CORPORATE MISSION

"Growing with you for a better life" has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of "Integrity, Diligence, Innovation and Dedication". Our goal is "to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team". By cultivating an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market needs, 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

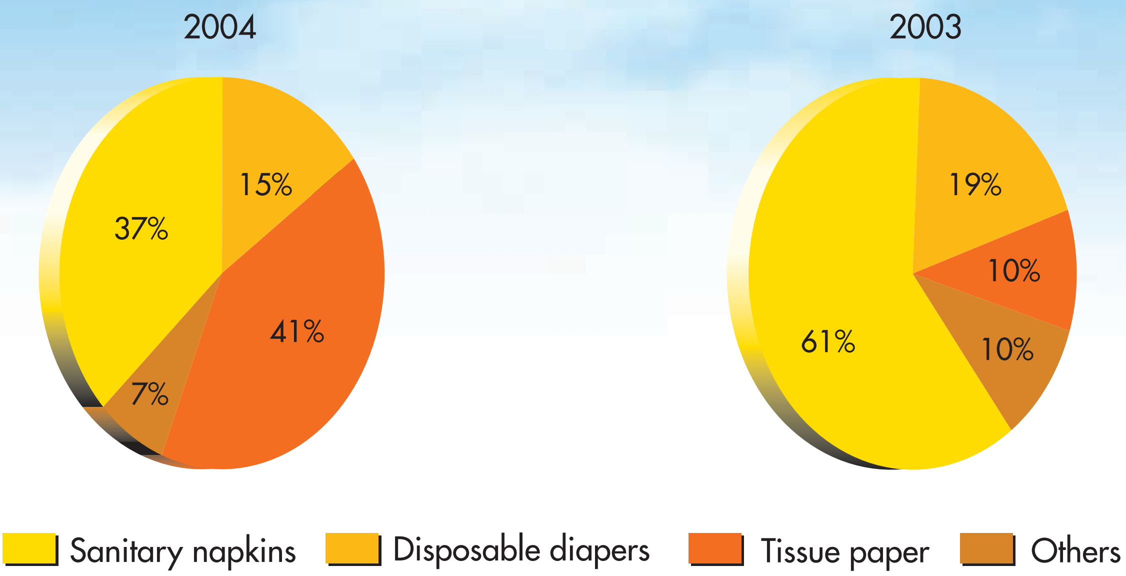
"Growing with You for a Better Life"

Financial Summary

	Unaudited For the six months ended 30 June		
	2004 HK$'000	2003 HK$'000	% of change
Turnover	**1,083,605**	696,761	55.5
Profit attributable to shareholders	**126,250**	121,143	4.2
Gross profit margin	**42.6%**	42.9%	—
Net profit margin	**11.7%**	17.4%	(32.8)
Earnings per share	**HK 12.02 cents**	HK 12.03 cents	—
Finished goods turnover	**67 days**	63 days	
Accounts receivable turnover	**45 days**	46 days	
Current ratio	**1.6 times**	1.9 times	
(Net borrowings)/cash	**(65,697)**	280,383	

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") (the "Board") is pleased to present the interim results and condensed accounts of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2004. The consolidated results, condensed consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2004, and the consolidated balance sheet as at 30 June 2004 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	
		2004	2003
	Note	**HK$'000**	HK$'000
Turnover	2	**1,083,605**	696,761
Cost of sales		**(621,603)**	(397,976)
Gross profit		**462,002**	298,785
Other revenues		**6,102**	17,073
Selling and administrative expenses		**(280,681)**	(170,326)
Operating profit	3	**187,423**	145,532
Finance costs		**(8,805)**	(2,089)
Profit before taxation		**178,618**	143,443
Taxation	4	**(36,442)**	(15,228)
Profit after taxation		**142,176**	128,215
Minority interests		**(15,926)**	(7,072)
Profit attributable to shareholders		**126,250**	121,143
Interim dividend	5	**108,077**	103,987
Earnings per share	6	**HK 12.02 cents**	HK 12.03 cents

Consolidated balance sheet

	Note	Unaudited As at 30 June 2004 HK$'000	Audited As at 31 December 2003 HK$'000
Non-current assets			
Intangible assets	7	**365,511**	200,655
Fixed assets	7	**1,064,486**	1,090,316
Construction-in-progress		**76,256**	34,212
Investments		**23,054**	23,054
Deferred tax assets		**6,148**	8,062
Current assets			
Inventories		**531,500**	430,258
Trade receivables	8	**256,559**	196,459
Other receivables, prepayments and deposits		**111,230**	78,805
Bank balances and cash		**512,478**	643,771
		1,411,767	1,349,293
Current liabilities			
Trade payables	9	**167,847**	175,627
Other payables and accrued charges		**132,592**	154,077
Due to the then shareholders		**10,778**	—
Deferred income on government grants		**432**	430
Taxation payable		**16,382**	11,823
Trust receipt bank loans		**43,467**	43,610
Short term bank loan - secured		**—**	18,767
Short term bank loans - unsecured		**534,708**	286,073
		906,206	690,407
Net current assets		**505,561**	658,886
Total assets less current liabilities		**2,041,016**	2,015,185
Financed by:			
Share capital	11	**107,003**	103,987
Reserves		**1,762,641**	1,600,877
Proposed dividend		**108,077**	124,784
Shareholders' funds		**1,977,721**	1,829,648
Minority interests		**46,446**	168,231
Deferred tax liabilities		**13,609**	13,866
Deferred income on government grants		**3,240**	3,440
		2,041,016	2,015,185

Condensed consolidated cash flow statement

	Unaudited For the six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
Net cash (outlflow)/inflow from operating activities	**(6,201)**	168,018
Net cash used in investing activities	**(206,827)**	(174,746)
Net cash from/(used in) financing activities	**79,315**	(102,002)
Decrease in cash and cash equivalents	**(133,713)**	(108,730)
Cash and cash equivalents at 1 January	**600,161**	709,751
Effect of foreign exchange rate changes	**2,563**	(246)
Cash and cash equivalents at 30 June	**469,011**	600,775

Consolidated statement of changes in equity

	Share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Unaudited Property revaluation reserve HK$'000	Statutory reserves HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2004	103,987	733,352	517,705	1,807	37,030	129,271	6,653	299,843	1,829,648
2003 final dividend paid	—	—	—	—	—	—	—	(124,784)	(124,784)
Issue of shares	3,016	135,721	—	—	—	—	—	—	138,737
Profit attributable to shareholders	—	—	—	—	—	—	—	126,250	126,250
Appropriation to statutory reserves	—	—	—	—	—	21,699	—	(21,699)	—
Transfer to retained earnings	—	—	—	—	(946)	—	—	946	—
Deferred taxation	—	—	—	—	257	—	—	—	257
Translation of subsidiaries' financial statements	—	—	—	—	—	—	7,613	—	7,613
At 30 June 2004	**107,003**	**869,073**	**517,705**	**1,807**	**36,341**	**150,970**	**14,266**	**280,556**	**1,977,721**
At 1 January 2003	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)
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 subsidiaries' financial statements	—	—	—	—	—	—	(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

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 2003 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 2003.

2. Segment information

(a) Business segment analysis

	Unaudited For the six months ended 30 June							
	2004				2003			
	Sanitary napkins and disposable diapers HK$'000	**Tissue paper products HK$'000**	**Skin care products, hygiene materials and others HK$'000**	**Group HK$'000**	Sanitary napkins and disposable diapers HK$'000	Tissue paper products HK$'000	Skin care products, hygiene materials and others HK$'000	Group HK$'000
Segment turnover	**577,242**	**450,482**	**94,861**	**1,122,585**	574,233	72,554	132,463	779,250
Inter-segment sales	**(9)**	**(5,001)**	**(33,970)**	**(38,980)**	(16,365)	(1,540)	(64,584)	(82,489)
Turnover	**577,233**	**445,481**	**60,891**	**1,083,605**	557,868	71,014	67,879	696,761
Segment results	**102,219**	**88,966**	**712**	**191,897**	120,402	15,262	10,726	146,390
Unallocated costs				**(6,964)**				(4,913)
Interest income				**2,490**				4,055
Operating profit				**187,423**				145,532
Finance costs				**(8,805)**				(2,089)
Profit before taxation				**178,618**				143,443
Taxation				**(36,442)**				(15,228)
Profit after taxation				**142,176**				128,215
Minority interests				**(15,926)**				(7,072)
Profit attributable to shareholders				**126,250**				121,143

(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	
	2004	2003
	HK$'000	HK$'000
Crediting		
Write-back of provision for obsolete stock	**—**	957
Charging		
Depreciation	**62,300**	42,965
Loss on disposal of fixed assets	**5,758**	458
Amortisation of goodwill	**6,617**	1,267
Amortisation of trademarks	**236**	224
Operating lease expenses in respect of factory premises and sales offices	**3,775**	3,031
Staff costs	**82,235**	46,106
Provision for doubtful debts	**—**	2,385
Provision for obsolete stock	**2,075**	—

4. Taxation

Taxation in the consolidated profit and loss account represents:

	Unaudited For the six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
PRC income tax *(note b)*	**34,528**	17,453
Deferred taxation *(note c)*	**1,914**	(2,225)
	36,442	15,228

(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. (2003: nil)

(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 charge/(credit) relating to the origination and reversal of temporary differences.

5. Interim dividend

	Unaudited For the six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
Proposed interim dividend of HK 10 cents per share (2003: HK 10 cents)	**108,077**	103,987

6. **Earnings per share**

The calculation of earnings per share is based on the profit attributable to shareholders of HK$126,250,000 (2003: HK$121,143,000) and the weighted average of 1,049,975,026 shares (2003: 1,006,635,232 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**

		Unaudited	
	Fixed assets	**Goodwill**	**Trademarks**
	HK$'000	HK$'000	HK$'000
At 1 January 2004	1,090,316	196,617	4,038
Exchange differences	4,891	—	19
Acquisition of interests in subsidiaries	31	171,690	—
Additions at cost	11,834	—	—
Transfer from construction-in-progress	25,791	—	—
Disposals/write-off	(6,077)	—	—
Depreciation/amortisation for the period	(62,300)	(6,617)	(236)
At 30 June 2004	**1,064,486**	**361,690**	**3,821**

8. **Trade receivables**

The majority of the Group's sales is on open accounts and the ageing analysis is as follows:

	Unaudited As at 30 June 2004 HK$'000	Audited As at 31 December 2003 HK$'000
1 - 30 days	**87,633**	73,889
31 - 180 days	**163,400**	118,487
181 - 365 days	**5,526**	4,083
	256,559	196,459

9. **Trade payables**

The ageing analysis is as follows:

	Unaudited As at 30 June 2004 HK$'000	Audited As at 31 December 2003 HK$'000
1 - 30 days	**109,218**	101,353
31 - 180 days	**55,067**	71,703
181 - 365 days	**2,481**	648
Over 365 days	**1,081**	1,923
	167,847	175,627

10. Acquisition

(a) Further to the acquisition on 16 May 2003 of an approximate 68.9% equity interest in Hunan Hengan Paper Co., Ltd. (formerly Changde Hengan Paper Products Co., Ltd.), ("Hunan Hengan"), a group of companies engages in the manufacturing and sale of tissue paper products under a well-recognised trademark of "Hearttex", the Group completed on 30 April 2004 an additional acquisition of approximately 20.6% of the equity interest in Hunan Hengan and 25% of the equity interest each in the Paper Subsidiaries (as defined in the circular of the Company dated 6 April 2004) of Hunan Hengan through the acquisition of the entire equity interest in Gather Wise Investments Limited ("Gather Wise"). The aggregate purchase consideration of HK$275,482,000 was satisfied as to about 50% by cash and the remaining about 50% by way of the allotment and issue of 30,160,000 consideration shares of the Company at an issue price of HK$4.60 per share.

The fair value of the net assets at the acquisition date was approximately HK$117,284,000 which comprised mainly the 20.6% equity interest in Hunan Hengan and the goodwill on acquisition of HK$158,198,000 will be amortised over a period of 20 years.

(b) The Group acquired on 1 March 2004 70% interests in Hengan Pharmacare Co., Ltd, ("Hengan Pharmacare"), a Hong Kong based personal care and first-aid products distribution company, at a cash consideration of HK$14,000,000. The only assets from the acquisition were inventories of approximately HK$1,400,000 and the goodwill arising from this acquisition amounted to HK$13,492,000 will be amortised over a period of 20 years.

(c) Subsequent to the balance sheet date, the Group completed acquisition of the remaining interest in Hunan Hengan through the acquisition of the entire equity interests in Promise Management Limited and Asset One Holdings Limited at an aggregated consideration of approximately HK$96,659,000.

11. Share capital

	Authorised share capital Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
At 1 January 2004 and 30 June 2004	3,000,000,000	300,000

	Issued and fully paid Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
At 1 January 2004	1,039,866,455	103,987
Issue of shares	30,160,000	3,016
At 30 June 2004	1,070,026,455	107,003

On 30 April 2004, the Company issued at a premium a total of 30,160,000 shares of HK$0.10 each at an issue price of HK$4.60 per share as part of the consideration for the acquisition of further equity interest in a subsidiary. These shares were issued and credited as fully paid and rank pari passu in all aspects with all the existing shares.

On 30 July 2004, the Company issued at a premium a total of 10,739,900 shares of HK$0.10 each at an issue price of HK$4.775 per share as part of the consideration for the acquisition of the remaining equity interest in 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 2004 HK$'000	Audited As at 31 December 2003 HK$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	**312,920**	60,188
Land and buildings	**26,247**	748
Investment in subsidiaries *(note 10(c))*	**96,659**	—
Authorised but not contracted		
Plant, machinery and equipment	**78,386**	153,722
Land and buildings	**—**	7,178
	514,212	221,836

(b) Commitments under operating leases

At 30 June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited As at 30 June 2004		Audited As at 31 December 2003	
	Land and buildings HK$'000	Others HK$'000	Land and buildings HK$'000	Others HK$'000
Within one year	**3,376**	**1,500**	12,948	3,000
In the second to fifth year	**6,030**	**—**	8,498	—
After the fifth year	**386**	**—**	—	—
	9,792	**1,500**	21,446	3,000

13. Contingent liabilities

There were no material contingent liabilities as at 30 June 2004 and 31 December 2003.

14. Connected transactions

Before the acquisition of the entire equity interest in Gather Wise by the Group on 30 April 2004 as mentioned in note 10(a) above, the fact that Gather Wise owns 20.6% of the equity interest in Hunan Hengan was deemed a connected person under the Rules Governing the Listing of Securities on the Stock Exchange so far as transactions among certain subsidiaries of the Group are concerned. Following the acquisition of Gather Wise by the Group on 30 April 2004, Gather Wise is no longer a connected person. During the four months ended 30 April 2004, 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. The comparative figures were for six months ended 30 June 2003.

	Unaudited	
	For the four months ended 30 April 2004 HK$'000	For the six months ended 30 June 2003 HK$'000
Purchase of raw materials from Hunan Hengan	**3,489**	5,210
Commission income received from Hunan Hengan and Paper Subsidiaries	**—**	4,350
Sales of products among Hunan Hengan and Paper Subsidiares	**189,598**	78,440
Sales of raw materials by Hunan Hengan to Paper Subsidiares	**111,331**	108,429

OVERALL PERFORMANCE

The Chinese economy continued to flourish and the consumer market for daily necessities maintained healthy growth despite the recently implemented macroeconomic control measures. Amidst such favourable market conditions, Hengan International sustained robust development during the first half of 2004. The overall business recorded satisfactory growth, especially for the tissue paper business. For the six months ended 30 June 2004, the Group's turnover reached HK$1,083,605,000, representing a growth of 55.5% over the corresponding period of last year. Profit attributable to shareholders increased by 4.2% to HK$126,250,000. Basic earnings per share amounted to HK 12.02 cents (2003: HK 12.03 cents).

Since the acquisition of a controlling interest in the "Hearttex" tissue paper business in May 2003, the Group has successfully added to its product portfolio another business with immense growth potential on top of its two existing core businesses, namely sanitary napkins and baby diapers, enabling the Group to become an enterprise with business covering also household hygiene products. This not only provided new revenue sources for the Group, but also extended its profit base, fuelling the Group's future development.

Income per capita in the PRC continued to increase with the sustainable development of the Chinese economy, leading to the rise in market demand for different grades of personal and household hygiene products. However, the relatively lower entry barrier of certain products provoked increased market competition, and hence affected the profit margins of most manufacturers.

BUSINESS REVIEW

The Group's turnover in the first half of 2004 increased significantly as a result of the increasing contribution from the Group's new growth engine — the "Hearttex" tissue paper business. During the period under review, the Group's two major revenue sources, sanitary napkins and tissue paper, accounted for 36.8% and 41% of the total revenue respectively (2003: 61% and 10%).

Affected by the rising price of raw materials in the global market, prices of most major raw materials of the Group also went up, leading to an overall increase in production cost. In particular, prices of wood pulp, a major raw material for tissue paper, recorded an increase of nearly 30% in the first half of 2004. However, the Group's strategy in adjusting product mix and the successful transfer of part of the increased tissue paper production cost to customers enabled us to maintain our overall gross profit margin at a satisfactory level, with only a slight decrease from 42.9% last year to 42.6%.

As market competition further intensified and the retail business industry continued to change, the Group made an increased effort in strengthening the modern sales channels during the period under review. In addition, the increase in sales-related costs such as expenses for chain stores , transportation, sales marketing and promotion and salary for sales staff significantly pushed up the Group's distribution costs. Moreover, following expiry of tax holidays of certain companies within the Group during the period, the amount of income tax surged and the effective tax rate rose from 10.6% to 20.4%. Therefore, profit attributable to shareholders only recorded a slight increase during the period under review.

Sanitary Napkins

Sanitary napkins (including pantiliners) remain one of the Group's three major revenue sources. For the six months ended 30 June 2004, the business contributed an income of HK$400,329,000, a slight decrease of 4.8% as compared to the same period last year.

The fact that the PRC market is flooded by a number of small scale sanitary napkin manufacturers, who compete mainly in price, has imposed certain price pressure on the Group's products. As the industry leader, the Group catered to the needs of different consumption communities by adopting the strategy of multi-brands and multi-products with different grades. By establishing its unrivalled edges with comprehensive product portfolio and brand reputation, the Group successfully maintained its dominant market share amidst the highly competitive environment.

During the period under review, the Group implemented aggressive marketing strategies in strengthening its sales in chain stores, with a view to maintaining its market share and enhancing the market penetration and presence of the Group's products.

The Group's main product line, the "Anerle" series, recorded a year-on-year decrease of 7.3% in sales, totalling HK$204,141,000, while sales of the improved "Anle" series of sanitary napkins have seen improvements that helped offsetting the decline in the sales of traditional "Anle" products.

Sales of pantiliners continued to grow and its share in the sales of sanitary napkins increased from 18.9% to 20.3%. During the period under review, turnover recorded a remarkable increase of 7.4%. In view of the growing popularity of pantiliners coupled with the launch of new products by the Group during the second half of the year, it is expected that sales will climb further.

Disposable Diapers

As the Chinese economy rapidly developed, the increase in income per capita and consumption power has resulted in an increase in market demand for disposable diapers. For the first half of 2004, sales of baby diapers increased 26.7% as compared with the same period last year to approximately HK$165,803,000, accounting for 15.3% of total turnover of the Group.

Although the market for baby diapers in the PRC has demonstrated immense growth potentials, it is still at the stage of growth. Different brands are competing for market share and room for product price increase is limited. During the period under review, sales growth of the Group's mid- to high-end products was higher while the overall gross profit margin remained at 35% (2003: 35%).

With strong market demand for quality products, sales of the Group's "slim and comfort" collection recorded encouraging growth during the period. To capture the market opportunities, the Group has ordered new production facilities from Japan to increase production capacity to satisfy the market demand. It is expected that the new facilities will be put into operation by the end of this year.

Since the domestic market for adult diapers and incontinence products is still at its infant stage, sales revenue of adult diapers are derived mostly from exports. Though the product has yet to generate a significant contribution to the Group's turnover and profit, the future prospects of adult diapers and incontinence products remain optimistic as the living standards in China as well as the aging population on a global basis continue to rise. As such, the Group is confident of the future performance of these products.

Tissue Paper

The encouraging sales of the "Hearttex" tissues, which the Group acquired last year, became a major revenue growth driver. For the six months ended 30 June 2004, sales revenue amounted to HK$445,481,000, accounting for 41% of the total turnover. Gross profit margin was 42.4%. During the period, the Group further increased its equity interest in the "Hearttex" branded tissue business with a view to enhancing operation and management efficiency. As at the end of April 2004, the Group owned nearly 90% of the "Hearttex" business and acquisition of the remaining interest was completed by the end of July 2004. Therefore, profit contribution from the tissue business will be higher in the second half of the year.

Tissue paper is one of the daily necessities. As the Chinese economy swiftly develops, consumers demand better quality tissue paper. "Hearttex" is one of the leading high-end brands in the domestic PRC market, with products encompassing facial tissues, handkerchiefs and bathroom tissues. Capitalising on our outstanding production and quality control measures as well as effective sales and marketing strategies, the brand awareness and sales of "Hearttex" branded tissue is on the rise. Leveraging on its renowned brand awareness, the Group has during the period developed and launched a series of wet tissues that are also well received by the market. The Group expects the sales of wet tissues in 2004 will reach 10% of the overall sales of the tissue business.

To capture the market growth potentials, the Group has planned to build two tissue paper raw material production bases in Fujian and Shandong provinces respectively. Currently, the Shandong plant is under construction and is expected to commence production in the second half of 2005. By then, the Group's base paper production capacity will increase by an additional 60,000 tonnes per year. Upon the completion of the Fujian plant, total annual production capacity will further increase from the current 60,000 tonnes to 180,000 tonnes by the end of 2006. The expansion in production capacity will bring forth greater economies of scale and further enhance the market share of the Group's products.

Others

Sales of the Group's skin cleansing and care products under the brand name "MissMay" during the period was affected by keen market competition from both local and international brands. Sales volume recorded a decline of 46%, resulting in a loss of HK$1,805,000. The "MissMay" branding and the products have yet to improve. Performance in the second half is expected to be similar to that of the first half of 2004.

The acquisition of the 70% interests in Hengan Pharmacare was completed in March 2004. The Group is planning to introduce some existing products of Hengan Pharmacare to the mainland market. In addition, the Group has also planned to utilise Hengan Pharmacare's sales channels in the Hong Kong market to introduce some of the Group's hygiene products to Hong Kong to broaden its revenue sources.

As the scale of the above two businesses is relatively small, it is expected that they will have minimal effect on the Group's overall performance.

FUTURE PROSPECTS

The Group achieved stable growth amidst the backdrop of keen market competition through internal reforms and workflow enhancement. Looking ahead, the Group will continue to optimise production as well as sales and marketing strategies, impose stringent quality control, strengthen its brand image and reputation and adopt innovative ideas so as to launch more new products that satisfy consumers' needs. These will enhance the awareness of Hengan's products and increase its market share.

As for production, the Group will continue to strengthen its control on purchasing, inventory, production cost and time requirement to reduce operating costs. On the other hand, the Group will implement proactive marketing strategy and to fortify the training and management of its sales teams while capturing market opportunities and increasing its investment in large-scale chain stores.

The successful acquisition of the "Hearttex" tissue business demonstrated the unique insight of the Group's management. The Group will continue to stay abreast with market development to diversify its product portfolio and extend its brand presence according to market demand. In addition, the Group endeavours to explore new markets and enhance the market share of its brand. Facing the intense competition of the consumer products market, Hengan International is committed to strengthening its competitiveness, further boosting the Group's turnover and profit and ultimately, bringing fruitful rewards to Hengan's supportive shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

At 30 June 2004, the Group's bank and cash amounted to HK$512,478,000, represented a decrease of HK$131,293,000 from the balance as at 1 January 2004. The reduction in bank and cash balances during the period was mainly a result of the payment of HK$135,714,000 cash for the acquisition of the additional interest in the tissue paper business.

At 30 June 2004, the Group had unsecured short-term bank borrowings amounted to approximately HK$578,175,000. Apart from the one-year revolving loan of HK$100,000,000 that bears interest at HIBOR plus 0.85%, all the remaining term loans with interest rates ranging from approximately 2.41% to 4.54% per annum are repayable between six months to one year.

At 30 June 2004, the Group's gearing ratio, which was measured on the basis of total bank borrowings as a percentage of total shareholders' equity, was 29.2% (31 December 2003: 17.7%).

The Group signed on 5 July 2004 an agreement with a group of 20 international and local banks in connection with a HK$550,000,000 revolving credit & term loan facility ("Facility"). The Facility comprises a HK$440,000,000 3-year term loan facility tranche and a HK$110,000,000 3-year revolving credit facility tranche. The interest rates for both tranches are HIBOR plus 0.64% per annum. The main purpose of arranging the Facility is to partly finance the development of tissue paper raw material production facilities in Shandong and Fujian, the PRC and to finance general working capital of the Group.

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, Euro and Japanese Yen. The Group has never any difficulties in getting sufficient foreign currencies for settlement of purchases or repartriation of profits declared by the subsidiaries in mainland China to the holding company in Hong Kong. As at 30 June 2004, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

EMPLOYEES

At 30 June 2004, the Group employed approximately 9,000 full-time staff and approximately 5,000 temporary staff which includes sales promoters. 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 (2003: HK 10 cents) per share for the six months ended 30 June 2004 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 23 September 2004. Dividend warrants will be despatched to shareholders on or about 5 October 2004.

The Register of Members of the Company will be closed from 24 September 2004 to 30 September 2004 (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 23 September 2004.

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.

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

At 30 June 2004, 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 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
Mr. Sze Man Bok	220,335,505	—	—	—	220,335,505	20.59%
Mr. Hui Chi Lin	201,930,693	6,630,224*	—	—	208,560,917	19.49%
Mr. Yeung Wing Chun	43,824,257	45,619*	—	—	43,869,876	4.10%
Mr. Zhang Shi Pao	14,404,027*	—	—	—	14,404,027	1.35%
Mr. Hung Ching Shan	9,120,000	—	—	—	9,120,000	0.85%
Mr. Xu Da Zuo	20,270,135*	—	—	—	20,270,135	1.89%
Mr. Xu Chun Man	19,533,445*	—	—	—	19,533,445	1.83%

* *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.*

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

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 2004, 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 Shareholder	Long Position	Capacity	Percentage of Issued Capital
J.P. Morgan Chase & Co.	43,030,000	Beneficial owner	4.02%
	20,460,000	Custodian/Approved lending agent	1.91%
	63,490,000		5.93%
FMR Corp.	60,508,000	Investment Manager	5.65%

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.

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance and transparency which the Board believes provides a positive framework for the overall performance of the Group as well as enhances shareholder's value.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The committee comprises four independent non-executive directors, namely Mr. Chan, Henry, Ms. Guan Tao, Ms. Ada Ying Kay Wong and Mr. Chu Cheng Chung. One meeting was held during the period.

For the six-months period to 30 June 2004, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

CODE OF BEST PRACTICE

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 during the six months ended 30 June 2004, 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
Hengan International Group Company Limited
Sze Man Bok
Chairman

Hong Kong, 2 September 2004