



Corporate Mission

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



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

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Hengan International Group Company Limited

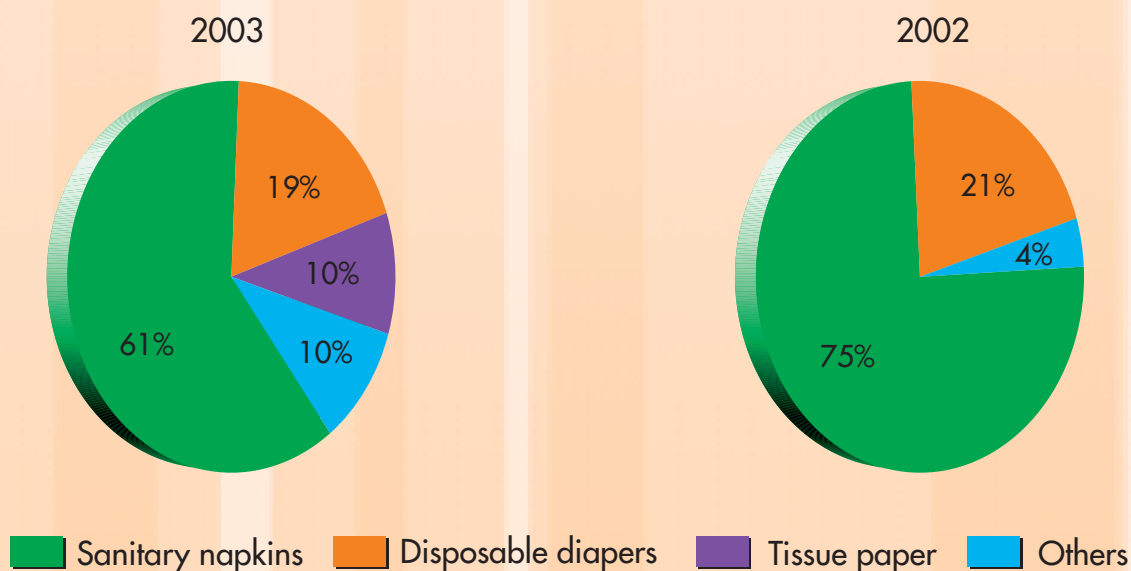
"Growing with You for a Better Life"

Financial Summary

	Unaudited					
	For the six months ended 30 June					
	2003		2002			
	HK\$'000		HK\$'000		% of change	
	Including Tissue Paper Business	Existing Business		Including Tissue Paper Business	Existing Business	
Turnover	696,761	625,749	548,440	27	14	
Profit attributable to shareholders	121,143	113,983	89,864	35	27	
Gross profit margin	42.9%	43.0%	42.8%	—	—	
Net profit margin	17.4%	18.2%	16.4%	6	11	
Earnings per share	HK12.03 cents	HK11.45 cents	HK9.03 cents	33	27	
Finished goods turnover	63 days		65 days			
Accounts receivable turnover	36 days		28 days			
Current ratio	1.9 times		7.5 times			
Gearing ratio	17.7%		nil			

Turnover by Product

For the six months ended 30 June



INTERIM RESULTS

The Board of Directors of Hengan International Group Company Limited ("Hengan International" or the "Company") is pleased to present the interim report and condensed accounts of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2003. The consolidated results, condensed consolidated cash flow statement and statement of changes in equity of the Group for the six months ended 30 June 2003, and the consolidated balance sheet as at 30 June 2003 of the Group, all of which are unaudited, along with comparative figures and selected explanatory notes, are set out below:

Consolidated profit and loss account

		Unaudited For the six months ended 30 June	
	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	696,761	548,440
Cost of sales		(397,976)	(313,724)
Gross profit		298,785	234,716
Other revenues		17,073	16,223
Selling and administrative expenses		(170,326)	(149,782)
Operating profit	3	145,532	101,157
Finance costs		(2,089)	(62)
Profit before taxation		143,443	101,095
Taxation	4	(15,228)	(10,287)
Profit after taxation		128,215	90,808
Minority interests		(7,072)	(944)
Profit attributable to shareholders		121,143	89,864
Interim dividend		103,987	79,625
Earnings per share	6	HK 12.03 cents	HK 9.03 cents

Consolidated balance sheet

	<i>Note</i>	Unaudited As at 30 June 2003 HK\$'000	Audited and restated As at 31 December 2002 HK\$'000
Intangible assets	7	206,179	4,711
Fixed assets	7	1,110,840	682,183
Construction-in-progress		38,856	29,172
Investments		23,054	23,054
Deferred tax assets		2,225	—
Current assets			
Inventories		382,735	234,222
Due from related companies		—	5,103
Trade receivables	8	192,002	81,512
Other receivables, prepayments and deposits		77,427	53,026
Marketable securities		—	45,509
Bank balances and cash		600,775	709,751
		1,252,939	1,129,123
Current liabilities			
Due to related companies		—	789
Trade payables	9	167,660	67,224
Other payables and accrued charges		146,419	80,054
Due to the then shareholders		17,933	—
Taxation payable		10,409	7,037
Bank loans		320,392	—
		662,813	155,104
Net current assets		590,126	974,019
Total assets less current liabilities		1,971,280	1,713,139
Financed by:			
Share capital	11	103,987	99,531
Reserves		1,602,718	1,477,774
Proposed dividend	5	103,987	99,531
Shareholders' funds		1,810,692	1,676,836
Minority interests		146,722	22,437
Deferred tax liabilities		13,866	13,866
		1,971,280	1,713,139

Condensed consolidated cash flow statement

	Unaudited	
	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash from operating activities	168,018	143,778
Net cash used in investing activities	(174,746)	(3,963)
Net cash used in financing activities	(102,002)	(100,553)
(Decrease)/Increase in cash and cash equivalents	(108,730)	39,262
Cash and cash equivalents at 1 January	709,751	546,782
Effect of foreign exchange rate changes	(246)	1,648
Cash and cash equivalents at 30 June	600,775	587,692

Consolidated statement of changes in equity

	Share capital	Share premium account	Capital reserve	Capital redemption reserve	Unaudited Property revaluation reserve	Statutory reserves	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003, as previously reported	99,531	625,308	517,705	1,807	50,896	116,148	15,884	263,423	1,690,702
Effect of adopting SSAP 12 (note 1)	—	—	—	—	(13,866)	—	—	—	(13,866)
At 1 January 2003, as restated	99,531	625,308	517,705	1,807	37,030	116,148	15,884	263,423	1,676,836
2002 final dividend paid	—	—	—	—	—	—	—	(99,531)	(99,531)
New Issue of shares	4,456	108,044	—	—	—	—	—	—	112,500
Profit attributable to shareholders	—	—	—	—	—	—	—	121,143	121,143
Appropriation to statutory reserves	—	—	—	—	—	14,804	—	(14,804)	—
Translation of PRC subsidiaries' accounts	—	—	—	—	—	—	(256)	—	(256)
At 30 June 2003	103,987	733,352	517,705	1,807	37,030	130,952	15,628	270,231	1,810,692
At 1 January 2002, as previously reported	99,531	625,308	517,705	1,807	50,896	101,318	15,816	257,699	1,670,080
Effect of adopting SSAP 12 (note 1)	—	—	—	—	(13,866)	—	—	—	(13,866)
At 1 January 2002, as restated	99,531	625,308	517,705	1,807	37,030	101,318	15,816	257,699	1,656,214
2001 final dividend paid	—	—	—	—	—	—	—	(99,531)	(99,531)
Profit attributable to shareholders	—	—	—	—	—	—	—	89,864	89,864
Appropriation to statutory reserves	—	—	—	—	—	17,551	—	(17,551)	—
Translation of PRC subsidiaries' accounts	—	—	—	—	—	—	1,648	—	1,648
At 30 June 2002	99,531	625,308	517,705	1,807	37,030	118,869	17,464	230,481	1,648,195

Notes:

1. Principal accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants ("HKSA") and should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of calculation used in the preparation of these unaudited condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has adopted the new SSAP 12: Income Taxes, issued by the HKSA, which is effective for accounting periods commencing on or after 1 January 2003. The effects of the change to the Group's accounting policies are set out below.

Under the new SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities.

In previous years, deferred taxation was accounted for at the current taxation rate in respect of timing difference between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively and comparatives presented have been restated to conform to the changed policy. As a result, total deferred tax liabilities as at 31 December 2001 and 2002 increased by HK\$13,866,000 (with a corresponding reduction of HK\$13,866,000 in property revaluation reserves respectively) as detailed in the condensed consolidated statement of changes in equity above.

2. Segment information

(a) Business segment analysis

	Unaudited							
	For the six months ended 30 June							
	2003				2002			
	Sanitary napkins and disposable diapers	Tissue paper products	Skin care products, hygiene materials and others	Group	Sanitary napkins and disposable diapers	Tissue paper products	Skin care products, hygiene materials and others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total turnover	574,233	72,554	132,463	779,250	526,993	—	36,082	563,075
Inter-segment sales	(16,365)	(1,540)	(64,584)	(82,489)	(93)	—	(14,542)	(14,635)
Segment turnover	<u>557,868</u>	<u>71,014</u>	<u>67,879</u>	<u>696,761</u>	<u>526,900</u>	<u>—</u>	<u>21,540</u>	<u>548,440</u>
Segment results	<u>120,402</u>	<u>15,262</u>	<u>10,726</u>	<u>146,390</u>	<u>99,836</u>	<u>—</u>	<u>818</u>	<u>100,654</u>
Unallocated costs				(4,913)				(5,620)
Operating profit				141,477				95,034
Interest income				4,055				6,123
Finance costs				(2,089)				(62)
Profit before taxation				143,443				101,095
Taxation				(15,228)				(10,287)
Profit after taxation				128,215				90,808
Minority interests				(7,072)				(944)
Profit attributable to shareholders				<u>121,143</u>				<u>89,864</u>

(b) No geographical analysis is provided as less than 10% of the Group's turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside the PRC.

3. Operating profit

The operating profit is stated after crediting and charging the following:

	Unaudited For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Crediting		
Write-back of provision for obsolete stock	957	—
Charging		
Depreciation	42,965	34,038
Loss on disposal of fixed assets	458	296
Amortisation of goodwill	1,267	—
Amortisation of trademarks	224	—
Operating lease expenses in respect of factory premises and sales offices	3,031	2,599
Staff costs	46,106	34,326
Provision for doubtful debts	2,385	6,147

4. Taxation

Taxation in the consolidated profit and loss account represents:

	Unaudited For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
PRC income tax (note b)	17,453	10,287
Deferred taxation (note c)	(2,225)	—
	<u>15,228</u>	<u>10,287</u>

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profits in Hong Kong during the period.
- (b) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable thereto.
- (c) Deferred taxation represents tax credit relating to the origination and reversal of temporary differences.

5. Interim dividend

	Unaudited For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Proposed interim dividend of HK 10 cents per share (2002: HK 8 cents)	<u>103,987</u>	<u>79,625</u>

6. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$121,143,000 (2002: HK\$89,864,000) and the weighted average of 1,006,635,232 shares (2002: 995,312,000 shares) in issue during the period. There is no diluted earnings per share since the Company has no dilutive potential ordinary shares.

7. Capital Expenditures — net book value

	Fixed assets HK\$'000	Unaudited Goodwill HK\$'000	Trademarks HK\$'000
At 1 January 2003	682,183	—	4,711
Exchange differences	(7)	—	(1)
Acquisition of subsidiaries (note 10)	289,754	202,960	—
Additions at cost	12,116	—	—
Transfer from construction-in-progress	174,063	—	—
Disposals/write-off	(4,304)	—	—
Depreciation/amortisation for the period	(42,965)	(1,267)	(224)
At 30 June 2003	1,110,840	201,693	4,486

8. Trade receivables

The majority of the Group's sales is on open accounts with credit term of 60 days:

	Unaudited As at 30 June 2003 HK\$'000	Audited As at 31 December 2002 HK\$'000
Current	64,577	36,521
31 - 180 days	125,161	41,761
181 - 365 days	2,264	3,230
	192,002	81,512

9. Trade payables

	Unaudited As at 30 June 2003 HK\$'000	Audited As at 31 December 2002 HK\$'000
Current	85,687	44,961
31 - 180 days	55,607	20,040
181 - 365 days	11,965	1,174
Over 365 days	14,401	1,049
	167,660	67,224

10. Acquisition

On 16 May 2003, the Group completed the acquisition of the entire equity interest in United Wealth International (Holdings) Limited ("United Wealth"). United Wealth is an investment holding company whose principal asset is an approximate 68.9% equity interest in Changde Hengan Paper Products Co. Ltd ("Changde Paper"). Changde Paper and its subsidiaries are principally engaged in the manufacture and sale of tissue paper products under a well-recognised trademark of "Hearttex" (心相印) in the PRC. The aggregate consideration of up to HK\$416,130,000 (subject to adjustments) comprises the initial consideration and, if any, the earn-out payment. The initial consideration was satisfied as to (i) HK\$262,500,000 by cash and (ii) HK\$112,500,000 by way of the allotment and issue of 44,554,455 consideration shares at an issue price of HK\$2.525 per share.

The fair value of the net assets at the acquisition date was approximately HK\$217,590,000 and the goodwill on acquisition of HK\$202,960,000 will be amortised over a period of 20 years. Revenue and profit contribution to the Group from this acquisition for the period from 16 May 2003 to 30 June 2003 amounted to approximately HK\$71,014,000 and HK\$15,262,000 respectively.

Assets and liabilities from the acquisition are as follows:

	HK\$'000
Fixed assets	289,754
Shareholders' loans	(221,500)
Other assets less liabilities	149,336
	<hr/>
Fair value of net assets	217,590
Goodwill	202,960
	<hr/>
Total purchase consideration	420,550

11. Share capital

	Authorised share capital	
	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1 January 2003 and 30 June 2003	3,000,000,000	300,000
	<hr/>	<hr/>
	Issued and fully paid	
	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1 January 2003	995,312,000	99,531
New shares issue	44,554,455	4,456
	<hr/>	<hr/>
At 30 June 2003	1,039,866,455	103,987

On 16 May 2003, the Company issued at a premium a total of 44,554,455 shares of HK\$0.10 each at a price of HK\$2.525 per share as part of the consideration for the acquisition of a subsidiary. These shares were issued and credited as fully paid and rank pari passu in all aspects with all the existing shares.

12. Commitments

(a) Capital commitments

	Unaudited As at 30 June 2003 HK\$'000	Audited As at 31 December 2002 HK\$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	2,844	7,831
Land and buildings	212	123
Authorized but not contracted for in respect of plant, machinery and equipment	47,116	—
	50,172	7,954

(b) Commitments under operating leases

At 30 June 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings and factory premises as set out below:

	Unaudited As at 30 June 2003		Audited As at 31 December 2002	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	4,343	2,028	5,094	—
In the second to fifth year	8,785	3,000	13,463	—
After the fifth year	2,506	—	4,759	—
	15,634	5,028	23,316	—

13. Contingent liabilities

There were no material contingent liabilities as at 30 June 2003 and 31 December 2002.

14. Connected transactions

As mentioned in note 10 above, the Group acquired 68.9% of the equity interest in Changde Paper during the period under review. The other major shareholder of Changde Paper, Gather Wise Investments Ltd (“Gather Wise”), is deemed as a connected person to the extent that it is a substantial shareholder of both Changde Paper and all the subsidiaries of Changde Paper (“Paper Subsidiaries”) and as a result, transactions among certain subsidiaries of the Group are regarded as connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange. During the period under review, the following transactions were entered into among certain subsidiaries of the Group on normal commercial terms in the ordinary and usual course of business of all the companies concerned.

	Unaudited For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Purchase of raw materials from Changde Paper	5,210	5,107
Commission income received from Changde Paper and Paper Subsidiaries	4,350	7,663
Sales of products among Changde Paper and Paper Subsidiaries	78,440	33,307
Sales of raw materials by Changde Paper to Paper Subsidiaries	108,429	57,119

MARKET REVIEW

Following completion of the workflow and process improvement project and the organization restructuring, Hengan International continued to reinforce its distribution channels during the period, widen the Group’s product base and optimize the production efficiency. As a result, efficiency of most of the operating processes have improved which gave rise to an encouraging interim results. After its accession to the WTO, China continues to achieve impressive economic growth and demand for consumer goods and personal hygiene products are growing steadily. The outbreak of Severe Acute Respiratory Syndrome (SARS) did not have any significant impact on the Chinese economy but on the contrary arouse awareness of personal hygiene that help accelerated sales of the Group’s products. Although market competition remained intense, by leveraging on their competitive advantages, sales of the Group’s products are back on track.

In May 2003, the Group completed the acquisition of the tissue paper business (“Hearttex”) that further enriches its product base and at the same time, lower the Group’s level of dependency on core products. During the period under review, this tissue paper business already contributed to the profit of the Group.

BUSINESS REVIEW

For the six months ended 30 June 2003, the Group’s turnover totaled to HK\$696,761,000, representing a growth of 27% over the corresponding period of last year. Profit attributable to shareholders was HK\$121,143,000, increased by 35% as compared to the same period of last year. Earnings per share reached HK 12.03 cents (2002: HK 9.03 cents), thanks to the satisfactory performance of the core products, mid to high-end sanitary napkins and diapers, together with additional revenue from the “Missmay” skin-care products and the newly acquired tissue paper business “Hearttex”.

The workflow and process improvement project and the organizational restructuring that took place in the past started to see the results which demonstrated higher operation efficiency as well as staff morale. Prices of most raw materials did not change significantly during the period under review and production costs remained at the same level as last year. The average gross profit margin was 42.9% (2002: 42.8%). During the period under review, the Group increased investments in strengthening the building of the modern channels, which led to an increase in distribution and general administration costs. The increase in distribution costs was mainly caused by the increase in chain store related expenses, wages of sales promoters and promotional expenses. On the other hand, termination of the consulting contract at the beginning of this year has saved the payment of a significant amount of consultation fees for the period, hence a reduction in the general and administration costs.

Sanitary Napkins

Sanitary napkins continue to be the Group's core products that accounted for 61% of the turnover (2002: 75%). To maintain its market share in a highly competitive market, the Group implemented a series of marketing and sales strategies, including exerting more effort in promotions, increasing reliance on chain stores and improving product quality. Because of the impact of the decline in low-end products, these measures have helped a slight increase in turnover for the period. The increase in sales volume of mid to high-end products further strengthened the Group's market position in China's sanitary napkins market.

As the Group's flagship product line, the "Anerle" series recorded satisfactory growth in both volume and sales revenue.

Sales volume of the ordinary low-end "Anle" sanitary napkins continued to decline during the period but the increase in sales of those improved "Anle" napkins have not only helped to make up some of the shortfall in revenue, it also provides higher gross profit.

In terms of new products, the Group launched during the period a product called "嬌適安心" under the "Anerle" collection to target the mid-end market which was well received by the market.

Growth of pantliners continued during the period under review that both sales volume and revenue recorded satisfactory growth. Gross profit was comparable to that of last year.

Baby Diapers

With China's increasing per capita disposable income, especially the increasing consumption power of young couples, the demand for disposable nappies continued to grow. With its good product quality, the Group's products have built up a group of loyal customers. Together with a series of promotional campaign and building and reinforcement of the sales channels, turnover surged 20% to HK\$130,700,000 during the period under review. However, intense market competition dragged down product prices that led to a reduction in gross profit margin.

Since the domestic market for adult diapers is still preliminary, sales of "ElderJoy" were mostly from exports. Although "ElderJoy" has not generated a significant contribution to the Group's turnover and profit, it does further enrich the Group's product base. In addition, witnessing the ageing population and improving living standards in China, the Group remains optimistic of its future prospects.

Tissue Paper

During the period under review, sales growth of the tissue paper business that the Group acquired on 16 May 2003 was satisfactory. Turnover reached approximately HK\$290,000,000 for the six months ended 30 June 2003, representing 70% of the sales of the whole year last year. The one and a half months period following completion of the acquisition already contributed to the Group approximately HK\$71,000,000 in sales, which accounted for 10% of the Group's total turnover.

"Hearttex" is one of the leading brands in the domestic premier tissue paper market, with products spanning across facial tissue, paper handkerchief and toilet paper. Leveraging on the growing popularity and rapid increase in the consumption of premier tissue paper, coupled with the high quality and the right sales and marketing strategies, the brand awareness and turnover of "Hearttex" continued to rise.

Based on the sales of the first half of 2003, the Group is confident that the profit of the tissue paper business for 2003 will meet the profit guarantee as undertaken in the acquisition agreement and it is expected that sales revenue and profit contribution to the Group in the second half of 2003 will be more significant. The acquisition of the "Hearttex" tissue paper business did not only widen the Group's product base, it also provides synergy to the Group's existing business to the extent of maximization of administration, human resources, sales and promotion.

Skin Care & Cleansing Products

The Group's skin care & cleansing products are manufactured and sold under the brandname of "Missmay" which started as a regional brand and has now been gradually expanded to become a nationwide brand. During the period under review, it achieved impressive development in both the brand building and sales that contributed approximately HK\$35,000,000 to the Group. During the period under review, the outbreak of SARS aroused the concern and awareness of personal hygiene. As a result, antiseptic washing gel and soap became immensely popular and recorded a satisfactory sales volume. Capitalizing on the favorable market condition, the Group will further amplify the branding effect of "Missmay" to accelerate its market development so as to generate more profit to the Group.

FUTURE PROSPECTS

The Group marked a significant improvement in its management, production control and sales and marketing processes following the two-year long improvement project and that some of the effects has already been reflected in the interim results. Looking ahead, the Group will continue to enhance its product innovation, improve product quality and strengthen product and brand image in the intense competitive market, as well as to achieve a balanced development in the production control and sales and marketing strategies in order to enhance the Group's performance.

The Group will implement measures to enhance the management of its production process and strengthen its purchasing, inventory control and cost control so as to become more cost competitive. In regards to sales and marketing, the Group will adopt proactive strategies to strengthen the management of the sales teams and increase the investments in the chain stores.

Exploring new products and new markets is pivotal for Hengan International to sustain its long-term development and growth. As a leading market player in the competitive consumer market, the Group will continue to strengthen its core competence and to further enrich its product base as well as explore new overseas markets.

ACQUISITION OF SUBSIDIARIES

On 2 May 2003, a resolution was passed in an extraordinary general meeting of shareholders for the Company to acquire from Mr. Sze Man Bok, Mr. Hui Chi Lin and Mr. Yeung Wing Chun, who are also directors and substantial shareholders (except Mr. Yeung Wing Chun) of the Company, the entire issued share capital of United Wealth and the shareholders' loans in the amount of about HK\$221,500,000 at an aggregate consideration of up to HK\$416,130,000 (note 10). The acquisition was completed on 16 May 2003.

The directors believe that the acquisition represents an invaluable opportunity for the Group to expand its product range and capture the market potential in the tissue paper industry in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

At 30 June 2003, the Group's bank and cash amounted to approximately HK\$600,775,000, represented a decrease of HK\$108,000,000 from the balance as at 1 January 2003. The reduction in bank and cash balances during the period was mainly a result of the payment of HK\$262,500,000 cash for the acquisition of the tissue paper business. In addition, other capital expenditures of the Group for the period amounted to approximately HK\$12,000,000.

At 30 June 2003, the Group had short-term bank borrowings amounted to approximately HK\$320,000,000 with interest rates ranging from 4.536% to 4.788% per annum of which approximately HK\$28,270,000 of the loan is secured by certain of the Group's production facilities. All the loans are repayable within 6 months.

At 30 June 2003, the Group's gearing ratio, which was measured on the basis of total bank borrowings as a percentage of total shareholders' equity, was 17.7% (31 December 2002: nil).

FOREIGN CURRENCY RISKS

Approximately 99% of the Group's income is in Renminbi while certain of its raw materials and equipment purchases are required to be settled in US dollars and Japanese Yen. The Group has never any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries to the holding company in Hong Kong. As at 30 June 2003, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

EMPLOYEES

At 30 June 2003, the Group employed approximately 11,000 full-time and temporary staff and a majority of the temporary staff are sales promoters and production workers. The Group's human resources policies and procedures are based on performance and merit and remuneration package is determined with reference to the experience and qualification of individual staff and general market conditions. Bonus is linked to the financial results of the Group as well as performance and contribution of the individual. The Group also ensures that staff are provided adequate training and continued professional development opportunity according to their needs.

The Group has also a share option scheme available for directors and employees.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of HK 10 cents (2002: HK 8 cents) per share for the six months ended 30 June 2003 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 26 September 2003. Dividend warrants will be despatched to shareholders on 15 October 2003.

The Register of Members of the Company will be closed from 29 September to 3 October 2003 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's share registrar, Abacus Share Registrars Limited, at G/F, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on 26 September 2003.

Directors' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

At 30 June 2003, the interests of each director in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") were detailed as follows:

Name	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	Other interests	Total interests	Total interests as % of the relevant issued share capital
Sze Man Bok	240,335,505	—	—	—	240,335,505	23.1122%
Hui Chi Lin	216,930,693	6,630,224*	—	—	223,560,917	21.4990%
Yeung Wing Chun	48,824,257	45,619*	—	—	48,869,876	4.6996%
Zhang Shi Pao	14,644,027*	—	—	—	14,644,027	1.4083%
Hung Ching Shan	9,120,000	—	—	—	9,120,000	0.8770%
Xu Da Zuo	20,270,135*	—	—	—	20,270,135	1.9493%
Xu Chun Man	19,783,445*	—	—	—	19,783,445	1.9025%

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

Share Option Scheme

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

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares of the Company

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30 June 2003, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Substantial Shareholders	Long Position	Percentage of Issued Capital
J.P. Morgan Chase & Co.	63,278,000*	6.09%

* 47,658,000 shares are held in the capacity of investment manager, while 15,620,000 shares are in the lending pool.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The members of the Audit Committee comprise four independent non-executive directors of the Company which was established for review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated interim accounts for the six months ended 30 June 2003 of the Group with the management.

CORPORATE GOVERNANCE

The Directors are of the opinion that the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange during the six months ended 30 June 2003, except for Guideline 7 that Independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all the staff for their hard work and dedication.

By Order of the Board
Sze Man Bok
Chairman

Hong Kong, 10 September 2003