the Shares.

#### *Estate Duty*

Estate duty is imposed upon the principal value of property situated in Hong Kong passing or deemed to be passing on the death of a person. Shares are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5 per cent. to 15 per cent. In respect of the estate of persons who died after 1st April, 1998, no estate duty is payable where the principal value of the dutiable estate does not exceed HK\$7.5 million; the maximum rate of 15 per cent. applies where the principal value exceeds HK\$10.5 million.

**United States**

The following is a summary of certain U.S. federal income tax consequences of the ownership and disposition of the Shares by U.S. Holders (as defined below). This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), Treasury Regulations, Revenue Rulings and judicial decisions, all of which are subject to change (possibly with retroactive effect). This summary deals only with Shares held by initial purchasers as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to a purchase in light of such person’s particular circumstances or to purchasers subject to special rules, such as insurance companies, tax-exempt entities, dealers in securities, traders in securities that elect to mark to market, financial institutions, persons who hold Shares as part of an integrated investment (including a straddle) comprised of a Share and one or more other positions for tax purposes, or to persons whose functional currency is not the U.S. dollar or who owns more than 10% of the voting stock of the Company. Persons considering the purchase of Shares should consult their own tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any states or local or foreign taxing jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of Shares that is, for U.S. federal income tax purposes, (i) a citizen or resident of the U.S., (ii) a corporation organized under the laws of the U.S. or of any political subdivision thereof, or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

*Taxation of Dividends*

Dividends received with respect to the Shares, other than certain pro rata distributions of common shares, will constitute foreign source dividend income for U.S. federal income tax purposes, and such income will, for purposes of determining the applicable limitations on foreign taxes eligible for credit, generally constitute “passive income” or, in the case of certain U.S. Holders, “financial services income”. The amount of any dividend paid in any currency other than the U.S. dollar (a “foreign currency”) will equal the U.S. dollar value of the foreign currency received calculated by reference to the exchange rate in effect on the date the dividend is received regardless of whether the foreign currency is converted into United States dollars. Gain or loss, if any, realized on a sale or other disposition of such foreign currency will be ordinary income or loss. If dividends paid in a foreign currency are converted into U.S. dollars on the day such currency is received, U.S. Holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution. U.S. Holders will not be entitled to claim a dividends received deduction with respect to distributions by the Company.

*Taxation of Capital Gains*

A U.S. Holder will recognize capital gain or loss for U.S. federal income purposes on a sale or other disposition of Shares in the same manner as on the sale or other disposition of any other shares. Such gain, if any, will generally be U.S. source income. Prospective investors should consult their tax advisors regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for certain taxpayers who are individuals) and losses (the deductibility of which is subject to limitations).

*Passive Foreign Investment Company Considerations*

Based on certain management estimates and the nature of the Company's business, the Company does not expect to be a "passive foreign investment company" (a "PFIC") for its current taxable year. However, because the determination of whether or not the Company is a PFIC will be based upon the composition of the income and assets of the Company from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company is or becomes a PFIC, U.S. Holders could be subject to additional federal income taxes on certain distribution or gains with respect to the Shares under the PFIC rules.

**1. FURTHER INFORMATION ABOUT THE COMPANY****Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 22nd July, 1998. The Company has established a place of business in Hong Kong at Units 502A, 503 & 503A, Tower II, 5th Floor Admiralty Centre, 18 Harcourt Road, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 19th October, 1998. Such application contains a notice of appointment of Mr. Yue Wai Leung, Stan as the agent of the Company for the acceptance of service of process in Hong Kong. As the Company is incorporated in the Cayman Islands, its operations are subject to Cayman Islands company law and to its constitution which comprises a memorandum of association and articles of association. A summary of various parts of the constitution and relevant aspects of Cayman Islands company law is set out in Appendix IV.

**Changes in share capital**

- (a) At the date of incorporation of the Company, its authorised share capital was HK\$10,000 divided into 10,000 Shares of HK\$1 each, of which two subscriber shares then issued were subsequently transferred to Mr. Sze Man Bok on 26th August, 1998.
- (b) On 10th November, 1998, written resolutions of the sole shareholder of the Company were passed pursuant to which, inter alia:
  - (i) each of the issued shares of HK\$1 each in the share capital of the Company was sub-divided into ten shares of HK\$0.1 each;
  - (ii) the authorised share capital of the Company was increased from HK\$10,000 to HK\$300,000,000 by the creation of an additional 2,999,900,000 Shares to rank equally with the then existing Shares in all respects;
  - (iii) the Directors were authorised to allot and issue, credited as fully paid, a total of 749,999,980 Shares, as to 280,880,000 to Hengan International Investments Limited (“HIIL”), as to 218,749,980 to Mr. Sze Man Bok, as to 200,000,000 to Mr. Hui Chi Lin, as to 9,120,000 to Mr. Hung Ching Shan and as to 41,250,000 to Mr. Yeung Wing Chun, in consideration of the transfer from Mr. Sze Man Bok of the entire issued capital of Hengan International Holdings Limited to the Company;
- (c) save as aforesaid and in the following paragraphs respectively headed “Written Resolutions of the Company passed on 10th November, 1998” and “Reorganisation” in this Appendix VII, there has been no alteration in the share capital of the Company since the date of its incorporation; and
- (d) assuming that the Share Offer becomes unconditional and the Share Offer is duly completed (and assuming that the Over-Allotment Option is not exercised), the authorised share capital of the Company will be HK\$300,000,000 divided into 3,000,000,000 Shares and the issued capital of the Company will be HK\$100,000,000 divided into 1,000,000,000 Shares, fully paid or credited as fully paid, and 2,000,000,000 Shares will remain unissued. Assuming that the Over-Allotment Option is exercised in full, the issued share capital of the Company will be HK\$102,500,000 divided into 1,025,000,000 Shares, fully paid or credited as fully paid, and 1,975,000,000 Shares will remain unissued. Other than pursuant to the exercise of any

options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-Allotment Option, there is no present intention to issue any part of the authorised but unissued capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

#### **Written Resolutions of the Company passed on 10th November, 1998**

By written resolutions of the sole shareholder of the Company on 10th November, 1998, conditional on (i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (including any Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme and any additional Shares which may be made available pursuant to the exercise of the Over-Allotment Option) and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Global Coordinator on behalf of the Underwriters) in each case on or before 4th December, 1998 (or such later date as the Global Coordinator on behalf of the Underwriters may agree) and the Underwriting Agreement not being terminated in accordance with the terms of the agreement, resolutions were passed pursuant to which, inter alia:

- (i) the New Issue, the Placing and the Over-Allotment Option were approved and the Directors were authorised to allot and issue the New Issue Shares, the Placing Shares and the Shares which may be required to be issued if the Over-Allotment Option is exercised;
- (ii) conditional on the Listing Committee of the Stock Exchange granting approval of the terms of the Share Option Scheme and any options which may be granted thereunder and the listing and permission to deal in any Shares which may fall to be issued pursuant to the exercise of any such option to be granted under the Share Option Scheme, the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to implement the same, to grant options thereunder and to allot and issue Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;
- (iii) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot and issue, otherwise than by way of a rights issue or pursuant to the exercise of any options which may be granted under the Share Option Scheme or an allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or the Share Offer (including the exercise of the Over-Allotment Option), Shares in the capital of the Company with an aggregate nominal amount not exceeding 20 per cent. of the total of (a) the total nominal amount of the share capital of the Company in issue immediately following the completion of the New Issue and the Placing (including the Over-Allotment Option if exercised) and (b) the total nominal amount of the share capital of the Company that may have been repurchased pursuant to the mandate in (iv) below;
- (iv) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase on the Stock Exchange, or any other stock exchange on which the securities of the Company may be listed and which is recognised by the

Securities and Futures Commission and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules (or of such other stock exchange), such number of Shares as will represent up to ten per cent. of the total of the aggregate nominal amount of share capital of the Company in issue immediately following completion of the New Issue and Placing (including the Over-Allotment Option if exercised);

(Each of the general mandates referred to in (iii) and (iv) above will remain in effect until whichever is the earliest of (a) the conclusion of the next annual general meeting of the Company; (b) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; or (c) the expiration of the period within which the next annual meeting of the Company is required by law or the Articles to be held; and

- (v) the Company adopted its Memorandum and Articles in substitution of its old memorandum and articles of association.

## 2. REORGANISATION

The companies comprising the Group underwent a Reorganisation in preparation for the listing of the Shares on the Stock Exchange as a result of which, the Company became the ultimate holding company of the Group. The Reorganisation involves the following:

### Reorganisation in respect of the PRC subsidiaries

Interests in the 17 PRC subsidiaries within the Group prior to the Reorganisation were respectively held by companies beneficially owned by the Founding Shareholders, namely Tin Lee Trading Company (“Tin Lee”), Foundation Development Limited (“Foundation Development”) and United Wealth International (Holdings) Limited (“United Wealth”), such interests were held on behalf of the Founding Shareholders and certain senior employees of the Group as set out in the paragraph headed “Incentive scheme implemented by the Group in the past” under the section headed “History and Development” and the paragraph headed “The Incentive Scheme” below in this appendix. Pursuant to the Reorganisation, Tin Lee, Foundation Development and United Wealth have respectively transferred their interests in the subsidiaries (save for Hengan Hefei and Hengan Shangyu which have been transferred to Hengan Weifang and Hengan Fujian respectively) to five BVI holding companies incorporated on 8th April, 1998 for the purpose of the Reorganisation, namely Hengan (Fujian) Investment Company Limited (“Fujian Investment”), Hengan (Huabei) Investment Company Limited (“Huabei Investment”), Hengan (Huadong) Investment Company Limited (“Huadong Investment”), Hengan (Huazhong) Investment Company Limited (“Huazhong Investment”) and Hengan (Xinan) Investment Company Limited (“Xinan Investment”). Details of the Reorganisation of the PRC subsidiaries are as follows:—

(a) *Fujian Hengan Holding Co., Ltd. (“Hengan Fujian”)*

Hengan Fujian is a sino-foreign equity joint venture established by Tin Lee, Fujian Province Jinjiang City Anhai Garment Industrial Co. (福建省晉江市安海服裝工業公司) (“Garment Co.”) and Liu Yuen Hong on 16th March, 1985. Garment Co. and Liu Yuen Hong are both independent third parties whilst Tin Lee is beneficially owned by the Founding Shareholders. The then respective contribution of the parties at the time of incorporation of Hengan Fujian were approximately 33 per cent., 34 per cent. and 33 per cent. of the

registered capital of Hengan Fujian. In 1987, Liu Yuen Hong has transferred its entire interest in Hengan Fujian to Tin Lee. Since 1990, Fujian Province Jinjiang City Anhai Foreign Processing and Installation Factory (福建省晉江市安海對外加工裝配廠) (“Processing Factory”), a collectively-owned enterprise independent from the Group, became a joint venture partner of Hengan Fujian through the merger of Hengan Fujian and a company, which the Founding Shareholders and Processing Factory both had interests therein. The ultimate interest percentages of Tin Lee, Garment Co. and Processing Factory in Hengan Fujian immediately before the Reorganisation were 98.32 per cent., 0.84 per cent. and 0.84 per cent. respectively.

As part of the Reorganisation, Tin Lee transferred its 98.32 per cent. interest in Hengan Fujian to Fujian Investment, a wholly owned subsidiary of the Company incorporated in the BVI pursuant to an Equity Transfer Agreement signed on 1st July, 1998. After the transfer, Hengan Fujian remains as a sino-foreign equity joint venture, with Fujian Investment as the foreign party and Garment Co. and Processing Factory as the domestic parties to the joint venture.

(b) *Hengan (Fujian) Articles for Women and Children Use Co., Ltd.* (“Hengan Articles”)

Hengan Articles is a sino-foreign equity joint venture established by Foundation Development, Garment Co. and Processing Factory on 3rd March, 1993. It had increased its registered capital at various stages since its establishment. The then respective contribution of the parties at the time of incorporation of Hengan Articles were 98.44 per cent., 0.78 per cent. and 0.78 per cent. of the registered capital of Hengan Articles, which were subsequently altered to 98.96 per cent., 0.52 per cent. and 0.52 per cent. in July, 1998 through the transfer of 0.26 per cent. interest from each of Garment Co. and Processing Factory to Foundation Development.

Pursuant to an Equity Transfer Agreement dated 1st July, 1998, Foundation Development transferred its 98.96 per cent. interest in Hengan Articles to Fujian Investment. Hengan Articles remains as a sino-foreign equity joint venture after the transfer.

(c) *Jinjiang Hengan Hygiene Material Co., Ltd.* (“Hengan Hygiene Material”)

Hengan Hygiene Material is a wholly foreign owned enterprise established by United Wealth on behalf of the Founding Shareholders and certain senior employees of the Group on 16th March, 1998. The registered capital thereof is US\$10,000,000, (equivalent to RMB82,793,000 or HK\$77,522,000 respectively), RMB20,384,000 (equivalent to HK\$19,100,000) of which was paid up in May, 1998 with the remaining sum of RMB62,409,000 (equivalent to HK\$58,400,000) paid up in July and August, 1998 by utilising the dividends declared by Hengan Fujian and Hengan Articles which the beneficial investors of Hengan Hygiene Material also have interests. The investment interest of each beneficial investor of Hengan Hygiene Material was determined in accordance with his/her investment ratio of the total investment of RMB82,793,000 of Hengan Hygiene Material (equivalent to its registered capital) agreed by the Founding Shareholders prior to the establishment of the enterprise.

Pursuant to an Equity Transfer Agreement dated 1st July, 1998, United Wealth transferred its entire interest in Hengan Hygiene Material to Fujian Investment.

(d) *Hengan (Jinjiang) Hygiene Products Co., Ltd. (“Hengan Hygiene Products”)*

Hengan Hygiene Products is a wholly foreign owned enterprise established by Foundation Development on 3rd July, 1995. Its former name was Jinjiang Hengan Paper Products Co., Ltd. (晉江恒安紙製品有限公司).

Foundation Development transferred its entire interest in Hengan Hygiene Products to Fujian Investment according to the terms of an Equity Transfer Agreement dated 1st July, 1998. Pursuant to the resolutions of the board of directors dated 5th July, 1998, the name of the enterprise was changed from Jinjiang Hengan Paper Products Co., Ltd. to its present name. After the transfer from Foundation Development to Fujian Investment, the legal status of Hengan Hygiene Products as a wholly foreign owned enterprise remains unchanged.

(e) *Hengan (Tianjin) Hygiene Supplies Co., Ltd. (“Hengan Tianjin”)*

United Wealth established Hengan Tianjin as a wholly foreign owned enterprise on 13th May, 1997. Hengan Tianjin was formerly known as United Wealth (Tianjin) Hygiene Supplies Co., Ltd. (協隆 (天津) 衛生用品有限公司). Pursuant to an Equity Transfer Agreement dated 1st July, 1998, the entire interest in Hengan Tianjin was transferred from United Wealth to Huabei Investment. As Huabei Investment was incorporated in the BVI, Hengan Tianjin remains as a wholly foreign owned enterprise after the Reorganisation.

(f) *Hengan (Luohe Linying) Hygiene Products Co., Ltd. (“Hengan Linying”)*

Hengan Linying, incorporated on 15th November, 1993, is a wholly foreign owned enterprise established by Foundation Development. Huazhong Investment acquired the entire interest in Hengan Linying from Foundation Development pursuant to an Equity Transfer Agreement dated 1st July, 1998.

(g) *Hengan Chongqing Hygiene Supplies Co., Ltd. (“Hengan Chongqing”)*

Hengan Chongqing, formerly known as Chongqing Hengan Hygiene Supplies Co., Ltd. (重慶恒安衛生用品有限公司), is a wholly foreign owned enterprise established by Tin Lee on 31st January, 1991. According to an Equity Transfer Agreement dated 1st July, 1998, the interest of Tin Lee in Hengan Chongqing was transferred to Xinan Investment.

(h) *Hengan (Xiaogan) Hygiene Products Co., Ltd. (“Hengan Xiaogan”)*

Prior to the Reorganisation, Hengan Fujian and Xiaogan Chemical Factory (孝感市日用化工廠) (“Chemical Factory”), a collectively-owned enterprise independent from the Group, set up Xiaogan City Hengan Hygiene Products Co., Ltd. (孝感市恒安衛生用品有限公司) (“Xiaogan Hygiene”) as a domestic limited liability company on 6th November, 1995. The respective interests of Hengan Fujian and Chemical Factory were 92.5 per cent. and 7.5 per cent.. In June 1998, the 7.5 per cent. interest of Chemical Factory has been transferred to Anxiang Hengan Paper Products Co., Ltd. (安鄉縣恒安紙品有限公司) (“Anxiang Paper”), an enterprise previously owned by the Founding Shareholders which has been transferred out of the Group during the Reorganisation.

On 1st July, 1998, the respective interests owned by Anxiang Paper and Hengan Fujian were transferred to Huazhong Investment pursuant to the Reorganisation. Xiaogan Hygiene was then converted from a domestic limited liability company to a wholly foreign owned enterprise and renamed as Hengan Xiaogan on 23rd July, 1998.

(i) *Hengan (Anxiang) Hygiene Products Co., Ltd. (“Hengan Anxiang”)*

Prior to the Reorganisation, Hengan Fujian and Hunan Province Anxiang Paper Factory (湖南省安鄉縣皺紋紙廠) (“Hunan Paper Factory”), a collectively-owned enterprise independent from the Group, set up Hunan Anxiang Hengan Hygiene Products Co., Ltd. (湖南安鄉恒安衛生用品有限公司) (“Anxiang Hygiene”) as a domestic limited liability company on 4th May, 1991. The respective interests of Hengan Fujian and Hunan Paper Factory were 97.2 per cent. and 2.8 per cent.. The 2.8 per cent. interest of Hunan Paper Factory was transferred to Anxiang Paper in June, 1998.

On 1st July, 1998, the respective interests owned by Hengan Fujian and Anxiang Paper were transferred to Huazhong Investment pursuant to the Reorganisation. Anxiang Hygiene was therefore converted from a domestic limited liability company to a wholly foreign owned enterprise and renamed as Hengan Anxiang on 24th July, 1998.

(j) *Hengan (Weifang) Hygienic Products Co., Ltd. (“Hengan Weifang”)*

Prior to the Reorganisation, Hengan Fujian and Weifang City Fangzhi Xiling Industrial Corporation (濰坊市坊子西嶺實業總公司) (“Xiling Corporation”), a collectively-owned enterprise independent from the Group, set up Weifang City Fangzhi District Hengan Hygiene Products Co. (濰坊市坊子區恒安衛生用品有限公司) (“Fangzhi Hengan”) as a collectively-owned enterprise on 28th April, 1995. The respective interests of Hengan Fujian and Xiling Corporation were 99.991 per cent. and 0.009 per cent..

On 1st July, 1998, the respective interests owned by Hengan Fujian and Xiling Corporation were transferred to Huadong Investment pursuant to the Reorganisation. Fangzhi Hengan was then converted to become a wholly foreign owned enterprise and renamed as Hengan Weifang on 9th September, 1998.

(k) *Hengan (Jiangxi) Hygiene Products Co., Ltd. (“Hengan Jiangxi”)*

Prior to the Reorganisation, Hengan Fujian and Jiangxi Hongxing Group Corporation (江西紅星企業集團公司) (“Hongxing Group”), a state-owned enterprise independent from the Group, set up Jiangxi Dongxiang Hongxing Hengan Hygiene Products Co., Ltd. (江西東鄉紅星恒安衛生用品有限公司) (“Dongxiang Hongxing”) as a domestic limited liability company on 26th March, 1996. The respective interests of Hengan Fujian and Hongxing Group were 98.7 per cent. and 1.3 per cent..

On 1st July, 1998, the respective interests owned by Hengan Fujian and Hongxing Group were transferred to Fujian Investment pursuant to the Reorganisation. Dongxiang Hongxing was then converted to become a wholly foreign owned enterprise and renamed as Hengan Jiangxi on 6th August, 1998.

(l) *Hengan (Binyang) Hygiene Products Co., Ltd. (“Hengan Binyang”)*

Prior to the Reorganisation, Hengan Fujian and Guangxi Nanning Shenghua Trading Co. (“Shenghua Trading”) (廣西南寧生華貿易公司), a collectively-owned enterprise independent from the Group, jointly operated Guangxi Binyang Hengan Hygiene Products Factory (廣西賓陽縣恒安衛生用品廠) (“Binyang Hengan”). Binyang Hengan was incorporated on 6th November, 1994 as a collectively-owned enterprise.

Hengan Fujian and Shenghua Trading entered into an Agreement for Partition of Assets and Termination of Joint Operation in July, 1998 for the termination of the joint operation of Binyang Hengan and the assets originally injected by Hengan Fujian into Binyang Hengan were returned to Hengan Fujian pursuant to the agreement. Hengan Fujian then transferred the assets to Xinan Investment on 8th October, 1998 for its injection into Hengan Binyang after the establishment thereof.

(m) *Hengan (Fushun) Sanitary Products Co., Ltd. (“Hengan Fushun”)*

Prior to the Reorganisation, Hengan Fujian and Fushun City Hongguang Corporation (撫順市紅光企業公司) (“Hongguang Corporation”), a collectively-owned enterprise independent from the Group, set up Fushun City Hengan Hygiene Products Corporation (撫順市恒安衛生用品公司) (“Fushun Hygiene”) as a collectively-owned enterprise on 18th May, 1991. The respective interests of Hengan Fujian and Hongguang Corporation were 75 per cent. and 25 per cent..

Pursuant to the Reorganisation, Hengan Fujian transferred its 75 per cent. interest to Huabei Investment on 1st July, 1998. A Joint Venture Contract was signed between Huabei Investment and Hongguang Corporation on 5th August, 1998. Fushun Hygiene was then converted to become a sino-foreign co-operative joint venture and renamed as Hengan Fushun on 18th September, 1998. Hengan Fushun is owned by Huabei Investment as to 51 per cent. and Hongguang Corporation as to 49 per cent.

(n) *Hengan (Sichuan) Hygienic Products Co., Ltd. (“Hengan Sichuan”)*

Prior to the Reorganisation, Hengan Fujian and Chengdu Shuangliu Light Chemical Products Co., Ltd. (成都雙流輕化塑料制品有限公司), a limited liability company independent from the Group, set up a domestic limited liability company named as Chengdu Shuangliu Hengan Hygiene Products Co., Ltd. (成都雙流恒安衛生用品有限公司) on 30th May, 1996, interests held respectively thereby were 80 per cent. and 20 per cent.. The company was subsequently renamed as Chengdu Hengan Hygiene Products Co., Ltd. (成都恒安衛生用品有限公司) (“Chengdu Hengan”) on 10th April, 1998. Chengdu Hengan was approved to be dissolved on 7th October, 1998.

On 25th August, 1998, Hengan Sichuan was established by Xinan Investment as a wholly foreign owned enterprise. Pursuant to the Reorganisation, Chengdu Hengan transferred all its fixed assets, inventories and certain other assets to Hengan Sichuan according to an Asset Transfer Agreement dated 25th August, 1998. The business of manufacturing sanitary napkins previously carried on by Chengdu Hengan was then taken up by Hengan Sichuan.

(o) *Hengan (Shaanxi) Hygiene Products Co., Ltd. (“Hengan Shaanxi”)*

Prior to the Reorganisation, Hengan Fujian has invested in a collectively-owned enterprise named Shaanxi Hengan Hygiene Products Factory (陝西恒安衛生用品廠) (“Shaanxi Hygiene”) which was incorporated on 12th March, 1997 and Hengan Fujian has the entire interest.

As part of the Reorganisation, Hengan Fujian transferred to Huadong Investment its entire interest in Shaanxi Hygiene according to an Equity Transfer Agreement dated 1st August, 1998. Shaanxi Hygiene was then converted to become a wholly foreign owned enterprise on 1st September, 1998.

(p) *Shangyu City Hengan Hygiene Products Co. (“Hengan Shangyu”)*

Hengan Shangyu is a joint operation enterprise established by Shangyu City Guangrong Yuan (上虞市光榮院) (“Guangrong Yuan”), a commercial entity under the control of Shangyu County People’s Government, on 23rd May, 1989. Hengan Fujian invested therein since March, 1991. Respective interests of Hengan Fujian and Guangrong Yuan are 99.99 per cent. and 0.01 per cent.. No equity transfer has taken place as part of the Reorganisation and Hengan Shangyu always remains to be controlled by Hengan Fujian since 1991.

(q) *Hefei Hengan Hygiene Products Factory (合肥恒安衛生用品廠) (“Hengan Hefei”)*

Hengan Hefei has been jointly operated by Hengan Fujian and Hefei Mining and Electrical Appliances Factory (合肥工礦電器總廠) (“Electrical Factory”), a state-owned enterprise independent from the Group, since 12th March, 1998. The respective interests of Hengan Fujian and Electrical Factory were 99.98 per cent. and 0.02 per cent..

On 10th September, 1998, Hengan Fujian transferred its interest in Hengan Hefei to Hengan Weifang pursuant to the Reorganisation. After the transfer, Hengan Hefei was converted from a collectively-owned enterprise to a joint operation enterprise on 24th September, 1998.

Pursuant to 17 deeds of confirmation all dated 10th November, 1998 (the “Deeds of Confirmation”) (see item no. 62 of the “Summary of material contracts” paragraph) signed by, inter alios, the Founding Shareholders, the relevant senior employees, HUIL and the Company, the transfers of the interests in the 17 subsidiaries were confirmed and ratified by the Founding Shareholders and the relevant senior employees as the then beneficial investors of the subsidiaries. In accordance with the terms of the Deeds of Confirmation, the Company has agreed to allot and issue an aggregate of 749,999,980 Shares to the Founding Shareholders and HUIL, 280,880,000 Shares issued to HUIL are held on trust for 492 individuals comprising senior employees of the Group, their respective family members and the family members of the Founding Shareholders (Ms. Wang Heishang, an ex-senior employee of the Group and spouse of Mr. Hui Chi Lin, holds approximately a 0.66 per cent. interest in the Company and Ms. Zhang Biling, a senior employee of the Group and spouse of Mr. Yeung Wing Chun, holds approximately a 0.0046 per cent. interest in the Company) in proportion to the respective investment ratios of the Founding Shareholders and the senior employees in the Group.

Reorganisation of the following companies has also taken place:—

(r) *Xishan City Hengan Hygiene Products Factory (錫山市恒安衛生用品廠) (“Hengan Xishan”)*

Before Reorganisation, Hengan Fujian owned the entire interest in Hengan Xishan, a collectively-owned enterprise established on 8th January, 1997. In August, 1998, Hengan Fujian transferred its entire interest in Hengan Xishan respectively to three independent third parties, namely Wu Wenya (吳文雅) (as to 30 per cent.), Li Chunzhi (李純直) (as to 40 per cent.) and Lin Yunan (林玉喃) (as to 30 per cent.).

- (s) *Ningde Hengan Hygiene Products Co., Ltd.* (寧德恒安衛生用品有限公司)  
("Hengan Ningde")

Before Reorganisation, Hengan Fujian owned 48 per cent. interest in Hengan Ningde, a limited liability company established in the PRC on 8th October, 1996. Hengan Fujian transferred to Shen Tong (沈彤), an independent third party, the said interest in August, 1998.

- (t) *Liancheng Hengan Hygiene Products Factory* (連城恒安衛生用品廠)  
("Hengan Liancheng")

Before Reorganisation, Hengan Fujian owned 100 per cent. interest in Hengan Liancheng, a collectively-owned enterprise established in the PRC on 8th April, 1996. In August, 1998, Hengan Fujian transferred its entire interest in Hengan Liancheng respectively to three independent third parties, namely Zhang Zili (張自力) (as to 20 per cent.), Xu Wentao (許文濤) (as to 20 per cent.) and Xu Tianpei (許天培) (as to 60 per cent.).

- (u) *Heilongjiang Hengan Hygiene Products Co., Ltd.* (黑龍江恒安衛生用品有限公司)  
("Hengan Heilongjiang")

Before Reorganisation, Hengan Fujian owned 100 per cent. interest in Hengan Heilongjiang, a limited liability company established in the PRC on 6th March, 1997. In August, 1998, Hengan Fujian transferred its entire interest in Hengan Heilongjiang respectively to three independent third parties, namely Li Zhuangzhi (李壯志) (as to 30 per cent.), Liu Yiubin (劉毓彬) (as to 30 per cent.) and Zhang Mouhua (張謀華) (as to 40 per cent.).

- (v) *Inner Mongolia Wuyuan Hengan Hygiene Products Co., Ltd.* (內蒙古五原縣恒安衛生用品有限責任公司) ("Hengan Wuyuan")

Hengan Wuyuan was 66.67 per cent. owned by Hengan Fujian before the Reorganisation. Liquidation proceedings thereof commenced in September, 1998 and assets originally injected by Hengan Fujian into Hengan Wuyuan were distributed to Hengan Fujian which were subsequently sold to three independent third parties, namely Sang Rongmin (桑永敏), Wu Qingren (吳清任) and Xu Xuebang (許學邦), pursuant to an Asset Transfer Agreement dated 20th September, 1998.

- (w) *Shanghai Qingpu Hygiene Products Co.* (上海青浦恒安衛生用品公司)  
("Hengan Qingpu")

Hengan Qingpu was 80 per cent. owned by Hengan Fujian before the Reorganisation. Liquidation proceedings thereof commenced in September, 1998 and assets originally injected by Hengan Fujian into Hengan Qingpu were distributed to Hengan Fujian which were subsequently sold to three independent third parties, namely Chen Hongxing (陳鴻昇), Ke Wenlie (柯文烈) and Wang Jianchi (王堅持), pursuant to an Asset Transfer Agreement dated 20th September, 1998.

Hengan Fujian held the interests in the above 6 companies on behalf of the Founding Shareholders. In relation to the companies referred to in item nos. (r) to (u) above, 4 Letters of Confirmation were signed by, inter alios, the Founding Shareholders and the respective transferees of the interests (all being independent third parties of the Group), pursuant to which

the Founding Shareholders disposed of their respective interests in the 4 companies absolutely and the 4 companies became entirely independent from the Group. Subsequently, the 4 companies together with Wuyuan County Hygiene Products Co., Ltd. (五原縣衛生用品有限公司) (“Wuyuan Hygiene”) and Qingpu Hygiene Products Factory (青浦衛生用品廠) (“Qingpu Hygiene”) respectively entered into the sub-contracting arrangements with the Group as more particularly described in page 62 of this prospectus.

- (x) *Fuzhou Nanbei Television Programme Broadcast Co., Ltd.* (福州南北影視節目廣播有限公司)  
(“Broadcast Co.”)

Before Reorganisation, the Group held 86 per cent. interest in Broadcast Co. through Anxiang Hygiene (the former Hengan Anxiang). Broadcast Co. is a limited liability company established in the PRC on 25th April, 1996. In June, 1998, Anxiang Hygiene transferred the said interest to Garment Co.

- (y) *Changde Hengan Special Species Marine Products Co., Ltd.* (常德恒安特種水產有限公司)  
(“Marine Products”)

Before Reorganisation, Hengan Fujian owned 60 per cent. interest in Marine Products which was established in the PRC as a limited liability company on 8th November, 1995. Hengan Fujian transferred the 60 per cent. interest to Changde Paper in June, 1998 pursuant to the Reorganisation.

- (z) *Anxiang Hengan Paper Products Co., Ltd.* (安鄉縣恒安紙品有限公司)  
(“Anxiang Paper”)

Before Reorganisation, Hengan Fujian owned 100 per cent. interest in Anxiang Paper, a limited company established in the PRC on 30th December, 1996. In June, 1998, Hengan Fujian transferred to Garment Co. its entire interest in Anxiang Paper.

- (aa) *Shanghai Hengyu Real Estate Development Co., Ltd.* (上海恒宇房地產開發經營有限公司)  
(“Hengyu Real Estate”)

Before Reorganisation, Hengan Fujian held 96 per cent. interest in Hengyu Real Estate. Hengyu Real Estate is a limited liability company established in the PRC on 15th August, 1996. Pursuant to the Reorganisation, Hengan Fujian transferred to Jinjiang Hengan Electronic Toys Co., Ltd. (晉江恒安電子玩具有限公司) its entire interest in Hengyu Real Estate in June, 1998.

- (bb) *Hang On Fabric & Cotton Dress Adornment Co., Ltd.* (福建省晉江恒安織綿服飾有限公司)  
(“Hang On Fabric”)

Hengan Fujian held 19.55 per cent. interest in Hang On Fabric, a sino-foreign equity joint venture established on 31st May, 1991. The said interest of Hengan Fujian was transferred to Tin Wing Trading Company (天榮貿易公司) on 25th March, 1998, pursuant to the Reorganisation.

- (cc) *Quanzhou Zhonglian Joint Stock Co., Ltd.* (泉州中聯股份有限公司) (“Zhonglian”)

Hengan Fujian held an amount of 5,320,000 shares in Zhonglian before Reorganisation. Zhonglian is a joint stock limited company incorporated in the PRC on 28th June, 1994. Pursuant to the Reorganisation, Hengan Fujian transferred to Garment Co. the said 5,320,000 shares, representing 9.57 per cent. of the then registered capital of Zhonglian.

Hengan Fujian held the interests in the six companies referred to in (x) to (cc) above on behalf of the Founding Shareholders. Although the said companies were all transferred out of the Group pursuant to the Reorganisation, the Founding Shareholders remain to be the beneficial owners of the interests in these companies (save Marine Products which Changde Paper has disposed of its interest therein subsequent to its acquisition from Hengan Fujian as mentioned in (y) above) previously held by Hengan Fujian. The Group at present does not have any business relationship with these companies.

### **The Incentive Scheme**

Since 1985, the Founding Shareholders had adopted an incentive scheme (the “Incentive Scheme”) to offer senior employees, on a discretionary basis, the opportunity to acquire interests in the then existing subsidiaries within the Group, or to join the Founding Shareholders to establish new subsidiaries. For further details in relation to the Incentive Scheme, please refer to the paragraph headed “Incentive scheme implemented by the Group in the past” under the section headed “Business of the Group” in this prospectus.

Within the six months prior to the date of this prospectus, the Founding Shareholders and the senior employees who held beneficial interests in Hengan Hygiene Material and Hengan Articles made capital contributions to these entities. Regarding Hengan Hygiene Material, the Founding Shareholders and the senior employees who held investment interest in this entity paid in the aggregate capital contribution between March and August this year, part of which (approximately HK\$58.4 million) was funded by dividends distributed to them from Hengan Fujian and Hengan Articles within the Group, where they also held interests. In relation to Hengan Articles, between July and August this year, the Founding Shareholders and the senior employees who held investment interest in this entity paid in approximately HK\$1.2 million as the remainder of the total registered capital. Such payment was made by utilising dividends distributed to them by Hengan Articles.

As mentioned above, the investment interests of the Founding Shareholders and the senior employees were converted into Shares in the Company according to the Deeds of Confirmation.

### **Reorganisation of members within the Group other than the PRC subsidiaries**

- (a) Mr. Sze Man Bok was the owner of one share in each of Fujian Investment, Huabei Investment, Huadong Investment, Huazhong Investment and Xinan Investment, representing the then entire issued share capital of the 5 companies. On 20th June, 1998, Mr. Sze Man Bok transferred to Hengan International Holdings Limited all the entire issued share capital in the 5 BVI holding companies at par.
- (b) Hengan International Holdings Limited was incorporated on 8th April, 1998 and one share therein was allotted and issued to Mr. Sze Man Bok on 20th June, 1998 at par credited as fully paid up. On 10th November, 1998, Mr. Sze Man Bok transferred the said one share, representing the entire issued share capital of Hengan International Holdings Limited, to the Company pursuant to a Share Purchase Agreement between, inter alios, Mr. Sze Man Bok and the Company dated 10th November, 1998 as referred to in item no. 81 of the paragraph headed “Summary of material contracts” in this Appendix VII.

- (c) Pursuant to the Deeds of Confirmation referred to in the paragraph headed “Reorganisation in respect of the PRC subsidiaries” above, the Company allotted to the Founding Shareholders and HUIL an aggregate amount of 749,999,980 Shares representing 74.99 per cent. interests in the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised) as more particularly mentioned in the preceding paragraph headed “Changes in share capital” of this appendix. Regarding the 280,880,000 Shares allotted to HUIL, HUIL holds such Shares on trust for the senior employees of the Group (whose interests in the PRC subsidiaries of the Group were transferred to the Group during the Reorganisation), their family members and family members of the Founding Shareholders. With respect of the said trust arrangement, a Trust Deed was entered into by HUIL with the senior employees on 26th November, 1998.

### **3. CHANGES IN SHARE CAPITAL OF SUBSIDIARIES**

- (a) The subsidiaries of the Company are referred to in the accountants’ report, the text of which is set out in Appendix I.
- (b) Within the two years immediately preceding the date of this prospectus, changes in share capital of the following subsidiaries of the Group have taken place:—
- (i) On 24th March, 1998, the registered capital of Hengan Chongqing was increased from HK\$3,000,000.00 to HK\$4,800,000.00. The increase was duly approved by the relevant PRC government authority on the same date.
- (ii) On 7th October, 1997, the registered capital of Hengan Articles was increased from RMB160,000,000.00 to RMB240,000,000.00. Such increase was duly approved by the relevant government authority on the same date. The increased portion in the registered capital was mostly paid before 30th June, 1998, the remaining portion of about HK\$1,200,000 was paid after 1st July, 1998 by utilising profits declared by Hengan Articles to its beneficial investors.
- (iii) The registered capital of Hengan Shangyu was approved to be increased from RMB790,000 to RMB7,290,000 on 4th September, 1998. Such increased portion of the registered capital has in fact been paid by the end of 1997.

Save as mentioned herein, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

#### 4. REPURCHASE BY THE COMPANY OF ITS OWN SECURITIES

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

##### (a) The Listing Rules

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase in cash its securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

###### (i) *Shareholders' approval*

All repurchases on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval in relation to a particular transaction.

*Note: On 10th November, 1998, a shareholder's resolution was passed by the then sole shareholder of the Company, whereby, conditional upon listing, a general unconditional mandate ("buyback mandate") was given to the Directors authorising the Directors to exercise all powers of the Company to repurchase on the Stock Exchange or any other stock exchange recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, such number of Shares as will represent up to ten per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the New Issue and the Placing (including the Over-Allotment Option if exercised) at any time until the next annual general meeting of the Company or until the buyback mandate is revoked or varied earlier by an ordinary resolution of the shareholders in general meeting or at the time when the next annual general meeting is required by law or the Articles to be held, whichever is the earliest.*

###### (ii) *Sources of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

###### (iii) *Trading restrictions*

The total number of shares which a company is authorised to repurchase on the Stock Exchange are shares representing up to a maximum of ten per cent. of the issued share capital in the company in issue immediately following completion of the New Issue and the Placing (including the Over-Allotment Option if exercised). A company may not issue or announce an issue of shares for a period of 30 days immediately following a share repurchase (except pursuant to the exercise of warrants, share options or similar instruments requiring the Company to issue securities which are outstanding prior to such repurchase) without the approval of the Stock Exchange. In addition, all share repurchases on the Stock Exchange in any given calendar month are limited to a maximum of 25 per cent. of the trading volume of such shares in the immediately preceding calendar month. The Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below 25 per cent. or the relevant prescribed minimum percentage for that company as required by the Stock Exchange from time to time.

*(iv) Status of repurchased shares*

The Listing Rules provide that repurchase can only be made if the shares proposed to be repurchased are fully-paid up. Further, the listing of all repurchased securities is automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under Cayman Islands law, all repurchased Shares shall be treated as cancelled.

*(v) Suspension of repurchase*

The Listing Rules prohibit any repurchase of securities after a price-sensitive development has occurred or has been the subject of a decision until the price sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's interim report, the company may not repurchase securities on the Stock Exchange, unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if the company has breached the Listing Rules.

*(vi) Reporting Requirements*

Under Listing Rules, repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, the company is required in its annual report to disclose (a) details regarding repurchases of securities made during the year, including a monthly analysis on the number of securities repurchased, the purchase price per share or the highest and lowest price paid by the company and the aggregate prices paid and (b) the Directors' reasons for making such repurchases. The company shall procure that any broker appointed by it to effect the purchase of securities shall disclose to the Stock Exchange such information with respect to repurchases made on behalf of the company as the Stock Exchange may request.

*(vii) Connected parties*

A company is prohibited from knowingly repurchasing shares of the company on the Stock Exchange from a "connected person", that is, a director, a chief executive, or a substantial shareholder of the company or any of its subsidiaries or their respective associates (as defined in the Listing Rules). A connected person shall not knowingly sell his shares to the company.

**(b) Exercise of the buyback mandate**

Exercise in full of the buyback mandate, on the basis of 1,000,000,000 Shares in issue immediately following the listing of Shares (taking no account of any Shares which may be issued upon the exercise of the Over-Allotment Option) and on the basis of 1,025,000,000 Shares in issue immediately after listing of the Shares upon exercise of the Over-Allotment Option in full, could accordingly result in up to 100,000,000 Shares and 102,500,000 Shares, respectively being repurchased by the Company during the period prior to the next annual general meeting of the Company following the passing of the resolution granting the buyback mandate or the expiration of the period within which the next annual general meeting of the Company is required by the law or the Articles or when revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company, whichever is the earliest.

**(c) Reasons for repurchases**

Repurchases of Shares will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

**(d) Funding of repurchases**

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position to be disclosed in this prospectus) in the event that the buyback mandate is exercised in full. However, the Directors do not propose to exercise the buyback mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

**(e) General**

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates has any present intention to sell Shares to the Company or its subsidiaries if the buyback mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the buyback mandate in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the buyback mandate is exercised.

In the event that the Directors exercise in full the power to repurchase Shares, the total shareholding of the existing shareholders of the Company, together with their associates, in the Company would be increased to approximately 83.33 per cent. of the issued share capital of the Company (assuming that the Over-Allotment Option is not exercised) and to approximately 81.30 per cent. of the issued share capital of the Company (assuming the Over-Allotment Option is exercised in full). Such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeover Code"). Accordingly, a shareholder or group of shareholders acting in concert (as interpreted according to the Takeover Code), could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code as a result of any such increase depending on the percentage of voting rights attached to the Shares owned by the relevant shareholder or the shareholders acting in concert (as the case may be). Save as aforesaid, the Directors are not aware of any consequence that would arise under the Takeover Code as a result of any repurchases pursuant to the buyback mandate. Such an increase would however mean that the total amount of the share capital of the Company in public hands would be reduced to less than 25 per cent. and this would only be permitted if the Stock Exchange agreed to waive the dealing restriction regarding the percentage of public shareholding referred to under paragraph (a)(iii) above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

**5. FURTHER INFORMATION ABOUT THE BUSINESS****Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

1. Equity Transfer Contract in Chinese dated 1st July, 1998 between Tin Lee, and Fujian Investment for the transfer of 98.32 per cent. equity interest in Hengan Fujian from Tin Lee to Fujian Investment at a consideration of US\$1, together with its English translation.
2. Supplemental Contract in Chinese dated 5th July, 1998 between Garment Co., Processing Factory and Fujian Investment in relation to the equity joint venture of Hengan Fujian among the parties, together with its English translation.
3. Supplemental Contract in Chinese undated between Garment Co., Processing Factory and Foundation Development in relation to the increase in registered capital of Hengan Articles from RMB160,000,000 to RMB240,000,000, together with its English translation.
4. Equity Transfer Agreement in Chinese dated 15th April, 1998 between Garment Co., Processing Factory and Foundation Development for the transfer of 0.26 per cent. in Hengan Articles from each of Garment Co. and Processing Factory to Foundation Development, together with its English translation.
5. Equity Transfer Contract in Chinese dated 1st July, 1998 between Foundation Development and Fujian Investment for the transfer of 98.96 per cent. interest in Hengan Articles from Foundation Development to Fujian Investment at a consideration of US\$1, together with its English translation.
6. Supplemental Contract in Chinese dated 1st July, 1998 between Garment Co, Processing Factory and Fujian Investment in relation to the equity joint venture of Hengan Articles among the parties, together with its English translation.
7. Equity Transfer Contract in Chinese dated 1st July, 1998 between United Wealth and Fujian Investment for the transfer of the entire equity interest in Hengan Hygiene Material from United Wealth to Fujian Investment at a consideration of US\$1, together with its English translation.
8. Equity Transfer Contract in Chinese dated 1st July, 1998 between Foundation Development and Fujian Investment for the transfer of the entire equity interest in Hengan Hygiene Products from Foundation Development to Fujian Investment at a consideration of US\$1, together with its English translation.
9. Equity Transfer Contract in Chinese dated 1st July, 1998 between United Wealth and Huabei Investment for the transfer of the entire equity interest in Hengan Tianjin from United Wealth to Huabei Investment at a consideration of US\$1, together with its English translation.

10. Equity Transfer Contract in Chinese dated 1st July, 1998 between Foundation Development and Huazhong Investment for the transfer of the entire equity interest in Hengan Linying from Foundation Development to Fujian Investment at a consideration of US\$1, together with its English translation.
11. Equity Transfer Contract in Chinese dated 1st July, 1998 between Tin Lee and Xinan Investment for the transfer of the entire equity interest in Hengan Chongqing from Tin Lee to Xinan Investment at a consideration of US\$1, together with its English translation.
12. Equity Transfer Contract in Chinese dated 1st July, 1998 between Hengan Fujian and Huazhong Investment for the transfer of 92.5 per cent. interest in Xiaogan Hygiene from Hengan Fujian to Huazhong Investment at a consideration of US\$1, together with its English translation.
13. Equity Transfer Contract in Chinese dated 1st July, 1998 between Huazhong Investment and Anxiang Paper for the transfer of 7.5 per cent. interest in Xiaogan Hygiene from Anxiang Paper to Huazhong Investment at a consideration of US\$1, together with its English translation.
14. Equity Transfer Contract in Chinese dated 1st July, 1998 between Hengan Fujian and Huazhong Investment for the transfer of 97.2 per cent. interest in Anxiang Hygiene from Hengan Fujian to Huazhong Investment at a consideration of US\$1, together with its English translation.
15. Equity Transfer Contract in Chinese dated 1st July, 1998 between Anxiang Paper and Huazhong Investment for the transfer of 2.8 per cent. interest in Anxiang Hygiene from Anxiang Paper to Huazhong Investment at a consideration of US\$1, together with its English translation.
16. Joint Venture Contract in Chinese dated 1st July, 1998 between Hengan Fujian and Xiling Corporation in relation to the domestic joint venture of Fangzhi Hengan, together with its English translation.
17. Equity Transfer Contract in Chinese dated 1st August, 1998 between Huadong Investment and Hengan Fujian for the transfer of 99.991 per cent. interest in Fangzhi Hengan from Hengan Fujian to Huadong Investment at a consideration of US\$1, together with its English translation.
18. Equity Transfer Contract in Chinese dated 1st August, 1998 between Huadong Investment and Xiling Corporation for the transfer of 0.009 per cent. interest in Fangzhi Hengan from Xiling Corporation to Huadong Investment at a consideration of RMB1,000, together with its English translation.
19. Equity Transfer Contract in Chinese dated 1st July, 1998 between Hengan Fujian and Fujian Investment for the transfer of 98.7 per cent. interest in Dongxiang Hongxing, a limited company incorporated in the PRC, from Hengan Fujian to Fujian Investment at a consideration of US\$1, together with its English translation.

20. Equity Transfer Contract in Chinese dated 1st July, 1998 between Hongxing Group and Fujian Investment for the transfer of 1.3 per cent. interest in Dongxiang Hongxing from Hongxing Group to Fujian Investment at a consideration of RMB34,256, together with its English translation.
21. Agreement for Termination of Joint Venture Contract in Chinese dated 10th July, 1998 between Guangxi Binyang Rural Corporate Supplies Co., Ltd. (廣西賓陽縣鄉鎮企業物資供應公司) and Hengan Fujian for the termination of the joint venture contract signed by the parties in 1994 in respect of Binyang Hengan effective from the date of execution of the agreement, together with its English translation.
22. Agreement for Partition of Assets and Termination of Joint Operation in Chinese dated 10th July, 1998 between Hengan Fujian and Shenghua Trading for, inter alia, the termination of the joint operation of Binyang Hengan between Hengan Fujian and Guangxi Nanning, together with its English translation.
23. Asset Transfer Agreement in Chinese dated 8th October, 1998 between Hengan Fujian and Xinan Investment for the transfer of certain machinery and equipment by Hengan Fujian to Xinan Investment at a consideration of US\$1, together with its English translation.
24. Equity Transfer Contract in Chinese dated 1st August, 1998 between Hengan Fujian and Huabei Investment for the transfer of 75 per cent. interest in Fushun Hygiene from Hengan Fujian to Huabei Investment at a consideration of US\$1, together with its English translation.
25. Joint Venture Contract in Chinese dated 5th August, 1998 between Huabei Investment and Hongguang Corporation in relation to the sino-foreign co-operative joint venture of Hengan Fushun between the parties, together with its English translation.
26. Joint Venture Contract in Chinese dated 8th August, 1998 between Shangyu City Guangrong Yuan and Hengan Fujian for the joint operation of Hengan Shangyu, together with its English translation.
27. Equity Transfer Contract in Chinese dated 1st August, 1998 between Hengan Fujian and Huadong Investment for the transfer of the entire interest in Shaanxi Hygiene from Hengan Fujian to Huadong Investment at a consideration of US\$1, together with its English translation.
28. Joint Venture Contract in Chinese dated 30th June, 1998 between Electrical Factory and Hengan Fujian confirming the joint operation of Hengan Hefei between the parties since 12th March, 1998, together with its English translation.
29. Equity Transfer Contract in Chinese dated 10th September, 1998 between Hengan Fujian and Hengan Weifang for the transfer of 99.98 per cent. interest in Hengan Hefei from Hengan Fujian to Hengan Weifang at a consideration of US\$1, together with its English translation.
30. Joint Venture Contract in Chinese dated 10th September, 1998 between Electrical Factory and Hengan Weifang in relation to the joint operation of Hengan Hefei, together with its English translation.

31. Asset Transfer Agreement in Chinese dated 24th September, 1998 between Hengan Hygiene Products and Jinjiang Hengan Hearttex Paper Products Co., Ltd. (晉江恒安心相印紙製品有限公司) (“Hearttex Paper”) for the transfer of certain fixed assets and inventories relating to the manufacturing of packaged tissue paper products from Hengan Hygiene Products to Hearttex Paper at a consideration of RMB13,726,151.57, together with its English translation.
32. Asset Transfer Agreement in Chinese dated 25th August, 1998 between Chengdu Hengan and Hengan Sichuan for the transfer of all fixed assets, inventories and other assets from Chengdu Hengan to Hengan Sichuan at a consideration of US\$1, together with its English translation.
33. 3 Equity Transfer Agreements in Chinese all dated 28th August, 1998 signed by Hengan Fujian respectively with Wu Wenya, Li Chunzhi and Lin Yunan (together the “Xishan Transferees”) for the transfer from Hengan Fujian respectively to the said persons of 30 per cent., 40 per cent. and 30 per cent. interest in Hengan Xishan each at a consideration of RMB1 and the English translations thereof.
34. Letter of Confirmation in Chinese dated 28th August, 1998 signed by Hengan Fujian with Messr. Sze Man Bok, Hui Chi Lin, Yeung Wing Chun (the “Beneficial Owners”), Hengan Xishan, and the Xishan Transferees, pursuant to which the Beneficial Owners confirmed their consents to the respective transfers by Hengan Fujian to the Xishan Transferees of their then equity interests in Hengan Xishan, together with its English translation.
35. Equity Transfer Agreement in Chinese dated 20th August, 1998 between Hengan Fujian and Shen Tong for the transfer from Hengan Fujian to Shen Tong 48 per cent. interest in Hengan Ningde at a consideration of RMB1, together with the English translation thereof.
36. Letter of Confirmation in Chinese dated 20th August, 1998 signed by Hengan Fujian with the Beneficial Owners, Hengan Ningde, and Shen Tong, pursuant to which the Beneficial Owners confirmed their consents to the transfer by Hengan Fujian to Shen Tong of their then equity interests in Hengan Ningde, together with its English translation.
37. 3 Equity Transfer Agreements in Chinese all dated 28th August, 1998 signed by Hengan Fujian respectively with Zhang Zili, Xu Wentao and Xu Tianpei (together the “Liancheng Transferees”) for the transfer from Hengan Fujian respectively to the said persons of 20 per cent., 20 per cent. and 60 per cent. interest in Hengan Liancheng each at a consideration of RMB1 and the English translations thereof.
38. Letter of Confirmation in Chinese dated 22nd August, 1998 signed by Hengan Fujian with the Beneficial Owners, Hengan Liancheng and the Liancheng Transferees, pursuant to which the Beneficial Owners confirmed their consents to the respective transfers by Hengan Fujian to the Liancheng Transferees of their then equity interests in Hengan Liancheng, together with its English translation.
39. 3 Equity Transfer Agreements in Chinese all dated 28th August, 1998 signed by Hengan Fujian respectively with Li Zhuangzhi, Liu Yiubin and Zhang Mouhua (together the “Heilongjiang Transferees”) for the transfer from Hengan Fujian respectively to the said persons of 30 per cent., 30 per cent. and 40 per cent. interest in Hengan Heilongjiang each at a consideration of RMB1 and the English translations thereof.

40. Letter of Confirmation in Chinese dated 28th August, 1998 signed by Hengan Fujian with the Beneficial Owners, Hengan Heilongjiang and the Heilongjiang Transferees, pursuant to which the Beneficial Owners confirmed their consents to the respective transfers by Hengan Fujian to the Heilongjiang Transferees of their then equity interests in Hengan Heilongjiang, together with its English translation.
41. Supplemental Agreement in Chinese dated 8th October, 1997 between Hengan Fujian, Anxiang Hygiene and Fujian Nanbei Television Programme Production Centre (福建省南北影視製作中心), in relation to the joint operation of Broadcast Co., together with its English translation.
42. Equity Transfer Contract in Chinese dated 20th June, 1998 between Anxiang Hygiene and Garment Co. for the transfer of 86 per cent. interest in Broadcast Co. from Anxiang Hygiene to Garment Co. at a consideration of RMB1, together with its English translation.
43. Equity Transfer Contract in Chinese dated 1st June, 1998 between Hengan Fujian and Changde Paper for the transfer of 60 per cent. interest in Marine Products from Hengan Fujian to Changde Paper at a consideration of RMB1, together with its English translation.
44. Equity Transfer Contract in Chinese dated 1st June, 1998 between Hengan Fujian and Garment Co. for the transfer of the entire interest of Anxiang Paper from Hengan Fujian to Garment Co. at a consideration of RMB1, together with its English translation.
45. Equity Transfer Contract in Chinese dated 8th June, 1998 between Hengan Fujian and Jinjiang Hengan Electronic Toys Co., Ltd. for the transfer of the entire interest in Hengyu Real Estate from Hengan Fujian to Jinjiang Hengan Electronic Toys Co., Ltd. at a consideration of RMB1, together with its English translation.
46. Equity Transfer Contract in Chinese dated 25th March, 1998 between Hengan Fujian and Tin Wing Trading Company for the transfer of 19.55 per cent. interest in Hang On Fabric from Hengan Fujian to Ting Wing Trading Company at a consideration of RMB1,228,000, together with its English translation.
47. Agreement for Transfer of Investment Interest in Chinese dated 20th October, 1998 between Hengan Fujian and Hang On Fabric for the transfer of an investment interest in a property development project in Fengshan Xincun from Hengan Fujian to Hang On Fabric at a consideration of RMB1,150,000, together with its English translation.
48. Equity Transfer Contract in Chinese dated 1st June, 1998 between Hengan Fujian and Garment Co. for the transfer of 5,320,000 shares in Zhonglian from Hengan Fujian to Garment Co. at a consideration of RMB5,320,000, together with its English translation.
49. Sub-contracting Agreement in Chinese dated 22nd September, 1998 between Hengan Tianjin and Shanxi Taiyuan Hengan Hygiene Products Factory (山西太原恒安衛生用品廠) (“Shanxi Taiyuan”) (an independent third party), pursuant to which Shanxi Taiyuan has covenanted to produce *Anle* (安樂) sanitary napkins for Hengan Tianjin on an exclusive basis for a term of three years at agreed fees vary according to the types of products ordered by Hengan Tianjin, together with its English translation.

50. Sub-contracting Agreement in Chinese dated 25th September, 1998 between Hengan Tianjin and Wuyuan Hygiene, an independent third party, pursuant to which Wuyuan Hygiene has covenanted to produce *Anle* (安樂) sanitary napkins for Hengan Tianjin on an exclusive basis for a term of three years at agreed fees vary according to the types of products ordered by Hengan Tianjin, together with its English translation.
51. Sub-contracting Agreement in Chinese dated 22nd September, 1998 between Hengan Fushun and Hengan Heilongjiang, pursuant to which Hengan Heilongjiang has covenanted to produce *Anle* (安樂) sanitary napkins for Hengan Fushun on an exclusive basis for a term of three years at agreed fees vary according to the types of products ordered by Hengan Fushun, together with its English translation.
52. Two Sub-contracting Agreements of identical terms both in Chinese and dated 22nd September, 1998 signed by Hengan Shangyu respectively with Hengan Xishan and Qingpu Hygiene (both being independent third parties), pursuant to which Hengan Xishan and Qingpu Hygiene has each covenanted to produce *Anle* (安樂) sanitary napkins for Hengan Shangyu on an exclusive basis for a term of three years at agreed fees vary according to the types of products ordered by Hengan Fushun, together with their respective English translations.
53. Three Sub-contracting Agreements of identical terms all in Chinese and dated 22nd September, 1998 signed by Hengan Fujian respectively with Hengan Liancheng, Hengan Ningde and Fujian Sanming Hengan Hygiene Products Co., Ltd. (福建三明恒安衛生用品有限公司) (all being independent third parties), pursuant to which Hengan Liancheng, Hengan Ningde and Fujian Sanming Hengan Hygiene Products Co., Ltd. has each covenanted to produce *Anle* (安樂) sanitary napkins for Hengan Fujian on an exclusive basis for a term of three years at agreed fees vary according to the types of products ordered by Hengan Fujian, together with their respective English translations.
54. Trademark Licence Agreement in Chinese dated 5th October, 1998 between Hengan Fujian and Hearttex Paper, pursuant to which Hengan Fujian agreed to transfer all *Hearttex* and 心相映 trademarks to Hearttex Paper at nil consideration, together with its English translation.
55. Supplemental Agreement in Chinese dated 14th October, 1998 between Hengan Fujian and Hearttex Paper as supplement to the Trademark Licence Agreement referred to in item no. 56, together with its English translation.
56. Two Trademark Licence Agreements of identical terms both in Chinese dated 5th November, 1998 and 23rd October, 1998 signed by Hengan Fujian with Hengan (Luohe Linying) Paper Products Co., Ltd. ("Linying Paper") and Hengan (Chongqing) Paper Products Co., Ltd. ("Chongqing Paper") respectively, pursuant to which Hengan Fujian granted to Linying Paper and Chongqing Paper respectively licence to use the *Hearttex* trademark at nil consideration for a perpetual term until the trademarks are registered under the name of Hearttex Paper, together with the English translations thereof.

57. 14 Trademark Licence Agreements all in Chinese with identical terms and dated 30th September, 1998 signed by Hengan Fujian with all the other 14 PRC subsidiaries of the Group (save Hengan Hygiene Material), pursuant to which Hengan Fujian granted to the PRC subsidiaries non-exclusive licences to use the *Anle* (安樂) and *Anerle* (安爾樂) trademarks at nil consideration for a term of three years, together with the respective English translation thereof.
58. Contract for Lease of Land, Property and Facilities in Chinese dated 10th November, 1998 between Hengan Hygiene Products and Hearttex Paper for the lease of an area of 2,298.49 square meters of the production facilities and the underlying land use rights of Hengan Hygiene Products to Hearttex Paper at a monthly rental of RMB12,182 for a term of two years from 10th November, 1998 to 10th November, 2000 with an option to renew for one additional year, together with its English translation.
59. Contract for Lease of Land, Property and Facilities in Chinese dated 10th November, 1998 between Hengan Linying and Linying Paper for the lease of an area of 1,431 square meters of the production facilities and the underlying land use rights of Hengan Linying to Linying Paper at a monthly rental of RMB6,868.80 for a term of two years from 10th November, 1998 to 10th November, 2000 with an option to renew for one additional year, together with its English translation.
60. Contract for Transfer of Land Use Rights in Chinese dated 30th September, 1998 between Hengan Articles and Hang On Fabric for the transfer of 2,114.6 square meters of land from Hengan Articles to Hang On Fabric at a consideration of RMB1, together with its English translation.
61. Contract for Transfer of Land Use Rights in Chinese dated 25th October, 1998 between Hengan Articles and Hang On Fabric for the transfer of 4,445.50 square meters of land from Hengan Articles to Hang On Fabric at a consideration of RMB1, together with its English translation.
62. 17 Deeds of Confirmation in Chinese all dated 10th November, 1998 signed by, inter alia, the Founding Shareholders, certain senior employees of the Group, HIIL and the Company for the transfer of the interests in the 17 PRC subsidiaries of the Group pursuant to the Reorganisation, together with the respective English translations thereof.
63. Equity Transfer Agreement in Chinese dated 20th March, 1998 signed by, inter alia, Hengan Fujian and Shanghai Guangyu Real Estate Development Co., Ltd. (上海廣宇房地產開發經營有限責任公司) (“Guangyu Real Estate”) for the acquisition by Hengan Fujian from Guangyu Real Estate of its 40 per cent. interest in Hengyu Real Estate at a consideration of RMB19,990,000, together with its English translation.
64. Contract for Transfer of Land Use Rights in Chinese dated 28th June, 1998 between Hengan Fujian and Processing Factory for the transfer of 1,182 square meters of land from Processing Factory and Hengan Fujian at nil consideration, together with its English translation.
65. Contract for Transfer of House Ownership in Chinese dated 10th October, 1998 between Hengan Articles and Hang On Fabric for the transfer of two blocks of residential building with a total construction area of 7,250.32 square meters from Hengan Articles to Hang On Fabric at a consideration of RMB1, together with the English translation thereof.



66. Contract for Transfer of House Ownership in Chinese dated 30th October, 1998 between Hengan Articles and Hang On Fabric for the transfer of two blocks of manufacturing plants with a total construction area of 4,111 square meters from Hengan Articles to Hang On Fabric at a consideration of RMB1, together with the English translation thereof.
67. Trademark Licence Agreement in Chinese dated 10th October, 1998 signed by Hengan Fujian and Hengan Hygiene Products, pursuant to which Hengan Fujian granted to Hengan Hygiene Products non-exclusive licence to use the *Anerle* (安兒樂) trademark at an annual licence fee of RMB1 for a term of three years, together with the English translation thereof.
68. Asset Transfer Agreement in Chinese dated 20th September, 1998 signed by Hengan Fujian with Sang Yongmin (桑永敏), Wu Qingren (吳清任) and Xu Xuebang (許學邦) for the transfer of certain assets and machinery owned by Hengan Fujian at a consideration of RMB1, together with its English translation.
69. Asset Transfer Agreement in Chinese dated 20th September, 1998 signed by Hengan Fujian with Chen Hongxing (陳鴻昇), Ke Wenlie (柯文烈) and Wang Jianchi (王堅持) for the transfer of certain assets and machinery owned by Hengan Fujian at a consideration of RMB1, together with its English translation.
70. Agreement for Termination in Chinese dated 8th November, 1998 signed by Hengan Fujian, Jinjiang City Anhai People's Government ("Anhai Government") and Hearttex Paper for, inter alia, the termination of an agreement between Hengan Fujian and Anhai Government dated 11th October, 1994 for the proposed acquisition of a piece of land situated at Anhai, together with its English translation.
71. Agreement for Transfer of Inventories and Assignment of Loans in Chinese dated 25th September, 1998 between Hengan Fujian and Hengan Liancheng for the transfer of certain inventories and the assignment of certain receivables from Hengan Liancheng to Hengan Fujian at a consideration of RMB1,584,373.25, together with its English translation.
72. Agreement for Transfer of Inventories and Assignment of Loans in Chinese dated 26th September, 1998 between Hengan Fujian and Hengan Ningde for the transfer of certain inventories and the assignment of certain receivables from Hengan Ningde to Hengan Fujian at a consideration of RMB2,677,658.29, together with its English translation.
73. Agreement for Transfer of Inventories and Assignment of Loans in Chinese dated 26th September, 1998 between Hengan Fujian and Fujian Sanming Hengan Hygiene Products Co., Ltd. (福建三明恒安衛生用品有限公司) ("Hengan Sanming") for the transfer of certain inventories and the assignment of certain receivables from Hengan Sanming to Hengan Fujian at a consideration of RMB983,766.39, together with its English translation.
74. Agreement for Transfer of Inventories and Assignment of Loans in Chinese dated 26th September, 1998 between Hengan Tianjin and Shanxi Taiyuan Hengan Hygiene Products Factory (山西太原恒安衛生用品廠) ("Hengan Taiyuan") for the transfer of certain inventories and the assignment of certain receivables from Hengan Taiyuan to Hengan Tianjin at a consideration of RMB3,749,524, together with its English translation.




75. Agreement for Transfer of Inventories and Assignment of Receivables in Chinese dated 26th September, 1998 between Hengan Shangyu and Hengan Xishan for the transfer of certain inventories and the assignment of certain receivables from Hengan Xishan to Hengan Shangyu at a consideration of RMB11,845,454.21, together with its English translation.
76. Agreement for Transfer of Inventories and Assignment of Receivables in Chinese dated 15th October, 1998 between Hengan Fushun and Hengan Heilongjiang for the transfer of certain inventories and the assignment of certain receivables from Hengan Heilongjiang to Hengan Fushun at a consideration of RMB4,206,096.02, together with its English translation.
77. Equity Transfer Agreement in Chinese dated 18th March, 1998 between Chemical Factory and Hengan Fujian for the transfer of 7.5 per cent. interest in Xiaogan Hygiene from Chemical Factory to Hengan Fujian at a consideration of RMB800,000, together with its English translation.
78. Termination Agreement in Chinese dated 28th June, 1998 between Chemical Factory and Hengan Fujian for the termination of the Equity Transfer Agreement between the parties dated 18th March, 1998 (as item no. 77 above), together with English translation.
79. Equity Transfer Agreement in Chinese dated 17th April, 1998 between Hunan Paper Factory and Hengan Fujian for the transfer of 2.8 per cent. interest in Anxiang Hygiene from Hunan Paper Factory to Hengan Fujian at a consideration of RMB800,000, together with its English translation.
80. Termination Agreement in Chinese dated 10th May, 1998 between Hunan Paper Factory and Hengan Fujian for the termination of the Equity Transfer Agreement between the parties dated 17th April, 1998 (as item no. 79 above), together with English translation.
81. On 10th November, 1998, the Company, HIIL and Mr. Sze Man Bok together with the other Founding Shareholders entered into a Share Purchase Agreement whereby HIIL and the Founding Shareholders gave certain representations, undertakings, warranties and indemnities in favour of the Company in respect of, inter alia, taxation and other matters relating to the transfer from Mr. Sze Man Bok to the Company of the entire issued share capital of Hengan International Holdings Limited in consideration of the issue and allotment of 749,999,980 Shares of the Company.
82. On 26th November, 1998, the Founding Shareholders and the Company entered into a deed of non-competition the principal particulars of which are set out in the sub-paragraph "Relationship with the Founding Shareholders" in the section headed "Business".
83. On 26th November, 1998, the Founding Shareholders, HIIL and the Company entered into a deed of indemnity, the particulars of which are set out in the paragraph headed "Estate duty and tax indemnity" of this Appendix VII.
84. On 26th November, 1998, the Company and, among others, the Underwriters entered into an underwriting agreement, being the underwriting agreement referred to in the section headed "Underwriting" of this prospectus.

**Intellectual property rights of the Group**

As at 31st October, 1998, the Group used the following trademarks:

(a) The Group has registered the following trademarks:

<b>Trademark</b>	<b>Country</b>	<b>International Class No.</b>	<b>Registration No.</b>	<b>Valid Period</b>
ANLE	PRC	5	702221	21/8/1994 to 20/8/2004
ANLE	PRC	5	702222	21/8/1994 to 20/8/2004
安樂	PRC	5	702223	21/8/1994 to 20/8/2004
恒安	PRC	5	714884	14/11/1994 to 13/11/2004
安爾樂	PRC	5	729168	14/2/1995 to 13/2/2005
Anerle	PRC	5	729169	14/2/1995 to 13/2/2005
AL 安樂	PRC	5	734314	14/3/1995 to 13/3/2005
安爾樂	PRC	5	734335	14/3/1995 to 13/3/2005
ANERLE	PRC	5	734336	14/3/1995 to 13/3/2005
ANERLE	PRC	16	739043	7/4/1995 to 6/4/2005
安爾樂	PRC	16	740293	14/4/1995 to 13/4/2005
恒安	PRC	1	824290	21/3/1996 to 20/3/2006
	PRC	1	824291	21/3/1996 to 20/3/2006
安兒樂	PRC	5	824320	21/3/1996 to 20/3/2006
	PRC	5	824321	21/3/1996 to 20/3/2006

Trademark	Country	International Class No.	Registration No.	Valid Period
HENG AN	PRC	5	824332	21/3/1996 to 20/3/2006
	PRC	16	837591	7/5/1996 to 6/5/2006
	PRC	24	843306	28/5/1996 to 27/5/2006
恒安	PRC	24	843309	28/5/1996 to 27/5/2006
恒安	PRC	25	851363	28/6/1996 to 27/6/2006
	PRC	25	861681	7/8/1996 to 6/8/2006
ANERKANG 安爾康	PRC	5	936569	28/1/1997 to 27/1/2007
安子樂	PRC	5	936570	28/1/1997 to 27/1/2007
安爽	PRC	5	936571	28/1/1997 to 27/1/2007
ANLE 安樂	PRC	5	1014982	28/5/1997 to 27/5/2007
ANER 安爾	PRC	5	1014983	28/5/1997 to 27/5/2007
ANLE 安樂	PRC	5	1020810	7/6/1997 to 6/6/2007
安兒樂	PRC	16	1027676	14/6/1997 to 13/6/2007
心相印	PRC	5	1062799	28/7/1997 to 27/7/2007
心相印	PRC	5	1062800	28/7/1997 to 27/7/2007
安樂牌 AL 安樂	PRC	59	286874	10/5/1987 to 9/5/1997
Anerle	PRC	3	1068405	7/8/1997 to 6/8/2007

<b>Trademark</b>	<b>Country</b>	<b>International Class No.</b>	<b>Registration No.</b>	<b>Valid Period</b>
安兒樂	PRC	3	1068406	7/8/1997 to 6/8/2007
心相印	PRC	3	1071315	7/8/1997 to 6/8/2007
心相印	PRC	3	1071316	7/8/1997 to 6/8/2007
心相映	PRC	5	1180304	7/6/1998 to 6/6/2008
心相映	PRC	3	1184114	21/6/1998 to 20/6/2008
心相映	PRC	16	1186465	28/6/1998 to 27/6/2008
安爾樂 ANERLE	PRC	25	1170246	28/4/1998 to 27/4/2008
AL 安樂	PRC	16	286874	10/5/1997 to 9/5/2007
Anerle	PRC	16	1056820	21/7/1997 to 20/7/2007
心相印	PRC	16	1056830	21/7/1997 to 20/7/2007
安兒樂	PRC	16	1056908	21/7/1997 to 20/7/2007
ANERLE	TAIWAN	5	00800528	16/4/1998 to 15/4/2008
AL 安樂	TAIWAN	5	00805422	16/6/1998 to 15/6/2008
安爾樂	TAIWAN	5	00805593	16/6/1998 to 15/6/2008
安兒樂	TAIWAN	16	00809796	16/7/1998 to 15/7/2008
Anerle	TAIWAN	16	00809797	16/7/1998 to 15/7/2008
AL 安樂及圖	MYANMAR	5	4/4759/97	29/9/1997 to 28/9/2000
ANERLE	MYANMAR	5, 16	4/4757/97	22/9/1997 to 21/9/2000

<b>Trademark</b>	<b>Country</b>	<b>International Class No.</b>	<b>Registration No.</b>	<b>Valid Period</b>
安爾樂	MYANMAR	5, 16	4/4758/97	26/9/1997 to 25/9/2000
Anerle	MYANMAR	16	4/4760/97	29/9/1997 to 28/9/2000
安兒樂	MYANMAR	16	4/4761/97	22/9/1997 to 21/9/2000

(b) The Group has applied for registration of the following trademarks:

<b>Trademark</b>	<b>Country</b>	<b>International Class No.</b>	<b>Application No.</b>	<b>Filing Date</b>
ANERLE	SINGAPORE	5	15542/97	29/11/1997
安爾樂	SINGAPORE	5	15217/97	29/11/1997
Anerle	SINGAPORE	16	15543/97	29/11/1997
安兒樂	SINGAPORE	16	15544/97	29/11/1997
ANERLE	MALAYSIA	5	98-06845	5/6/1998
安爾樂	MALAYSIA	5	98-06842	5/6/1998
Anerle	MALAYSIA	16	98-06843	5/6/1998
安兒樂	MALAYSIA	16	98-06844	5/6/1998
ANERLE	HONG KONG	5	12462/1997	29/8/1997
安爾樂	HONG KONG	5	12463/1997	29/8/1997
Anerle	HONG KONG	16	12464/1997	29/8/1997
安兒樂	HONG KONG	16	12465/1997	29/8/1997
AL 安樂及圖	PHILIPPINES	5	045-6-001	4/9/1997
ANERLE	PHILIPPINES	5	045-6-002	4/9/1997
安爾樂	PHILIPPINES	5	045-6-003	4/9/1997
Anerle	PHILIPPINES	16	045-6-004	4/9/1997
安兒樂	PHILIPPINES	16	045-6-005	4/9/1997
AL 安樂及圖	INDIA	5	760826	1/9/1997
ANERLE	INDIA	5	760827	1/9/1997

Trademark	Country	International Class No.	Application No.	Filing Date
安爾樂	INDIA	5	760828	1/9/1997
Anerle	INDIA	16	760829	1/9/1997
安兒樂	INDIA	16	760830	1/9/1997
AL 安樂及圖	RUSSIA	5, 16	97713506	11/9/1997
ANERLE	RUSSIA	5, 16	97713508	11/9/1997
安爾樂	RUSSIA	5, 16	97713511	11/9/1997
Anerle	RUSSIA	16	97713510	11/9/1997
安兒樂	RUSSIA	16	97713505	11/9/1997
AL 安樂	TAIWAN	5	86020684	26/4/1997
安爾樂	TAIWAN	5	86020680	26/4/1997
安兒樂	TAIWAN	16	86020681	26/4/1997
Anerle	TAIWAN	16	86020682	26/4/1997
心相印	PRC	16	—	14/4/1997
Hearttex	PRC	3, 5, 16	9700122672- 9700122674	19/11/1997
美舒寶	PRC	—	—	22/5/1995
百寶	PRC	—	—	15/7/1997
春風	PRC	—	—	4/3/1997

**Information about the PRC foreign investment enterprises and joint operation enterprises within the Group**

**NORTHERN REGION**

**(i) Hengan (Fushun) Sanitary Products Co., Ltd.**

(恒安(撫順)衛生用品有限公司)

Nature:	Sino-foreign co-operative joint venture
Date of establishment:	18th September, 1998
Registered capital:	RMB14,590,000 (which has been fully paid up)
Total investment:	RMB14,590,000

Parties to the joint venture and percentage of interest owned by each partner:	(A) Hengan (Huabei) Investment Company Limited (“Huabei Investment”): 51 per cent.  (B) Hongguang Corporation: 49 per cent.
Non-cash assets provided by each partner:	Party A: nil  Party B: factory premises and ancillary facilities
Profit and loss sharing ratio:	Party A: The sum of annual distributable profit of the joint venture net of the amount required to be distributed to Hongguang Corporation  Party B:  The 1st year of operation — RMB1,100,000;  The 2nd year of — RMB1,200,000;  The 3rd year — RMB1,300,000; and  The 4th year and thereafter until termination of the joint venture — RMB1,400,000
Pre-emptive rights:	Each party to the joint venture has pre-emptive rights over the sale of any interest in the joint venture by the other joint venture partner
Distribution of assets on expiration or termination:	Remaining assets of the joint venture after liquidation will be distributed to the party who originally contributed the relevant assets except that any current assets shall be distributed to Huabei Investment
Board composition:	6 members appointed by Huabei Investment and 1 member appointed by Hongguang Corporation
Term:	10 years from 18th September, 1998 to 17th September, 2008
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	Shuncheng District, Shencheng Road East, Liaoning Province
	<b>(ii) Hengan (Tianjin) Hygiene Supplies Co., Ltd.</b> (恒安 (天津) 衛生用品有限公司)
Nature:	Wholly foreign owned enterprise
Date of establishment:	13th May, 1997
Registered capital:	US\$3,000,000 (which has been fully paid up)

Total investment:	US\$4,000,000
Investor:	Huabei Investment
Term:	15 years from 13th May, 1997 to 12th May, 2012
Business:	Production of <i>Anle</i> (安樂) and <i>Anerle</i> (安爾樂) sanitary napkins
Address:	Xiqing Economic Development District, No.6 Xinhua Ji Road One, Tianjin

## EASTERN REGION

**(i) Hengan (Weifang) Hygienic Products Co., Ltd.**

(恒安(濰坊)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	9th September, 1998
Registered capital:	US\$1,360,000 (which has been fully paid up)
Total investment:	US\$1,450,000
Investor:	Huadong Investment
Term:	15 years from 9th September, 1998 to 8th September, 2013
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	No. 79 Hengan Road, Fangzhi District, Weifang City

**(ii) Hefei Hengan Hygiene Products Factory**

(合肥恒安衛生用品廠)

Nature:	Joint operation enterprise
Date of establishment:	12th March, 1998
Registered capital:	RMB3,680,000 (which has been fully paid up)
Total investment:	N/A
Parties to the joint operation and percentage of interest owned by each partner:	Hengan Weifang: 99.98 per cent. Electrical Factory: 0.02 per cent.
Non-cash assets provided by each partner:	Hengan Weifang: nil Electrical Factory: nil

Profit and loss sharing ratio:	Hengan Weifang: 99.98 per cent. Electrical Factory: 0.02 per cent.
Composition of management committee:	6 members appointed by Hengan Weifang and 1 member appointed by Electrical Factory
Term:	15 years from 12th March, 1998 to 11th March, 2013
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	San Jao Xin Zone of Hefei Train Station District

**(iii) Hengan (Shaanxi) Hygiene Products Co., Ltd.**

(恒安 (陝西) 衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	1st September, 1998
Registered capital:	RMB3,980,000 (which has been fully paid up)
Total investment:	RMB5,000,000
Investor:	Hengan (Huadong) Investment Company Limited (“Huadong Investment”)
Term:	15 years from 1st September, 1998 to 31st August, 2013
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	No. 4 Road, Hu County, Xian City

**FUJIAN REGION**

**(i) Hengan (Fujian) Articles for Women and Children Use Co., Ltd.**

(恒安 (福建) 婦幼用品有限公司)

Nature:	Sino-foreign equity joint venture
Date of establishment:	3rd March, 1993
Registered capital:	RMB240,000,000, of which Party A shall contribute RMB1,250,000 by way of cash; Party B shall contribute RMB237,500,000 by way of cash, whilst Party C shall contribute RMB1,250,000 by way of cash. The total sum of the registered capital has been fully paid up.
Total investment:	RMB240,000,000

Parties to the joint venture and percentage of interest owned by each partner:	(A) Fujian Province Jinjiang City Anhai Garment Industrial Company (福建省晉江市安海服裝工業公司) (0.52 per cent.) (B) Hengan (Fujian) Investment Company Limited (恒安(福建)投資有限公司) ("Fujian Investment") (98.96 per cent.) (C) Fujian Province Jinjiang City Anhai Foreign Processing and Installation Factory (福建省晉江市安海對外加工裝配廠) (0.52 per cent.)
Profit and loss sharing ratio:	Party A: 0.52 per cent. Party B: 98.96 per cent. Party C: 0.52 per cent.
Pre-emptive rights:	Each party to the joint venture has pre-emptive rights over the sale of interests by the other joint venture partners.
Distribution of assets on expiration or termination:	Remaining assets of the joint venture after liquidation will be distributed among the joint venture partners according to their respective contributions to the registered capital of the joint venture. If liquidation takes place pursuant to an expiry of the term of the joint venture, the local joint venture partners have an option to purchase from Fujian Investment any of its fixed assets in the joint venture at the residual book value of the relevant assets.
Board composition:	The Board of Directors of the joint venture is composed of 9 directors, of which Party A is entitled to nominate 1 director; Party B is entitled to nominate 7 directors whilst Party C is entitled to nominate the remaining 1 director.
Term:	25 years from 3rd March, 1993 to 2nd March, 2018
Business:	Production of <i>Anerle</i> (安爾樂) sanitary napkins and pantliners
Address:	Qiaotou Industrial District, Anhai Town, Jinjiang City, Fujian Province

**(ii) Fujian Hengan Holding Co. Ltd.**

(福建恒安集團有限公司)

Nature:	Sino-foreign Equity Joint Venture
Date of establishment:	16th March, 1985
Registered capital:	RMB147,360,000, of which RMB1,240,000 has been contributed by Party A by way of cash; RMB144,880,000 has been contributed by Tin Lee Trading Company, the previous foreign joint venture partner, by way of cash whilst Party C has contributed the sum of RMB1,240,000 by way of cash. The total sum of the registered capital has been fully paid up.
Total investment:	RMB147,360,000
Parties to the joint venture and percentage of interest owned by each partner:	(A) Fujian Province Jinjiang City Anhai Garment Industrial Company (福建省晉江市安海服裝工業公司) (0.84 per cent.) (B) Fujian Investment (恒安(福建)投資有限公司) (98.32 per cent.) (C) Fujian Province Jinjiang City Anhai Foreign Processing and Installation Factory (福建省晉江市安海對外加工裝配廠) (0.84 per cent.)
Profit and loss sharing ratio:	Party A: 0.84 per cent. Party B: 98.32 per cent. Party C: 0.84 per cent.
Pre-emptive rights:	Each party to the joint venture has pre-emptive rights over the sale of interests by the other joint venture partners.
Distribution of assets on expiration or termination:	Remaining assets of the joint venture after liquidation will be distributed among the joint venture partners according to their respective contribution to the registered capital of the joint venture. If liquidation takes place pursuant to an expiry of the term of the joint venture, the local joint venture partners have an option to purchase from Fujian Investment any of its fixed assets in the joint venture at the residual book value of the relevant assets.
Board composition:	The Board of Directors of the joint venture is composed of 9 directors, of which Party A is entitled to nominate 1 director; Party B is entitled to nominate 7 directors whilst Party C is entitled to nominate the remaining 1 director.
Term:	18 years from 16th March, 1985 to 15th March, 2003
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	Qiaotou Industrial District, Anhai Town, Jinjiang City, Fujian Province

**(iii) Hengan (Jinjiang) Hygiene Products Co., Ltd.**

(恒安集團(晉江)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	3rd July, 1995
Registered capital:	HK\$50,000,000 (which has been fully paid up)
Total investment:	HK\$50,000,000
Investor:	Fujian Investment
Term:	15 years from 3rd July, 1995 to 2nd July, 2010
Business:	Production of <i>Anerle</i> (安兒樂) baby diapers
Address:	The Third Industrial District, Anhai Town, Jinjiang City, Fujian Province

**(iv) Hengan (Jiangxi) Hygiene Products Co., Ltd.**

(恒安(江西)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	6th August, 1998
Registered capital:	RMB7,420,000 (which has been fully paid up)
Total investment:	RMB8,000,000
Investor:	Fujian Investment
Term:	15 years from 6th August, 1998 to 5th August, 2013
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	Yushangqiao, Dongxiang County, Jiangxi Province

**(v) Jinjiang Hengan Hygiene Material Co., Ltd.**

(晉江市恒安衛生材料有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	16th March, 1998
Registered capital:	US\$10,000,000 (which has been fully paid up)
Total investment:	US\$12,000,000
Investor:	Fujian Investment
Term:	20 years from 16th March, 1998 to 15th March, 2018

Business: Production of raw materials for sanitary napkin and baby diaper products

Address: The Third Industrial District, Anhai Town, Jinjiang City, Fujian Province

**CENTRAL REGION****(i) Hengan (Luohe Linying) Hygiene Products Co., Ltd.**

(恒安(漯河臨潁)衛生用品有限公司)

Nature: Wholly foreign owned company

Date of establishment: 15th November, 1993

Registered capital: US\$1,200,000 (which has been fully paid up)

Total investment: US\$1,200,000

Investor: Hengan (Huazhong) Investment Company Limited (“Huazhong Investment”)

Term: 15 years from 15th November, 1993 to 14th November, 2008

Business: Production of *Anle* (安樂) sanitary napkins

Address: Tiexi Industrial District, Linying County, Henan Province

**(ii) Hengan (Anxiang) Hygiene Products Co., Ltd.**

(恒安集團(安鄉)衛生用品有限公司)

Nature: Wholly foreign owned enterprise

Date of establishment: 24th July, 1998

Registered capital: RMB15,000,000 (which has been fully paid up)

Total investment: RMB15,000,000

Investor: Huazhong Investment

Term: 15 years from 24th July, 1998 to 23rd July, 2013

Business: Production of *Anle* (安樂) sanitary napkins

Address: Wen Yi Nan Lu, Chengguan Town, Anxiang County

**(iii) Shangyu City Hengan Hygiene Products Co.**

(上虞市恒安衛生用品公司)

Nature:	Joint operation enterprise
Date of establishment:	23rd May, 1989
Registered capital:	RMB7,290,000 (which has been fully paid up)
Total investment:	N/A
Parties to the joint operation and percentage of interest owned by each partner:	(A) Hengan Fujian: 99.99 per cent. (B) Shangyu City Guangrong Yuan (“Guangrong Yuan”): 0.01 per cent.
Non-cash assets provided by each partner:	Party A: Machinery and Equipment Party B: nil
Profit and loss sharing ratio:	Party A: 99.99 per cent. Party B: 0.01 per cent.
Pre-emptive rights:	Each party to the joint operation has pre-emptive rights over the sale of any interest in the joint operation by the other joint operation partner
Composition of management committee:	5 members appointed by Hengan Fujian and 2 members appointed by Guangrong Yuan
Term:	10 years from 23rd May, 1989 to 3rd September, 2008
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	Shangyu Economic Development District

**(iv) Hengan (Xiaogan) Hygiene Products Co., Ltd.**

(恒安(孝感)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	23rd July, 1998
Registered capital:	US\$1,460,000 (which has been fully paid up)
Total investment:	US\$1,460,000
Investor:	Huazhong Investment
Term:	15 years from 23rd July, 1998 to 22nd July, 2013
Business:	Production of <i>Anle</i> (安樂) and <i>Anerle</i> (安爾樂) sanitary napkins
Address:	No.107 Guo Road (South Big Market), Xiaogan City, Hubei Province

## SOUTHWESTERN REGION

**(i) Hengan Chongqing Hygiene Supplies Co., Ltd.**

(恒安(重慶)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	31st January, 1991
Registered capital:	US\$620,000 (which has been fully paid up)
Total investment:	US\$620,000
Investor:	Hengan (Xinan) Investment Company Limited (“Xinan Investment”)
Term:	15 years from 31st January, 1991 to 30th January, 2006
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	13 Shangqiao San Village, Shapingba District, Chongqing

**(ii) Hengan (Sichuan) Hygiene Products Co., Ltd.**

(恒安(四川)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	25th August, 1998
Registered capital:	US\$1,380,000 (which has been fully paid up)
Total investment:	US\$1,460,000
Investor:	Xinan Investment
Term:	15 years from 25th August, 1998 to 24th August, 2013
Business:	Production of <i>Anerle</i> (安爾樂) sanitary napkins
Address:	Guixi Town, Gaoxin District, Chengdu

**(iii) Hengan (Binyang) Hygiene Products Co., Ltd.**

(恒安(賓陽)衛生用品有限公司)

Nature:	Wholly foreign owned enterprise
Date of establishment:	31st August, 1998
Registered capital:	RMB5,680,000 (which has been fully paid up)

Total investment:	RMB8,000,000
Investor:	Xinan Investment
Term:	15 years from 31st August, 1998 to 31st August, 2013
Business:	Production of <i>Anle</i> (安樂) sanitary napkins
Address:	Zhonghua Street, Zhonghua Town, Binyang County, Guangxi

## 6. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

### Directors

#### *Disclosure of interests*

Immediately following the completion of the Share Offer (but taking no account of any Shares which may fall to be issued upon the exercise of the Over-Allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company, pursuant to the mandates referred to in paragraph 1 of this Appendix), the beneficial interests of the Directors in the Shares or securities of the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 of, or Part 1 of the Schedule to the SDI Ordinance) once the Shares are listed on the Stock Exchange, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

<b>Name of Director</b>	<b>No. of Shares</b>	<b>Nature of interest</b>	<b>Percentage of interests</b>
Mr. Sze Man Bok	218,750,000	Personal interest	21.875%
Mr. Hui Chi Lin	200,000,000	Personal interest	20%
	6,630,224	Family interest	0.66%
Mr. Yeung Wing Chun	41,250,000	Personal interest	4.125%
	45,619	Family interest	0.0046%
Mr. Hung Ching Shan	9,120,000	Personal interest	0.912%
Mr. Zhang Shi Pao	14,644,027	Personal interest	1.47%
Mr. Wu Shi Jie	24,273,674	Personal interest	2.43%
Mr. Xu Da Zuo	20,270,135	Personal interest	2.03%
Mr. Xu Chun Man	19,783,445	Personal interest	1.98%

Immediately following the completion of the Share Offer (but taking no account of any Shares which may fall to be issued upon the exercise of the Over-Allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company, pursuant to the mandates referred to in paragraph 1 of this Appendix), so far as is known to any Director, the following persons will be interested in, directly or indirectly, ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company:—

<b>Name of person</b>	<b>No. of shares</b>	<b>Nature of interests</b>	<b>Percentage of interests</b>
Hengan International Investments Limited	280,880,000	Other interest (as trustee for 492 individuals comprising senior employees of the Group, their family members and family members of the Founding Shareholders)	28.088%
Mr. Sze Man Bok	218,750,000	Personal interest	21.875%
Mr. Hui Chi Lin	200,000,000	Personal interest	20%
	6,630,224	Family interest	0.66%

*Particulars of service contracts*

Each of the Directors (save the independent non-executive directors) has entered into a service contract with the Company in relation to their respective appointments as directors of the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:—

- (a) Each service contract is for an initial term of three years commencing on 10th November, 1998 and will continue thereafter unless and until terminated by either party by not less than three months' prior written notice;
- (b) The annual salary and housing and living allowance for each of the Directors during their terms of appointment are set out below which shall be subject to review by the Board annually in its discretion:—

<b>Name of Director</b>	<b>Annual salary</b>	<b>Annual housing and living allowance</b>
Mr. Sze Man Bok	HK\$420,000	HK\$360,000
Mr. Hui Chi Lin	HK\$420,000	HK\$360,000
Mr. Yeung Wing Chun	RMB280,000	RMB120,000
Mr. Hung Ching Shan	RMB280,000	RMB120,000
Mr. Zhang Shi Pao	RMB350,000	RMB240,000
Mr. Wu Shi Jie	RMB280,000	RMB120,000
Mr. Xu Da Zuo	RMB140,000	RMB60,000
Mr. Xu Chun Man	RMB140,000	RMB60,000
Mr. Yue Wai Leung, Stan	HK\$1,120,000	HK\$140,000

- (c) Each of the Directors is entitled to such management bonus as decided by the Board, calculated by reference to the operating results of the Group as a whole and the performance of the Director provided that the aggregate sum payable to all senior management (excluding independent non-executive directors) in respect of any financial year shall not exceed four per cent. of the consolidated net profits of the Group after taxation and minority interests but before extraordinary items as shown in the Group's audited consolidated accounts for the relevant financial year; and
- (d) Each such Director will abstain and not be counted in the quorum in respect of any resolution regarding the amount of annual salary, housing and living allowance and management bonus available to himself.

Save as aforesaid, no Director has entered into any service contract with any member of the Group.

*Directors' remuneration*

- (a) An aggregate of approximately HK\$332,000 was paid to the Directors as remuneration for the year ended 31st December, 1997. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.
- (b) It is estimated that approximately HK\$3,200,000 will be paid to the Directors as remuneration (including housing and living allowance) for the year ending 31st December, 1998 taking no account of any discretionary management bonus which the Directors will be entitled to as mentioned above.

*Personal guarantees*

Within the two years preceding the date of this prospectus, none of the Directors has provided any personal guarantee as security for any debts and liabilities incurred by any member of the Group.

*Agency fees or commissions received*

No commissions, discounts brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

Mr. Hui Chi Lin has agreed with the Global Coordinator that, if so requested by the Global Coordinator, Mr. Hui Chi Lin will make available or procure that there are made available to the Global Coordinator, prior to the commencement of dealings in the Shares on the Stock Exchange and on a temporary basis by way of stock lending arrangements of up to 25,000,000 Shares held by Mr. Hui Chi Lin in order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-Allotment Option or the acquisition of a sufficient number of Shares from other sources. Any Shares which may be made available to the Global Coordinator pursuant to such arrangements will be made available on terms that the same number of Shares must be returned to Mr. Hui Chi Lin or his nominees (as the case may be) no later than three business days following (i) the last date for exercising the Over-Allotment Option; or (if earlier) (ii) the date on which the Over-Allotment Option is exercised in full. Mr. Hui Chi Lin will not receive any payment or benefit in respect of such stock borrowing arrangements.

*Related party transactions*

During the two years preceding the date of this prospectus, the Group had engaged in dealings with subsidiaries of the Group as described in note (g) to section 3 of the Accountants' Report set out in Appendix I to this prospectus.

*Disclaimers*

Save as disclosed in this prospectus:

- (i) none of the Directors or chief executive has any interest in the Shares or debentures of the Company or any associated corporation within the SDI Ordinance which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 or, or Part 1 of the Schedule to, the SDI Ordinance) or which will be required pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or any interest in warrants to subscribe for Shares of the Company or any associated corporation (as so defined) which, once the Shares are listed, will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies;
- (ii) so far as is known to any Director, there is no person who is directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries;
- (iii) there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation) between the Company or any of its subsidiaries and any of the Directors;
- (iv) none of the Directors or any persons referred to in paragraph headed "Consents of experts" of this Appendix VII is interested in the promotion of the Company, or in any assets which have been within the two years immediately preceding the date of this prospectus acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be so acquired, disposed of or leased to any member of the Group;
- (v) none of the Directors nor any of the persons whose names are listed in the paragraph headed "Consents of experts" of this Appendix VII is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group; and
- (vi) none of the persons referred to in the paragraph headed "Consents of experts" of this Appendix VII has any shareholding in any member within the Group or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

**7. SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved pursuant to written resolutions of the Company passed on 10th November, 1998:

**(i) Who may join**

The Directors may, at their discretion, within the period of ten years from the date on which it is adopted by the Company to make offers to any director (other than non-executive directors of the Company appointed from time to time) or employee of the Group to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (ii) below.

**(ii) Price of Shares**

The subscription price for Shares under the Share Option Scheme will be a price determined and notified by the Directors to each relevant employee and not being less than 80 per cent. of the average of the closing prices of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option or the nominal value of the Shares, whichever is the higher. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

**(iii) Maximum number of shares**

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme (together with the Shares issued and issuable under the Share Option Scheme) when aggregated with any Shares issuable upon exercise of all options then outstanding which have been granted under any other scheme involving the issue or grant of options over Shares or other securities by the Company to or for the benefit of employees may not exceed in nominal value ten per cent. of the issued share capital of the Company from time to time (excluding for this purpose Shares issued pursuant to the Share Option Scheme).

No option may be granted to any one person which, if exercised in full, would result in the total number of Shares already issued and issuable to him/her under the Share Option Scheme exceeding 25 per cent. of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

**(iv) Time of exercise of option**

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of ten years from the date upon which the option is offered and accepted subject to the provisions of early termination thereof.

**(v) Rights are personal to grantee**

An option may not be transferred, charged, mortgaged or assigned and is personal to the grantee and shall not be disposed of or be the subject of the creation of any third party right.

**(vi) Rights on ceasing employment**

If the grantee of an option ceases to be an employee of the Group for reason other than death, retirement, serious misconduct or other grounds specified in the Share Option Scheme, he may exercise the options outstanding at the date of termination of his employment in accordance with the terms of the Share Option Scheme on or before the said date of termination or such longer period as the Directors may determine.

**(vii) Rights on death**

If the grantee of an option ceases to be an employee of the Group by reason of death, his personal representative(s) may exercise all his options (to the extent not already exercised) within one year from the date of death or such longer period as the Directors may determine, failing which they will lapse.

**(viii) Rights on dismissal**

If the grantee of an option ceases to be an eligible employee of the Group under the Share Option Scheme by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or other breach of the terms of his employment, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse automatically on the date of his dismissal (to the extent not already exercised).

**(ix) Effect of alterations to capital**

In the event of any reduction, sub-division or consolidation of the share capital of the Company or any capitalisation issue or rights issue by the Company, excluding any alteration in the capital structure of the Company which is the result of an issue of Shares in the capital of the Company as consideration in a transaction, the number or nominal amount of Shares comprised in each option and/or the option price may be adjusted in such manner as the Directors (having received a statement in writing from the auditors of the Company that in their opinion the adjustments proposed are fair and reasonable) may deem appropriate, provided always that no such adjustments shall be made so that a Share would be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company to which the grantee was entitled before such adjustments.

**(x) Rights on a general offer**

If a general offer by way of takeover is made to all the holders of Shares with the terms of the offer having been approved by the holders of not less than nine-tenths in value of the Shares comprised in the offer within four months and the offeror thereafter gives a notice pursuant to the Companies Ordinance to acquire the remaining Shares, the grantee may by notice in writing to the Company within 21 days of such notice exercise the option to its full extent or to the extent specified in such notice.

**(xi) Rights on winding up**

In the event of an effective resolution being passed for the voluntary winding up of the Company, the grantee of an option may by notice in writing to the Company within 21 days after the date of such resolution, elect to be treated as if the option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in such notice and shall accordingly be entitled to receive out of the assets available for distribution in the liquidation, *pari passu* with the holders of Shares, such sum as would have been received in respect of the Shares, the subject of such election, reduced by an amount equal to the subscription price which would otherwise have been payable in respect thereof. Subject to the above, an option will lapse automatically (to the extent not already exercised) on the date of commencement of winding up of the Company.

**(xii) Rights on a scheme of arrangement**

If a general offer by way of a scheme of arrangement is made to all the holders of Shares and the scheme has been approved by the necessary number of holders of Shares at the requisite meetings, the grantee may thereafter (but before such time as shall be notified by the Company) by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice.

**(xiii) Ranking of shares**

The Shares to be allotted upon the exercise of an option will rank equally with the Shares in issue on the date of exercise of the option and will be subject to all the provisions of the Articles of Association for the time being in force provided that the Shares to be issued upon such exercise will not rank for a dividend previously declared or proposed to be paid to the holders of Shares on the register on a date prior to such date of exercise of the option.

Unless the context otherwise requires, references to “Shares” in this section headed “Share Option Scheme” include shares in the Company of any other nominal amount as shall result from a sub-division or a consolidation of such shares from time to time.

**(xiv) Period of option scheme**

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which it is adopted by resolution of the Company in general meeting.

The rules of the Share Option Scheme may be altered from time to time by the Directors as they deem desirable except that certain specified provisions of the Share Option Scheme

shall not be altered to the advantage of the holders of options except with the prior sanction or an ordinary resolution of the Company in general meeting provided that no such alteration shall operate to affect adversely the terms of any options granted but not exercised or agreed to be granted prior to such alteration taking effect and provided further that any alterations to the provisions of the Share Option Scheme which are of a material nature must be approved by the Stock Exchange except where the alterations take effect automatically under the existing provisions of the Share Option Scheme.

### **Present status of the scheme**

As at the date of this prospectus, no option has been granted or agreed to be granted.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of options under the Share Option Scheme and the granting of listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme.

## **8. OTHER INFORMATION**

### **Estate duty, tax and other indemnities**

The Founding Shareholders and HIIL have, pursuant to a deed of indemnity (as item no. 83 of the material contracts referred to in paragraph 5 of this Appendix) given to the Company joint and several indemnities in connection with, inter alia, taxation in Hong Kong, PRC and other relevant jurisdictions, estate duty in Hong Kong which might be payable by any member of the Group by reason of transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before 10th November, 1998, being the date of completion of the Share Purchase Agreement (as item no. 81 of material contracts referred to in paragraph 5 of this Appendix), and any liability arising out of or in connection with the non-compliance of the local/export sales ratio of certain members of the Group prior to the said date of completion. The Founding Shareholders and HIIL shall have no obligation to indemnify the Company for any such liabilities to the extent that (1) provision has been made for such liabilities in the combined audited accounts of the Group for each of the financial years ended 31st December, 1995, 1996, 1997 and the six months ended 30th June, 1998 and any previous audited accounts of any member of the Group; or (2) such liabilities arise or is increased as a result only of any increases in rates of tax or change in law with retrospective effect after the said date of completion; or (3) such liabilities would not have arisen but for a voluntary act or transaction carried out (other than pursuant to a legally binding commitment created on or before the said date of completion) by the relevant member of the Group after the said date of completion.

The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands, the BVI and the PRC is likely to fall on the Group.

### **Litigation**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**Sponsors**

The Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of and permission to deal in Shares in issue and to be issued as mentioned herein and any Shares falling to be issued on the exercise of any options granted under the Share Option Scheme and any Shares falling to be issued upon the exercise of the Over-Allotment Option.

**Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately US\$1,500 (HK\$11,700) and are payable by the Company.

**Promoter**

The Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to the promoter in connection with the Share Offer and the related transactions described in this prospectus.

**Qualifications of experts**

The qualifications of the experts who have given opinions or whose names are referred to in this prospectus are as follows:

<b>Name</b>	<b>Qualifications</b>
BNP Prime Peregrine Capital	Registered investment adviser
Jardine Fleming	Registered investment adviser
China Everbright	Registered investment adviser
PricewaterhouseCoopers	Certified public accountants
Maples and Calder Asia	Cayman Islands attorneys-at-law
Chesterton Petty Limited	Professional valuers and surveyors
Jingtian Associates	PRC legal advisers
Harney, Westwood and Riegels	BVI legal advisers

**Consents of experts**

Each of BNP Prime Peregrine Capital, Jardine Fleming, China Everbright, PricewaterhouseCoopers, Maples and Calder Asia, Chesterton Petty Ltd., Jingtian Associates and Harney, Westwood and Riegels has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificates and/or opinion and summaries of opinion (as the case may be) and/or the references to its name in the form and context in which they are respectively included.

**Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**Miscellaneous**

- (a) Saved as disclosed in this prospectus, within the two years preceding the date of this prospectus:
  - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be issued fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.
- (b) The Directors have confirmed that, saved as disclosed herein, there has been no material adverse change in the financial or trading position or prospects of the Group since 30th June, 1998 (being the date to which the latest audited combined financial statements of the Group were made up).
- (c) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twelve months preceding the date of this prospectus.
- (d) There are no founder, management or deferred shares in the capital of the Company.
- (e) None of the Sponsors, the Underwriters, PricewaterhouseCoopers, Maples and Calder Asia, Chesterton Petty Ltd. and Jingtian Associates:
  - (i) is interested beneficially or non-beneficially in any shares in any member of the Group;  
or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.
- (f) No securities of the Group is listed or proposed to be sought listed in any other stock exchange.

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## **APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION**

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### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the section headed “Consents of Experts” in Appendix VII, the statement of adjustments referred to in (b) below and copies of the material contracts referred to in the section headed “Summary of Material Contracts” in Appendix VII, together with English translations thereof (where appropriate).

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Livasiri & Co, 7th and 19th Floors, Nine Des Voeux Road West, Hong Kong during normal business hours up to and including 11th December, 1998:—

- (a) the Memorandum and Articles of Association of the Company;
- (b) the accountants’ report on the Group prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (c) the letters relating to the profit forecast, the texts of which are set out in Appendix II to this prospectus;
- (d) the letters and valuation certificates relating to the property interests of the Group prepared by Chesterton Petty Limited (including detailed valuation certificates on the properties referred to in Appendix III);
- (e) the rules of the Share Option Scheme;
- (f) the Companies Law;
- (g) the material contracts referred to in the section headed “Summary of material contracts” of Appendix VII including, where appropriate, the English translation thereof;
- (h) the service agreements referred to in the section headed “Particulars of service contracts” to Appendix VII;
- (i) the written consents referred to in the section headed “Consents of Experts” to Appendix VII;

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**APPENDIX VIII    DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
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- (j) the letter of advice prepared by Maples and Calder Asia referred to in Appendix IV to this prospectus summarising certain aspects of Cayman Islands company law; and
- (k) the letter of advice prepared by Jingtian Associates referred to in paragraph 7 to Appendix V.