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

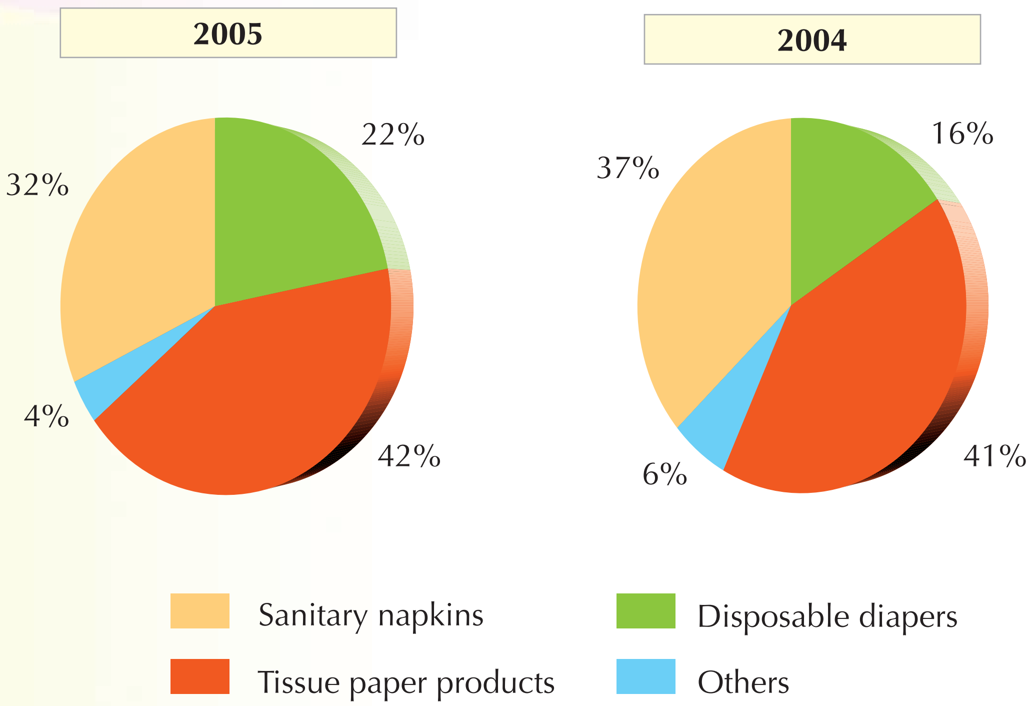
"Growing with You for a Better Life"

Financial Summary

	Unaudited For the six months ended 30 June		
	2005 **HK$'000**	2004 HK$'000	Change %
Turnover	**1,537,328**	1,083,605	41.9
Profit attributable to shareholders	**204,073**	126,298	61.6
Gross profit margin	**40.9%**	42.6%	(4.0)
Net profit margin	**13.3%**	11.7%	13.6
Earnings per share	**HK 18.88 cents**	HK 12.03 cents	56.9
Finished goods turnover	**66 days**	67 days	
Accounts receivable turnover	**31 days**	45 days	

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 announce the unaudited condensed consolidated profit and loss account of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2005, and the unaudited condensed consolidated balance sheet of the Group as at 30 June 2005, together with the comparative figures and selected explanatory notes. The interim financial report has been reviewed by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The auditors, on the basis of their review, concluded that they were not aware of any material modifications that should be made to the interim financial report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited For the six months ended 30 June	
			Restated (Note 1)
		2005	2004
	Note	**HK$'000**	HK$'000
Turnover	3	**1,537,328**	1,083,605
Cost of sales		**(908,145)**	(621,603)
Gross profit		**629,183**	462,002
Other revenues		**2,093**	6,102
Selling and administrative expenses		**(378,285)**	(280,633)
Operating profit	4	**252,991**	187,471
Finance costs		**(7,238)**	(8,805)
Profit before taxation		**245,753**	178,666
Taxation	5	**(41,385)**	(36,442)
Profit for the period		**204,368**	142,224
Attributable to:			
Shareholders of the Company		**204,073**	126,298
Minority interests		**295**	15,926
		204,368	142,224
Interim dividend	6	**129,692**	108,077
Basic earnings per share for profit attributable to shareholders of the Company	7	**HK 18.88 cents**	HK 12.03 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2005 HK$'000	*Restated (Note 1)* 31 December 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**1,017,444**	1,041,767
Construction-in-progress	8	**354,180**	100,522
Leasehold land and land use rights	8	**41,716**	43,243
Intangible assets	8	**455,366**	455,605
Deferred tax assets		**23,022**	17,681
Available-for-sale financial assets		**23,054**	23,054
		1,914,782	1,681,872
Current assets			
Inventories		**668,225**	599,652
Trade receivables	9	**222,641**	229,212
Other receivables, prepayments and deposits		**156,922**	184,333
Bank balances and cash		**396,918**	543,807
		1,444,706	1,557,004
Total assets		**3,359,488**	3,238,876
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	11	**108,077**	108,077
Reserves		**1,662,222**	1,632,211
Retained earnings			
- Proposed dividend		**129,692**	129,692
- Unappropriated retained earnings		**263,528**	214,989
		2,163,519	2,084,969
Minority interests		**23,892**	24,558
Total equity		**2,187,411**	2,109,527

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Note	**Unaudited 30 June 2005 HK$'000**	*Restated (Note 1)* 31 December 2004 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans - unsecured		**314,286**	260,000
Deferred tax liabilities		**12,236**	12,476
Deferred income on government grants		**8,213**	9,001
		334,735	281,477
Current liabilities			
Trade payables	10	**275,928**	201,653
Other payables and accrued charges		**83,983**	104,001
Deferred income on government grants		**1,339**	1,125
Taxation payable		**20,189**	24,350
Trust receipt bank loans		**65,674**	53,563
Current portion of long-term bank loans - unsecured		**235,714**	—
Stort-term bank loans - unsecured		**154,515**	463,180
		837,342	847,872
Total liabilities		**1,172,077**	1,129,349
Total equity and liabilities		**3,359,488**	3,238,876
Net current assets		**607,364**	709,132
Total assets less current liabilities		**2,522,146**	2,391,004

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited For the six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Net cash inflow/(outlflow) from operating activities	**333,001**	(6,201)
Net cash used in investing activities	**(340,639)**	(206,827)
Net cash (used in)/from financing activities	**(144,429)**	79,315
Decrease in bank balances and cash	**(152,067)**	(133,713)
Bank balances and cash at 1 January	**543,807**	600,161
Effect of foreign exchange rate changes	**5,178**	2,563
Bank balances and cash at 30 June	**396,918**	469,011

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited				
	For the six months ended 30 June 2005				
	Shareholders' funds				
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005, as previously reported	108,077	1,633,909	344,681	—	2,086,667
At 1 January 2005, as previously separately reported as minority interests	—	—	—	24,498	24,498
Effect of adopting HKAS 17	—	(1,698)	—	60	(1,638)
At 1 January 2005, as restated	108,077	1,632,211	344,681	24,558	2,109,527
Appropriation to statutory reserves	—	26,740	(26,740)	—	—
Profit for the period	—	—	204,073	295	204,368
2004 final dividends paid	—	—	(129,692)	(945)	(130,637)
Transfer to retained earnings	—	(898)	898	—	—
Reversal of deferred taxation associated with property revaluation in previous years	—	240	—	—	240
Translation of subsidiaries' financial statements	—	3,929	—	(16)	3,913
At 30 June 2005	108,077	1,662,222	393,220	23,892	2,187,411

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Unaudited For the six months ended 30 June 2004				
	Shareholders' funds				
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004, as previously reported	103,987	1,425,818	299,843	—	1,829,648
At 1 January 2004, as previously separately reported as minority interests	—	—	—	168,231	168,231
Effect of adopting HKAS 17	—	(1,760)	—	60	(1,700)
At 1 January 2004, as restated	103,987	1,424,058	299,843	168,291	1,996,179
Appropriation to statutory reserves	—	21,699	(21,699)	—	—
Profit for the period	—	—	126,298	15,926	142,224
2003 final dividends paid	—	—	(124,784)	(16,948)	(141,732)
Transfer to retained earnings	—	(898)	898	—	—
Reversal of deferred taxation associated with property revaluation in previous years	—	240	—	—	240
Issue of new shares	3,016	135,721	—	—	138,737
Purchase of subsidiaries	—	—	—	609	609
Purchase of additional interests in subsidiaries	—	—	—	(121,372)	(121,372)
Translation of subsidiaries' financial statements	—	7,613	—	—	7,613
At 30 June 2004	107,003	1,588,433	280,556	46,506	2,022,498

Notes:

1. **Basis of preparation and principal accounting policies**

These unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the HKICPA, and should be read in conjunction with the 2004 annual financial statements. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively referred to as the "new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. In 2005, the Group adopted the following new/revised standards of HKFRS that are relevant to the operation of the Group:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, the listed and unlisted investments of the Group were classified as non-current investments and stated in the balance sheet at cost less any provision for impairment losses. In accordance with HKAS 39, these investments have been re-classified as available-for-sale financial assets and stated in the balance sheet at fair value, with subsequent changes in value reflected as reserve movements. Under these new HKASs, there was no material change to the value of the available-for-sale financial assets as at 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. However, there was no impact on the condensed consolidated financial information as no share option has been granted since the share option plan became effective.

1. **Basis of preparation and principal accounting policies** (Continued)

The adoption of HKFRS 3, HKASs 36 and 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was amortised on a straight-line basis over a maximum period of 20 years and assessed for impairment, where an indication of impairment existed at each balance sheet date. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and from the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 38 and HKFRS 3 - prospectively after the adoption date; and

— HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

(a) Effect of adopting new HKFRSs

The adoption of revised HKAS 17 resulted in the following:

	As at 30 June 2005 HK$'000	As at 31 December 2004 HK$'000
Decrease in property, plant and equipment	**(44,182)**	(45,757)
Increase in leasehold land and land use rights	**41,716**	43,243
Decrease in property revaluation reserve	**1,667**	1,698
Decrease in deferred tax liabilities	**859**	876
Increase in minority interests	**(60)**	(60)
Increase in profit for the period/year	**(48)**	(96)

There is no material impact on the basic earnings per share figure.

(b) Changes in accounting policies

1.1 Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

1.2 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

1. **Basis of preparation and principal accounting policies** (Continued)

(b) Changes in accounting policies (Continued)

1.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The functional currency of the principal subsidiaries of the Group which were incorporated in the People's Republic of China ("PRC" or "mainland China") is Reminbi ("RMB"). The consolidated financial statements are presented in HK dollars, which is the Company's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions and;

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, the financial statements of the group companies denominated in RMB are translated into HK dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting differences are taken to shareholders' equity.

Goodwill arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the closing rate.

1.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are at least (where applicable) tested annually for impairment irrespective of whether there is any indication of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

1. **Basis of preparation and principal accounting policies** (Continued)

(b) Changes in accounting policies (Continued)

1.6 Investments

From 1 January 2004 to 31 December 2004, the Group classified its investments in securities, other than subsidiaries as non-trading securities:

(a) Non-trading securitites

Investments which were held for non-trading purpose were stated at cost less any provision for impairment loss at the balance sheet date. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities will be reduced to their fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1 January 2005 onwards, the Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two-sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial assets is classified in this category if acquired principally for the purpose of selling in the shore term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. which are classified in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 1.7).

(c) Held-to-maturity investments

Held-to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Group intends to dispose of the investment within 12 months of the balance sheet date.

1. Basis of preparation and principal accounting policies (Continued)

(b) Changes in accounting policies (Continued)

1.6 Investments (Continued)

Purchases and sales or investments are recognised on trade-date, being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investments securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the Group establishes fair value by using valutaion techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial assets previously recognised in the profit and loss account - is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

1.7 Trade, other receivables and prepayments

Trade, other receivables and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, other receivables and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

1.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.9 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost–recovery basis as conditions warrant.

2. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Property, plant and equipment, depreciation and valuation

Property and plant other than machinery and equipment and construction-in-progress are revalued by independent valuers on a regular basis with an interval of not more than five years. In the intervening years the Directors review the carrying values and adjustment is made where there has been a material change. In arriving at the valuation, assumptions and economic estimates have to be made.

Management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment, other than construction-in-progress. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Provision for trade receivables, other receivables and prepayments

Trade receivables, other receivables and prepayments are recongnised initially at fair value and subsequently measured at amortised coast using the effective interest method. A provision for impairment of trade receivables, other receivables and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account. In determining whether any of the trade receivables, other receivables and prepayments is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(d) Income taxes

The Group is subject to income taxes in the PRC and in Hong Kong. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and tax provisions in the period in which such determination is made.

3. Segment information

(a) Business segment analysis

	Unaudited For the six months ended 30 June									
						Restated (Note 1)				
	2005					2004				
	Sanitary napkins HK$'000	**Disposable diapers HK$'000**	**Tissue paper products HK$'000**	**Skin care products, hygiene materials and others HK$'000**	**Group HK$'000**	Sanitary napkins HK$'000	Disposable diapers HK$'000	Tissue paper products HK$'000	Skin care products, hygiene materials and others HK$'000	Group HK$'000
Segment turnover	**504,469**	**345,839**	**653,033**	**89,281**	**1,592,622**	407,677	177,040	450,482	94,861	1,130,060
Inter-segment sales	**(18,686)**	**(622)**	**(4,251)**	**(31,735)**	**(55,294)**	(7,347)	(137)	(5,001)	(33,970)	(46,455)
Turnover	**485,783**	**345,217**	**648,782**	**57,546**	**1,537,328**	400,330	176,903	445,481	60,891	1,083,605
Segment results	**119,737**	**33,105**	**100,647**	**571**	**254,060**	85,713	16,554	88,966	712	191,945
Unallocated costs					**(3,515)**					(6,964)
Interest income					**2,446**					2,490
Operating profit					**252,991**					187,471
Finance costs					**(7,238)**					(8,805)
Profit before taxation					**245,753**					178,666
Taxation					**(41,385)**					(36,442)
Profit after taxation					**204,368**					142,224
Minority interests					**(295)**					(15,926)
Profit attributable to shareholders					**204,073**					126,298

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

4. Operating profit

The operating profit is stated after charging the following:

	Unaudited For the six months ended 30 June	
		Restated (Note 1)
	2005	2004
	HK$'000	HK$'000
Depreciation	**67,845**	61,052
Losses on disposals/write-off of property, plant and equipment	**1,066**	5,758
Amortisation of goodwill	**—**	6,617
Amortisation of trademarks	**236**	236
Operating lease expenses in respect of leasehold land and land use right, factory premises and sales offices	**7,155**	5,023
Staff costs	**100,797**	82,235
Provision for obsolete stock	**1,669**	2,075

5. Taxation

Taxation in the consolidated profit and loss account represents:

	Unaudited For the six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Hong Kong profits tax (note a)	**302**	—
PRC income tax (note b)	**46,424**	34,528
Deferred taxation (note c)	**(5,341)**	1,914
	41,385	36,442

(a) Hong Kong profits tax is provided at a rate of 17.5% on the estimated assessable profit for the period. No provision for Hong Kong profits tax had been made for the six months ended 30 June 2004 as the Group had no assessable profits in Hong Kong.

(b) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable to the PRC subsidiaries.

(c) Deferred taxation is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

6. Interim dividend

	Unaudited For the six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Proposed interim dividend of HK12 cents per share (2004: HK10 cents)	**129,692**	108,077

The interim dividend proposed by the board in a meeting held on 6 September 2005 is not reflected as a dividend payable in these condensed consolidated financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

7. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$204,073,000 (2004: HK$126,298,000) and the weighted average of 1,080,766,355 shares (2004: 1,049,975,026 shares) in issue during the period. There is no diluted earnings per share since the Company has no potential dilutive ordinary shares.

8. Capital expenditure — net book value

				Intangible assets		
	Property, plant and equipment HK$'000	Construction-in-progress HK$'000	Leasehold land and land use rights HK$'000	Goodwill HK$'000	Patents and trademarks HK$'000	Total HK$'000
At 1 January 2005, as previously reported (audited)	1,087,524	100,522	—	452,030	3,575	455,605
Effect of adopting HKAS 17	(45,757)	—	43,243	—	—	—
At 1 January 2005, as restated	1,041,767	100,522	43,243	452,030	3,575	455,605
Unaudited:						
Exchange differences	(1,108)	(113)	(46)	—	(3)	(3)
Additions, at cost	21,250	291,238	125	—	—	—
Transfer from construction-in-progress	37,467	(37,467)	—	—	—	—
Disposals / write-off	(14,087)	—	—	—	—	—
Depreciation / amortisation for the period	(67,845)	—	(1,606)	—	(236)	(236)
At 30 June 2005	1,017,444	354,180	41,716	452,030	3,336	455,366

9. Trade receivables

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

	Unaudited As at 30 June 2005 HK$'000	Audited As at 31 December 2004 HK$'000
1 - 30 days	**81,111**	90,887
31 - 180 days	**128,430**	128,986
181 - 365 days	**13,100**	9,339
	222,641	229,212

10. Trade payables

The ageing analysis of trade payables is as follows:

	Unaudited As at 30 June 2005 HK$'000	Audited As at 31 December 2004 HK$'000
1 - 30 days	**179,145**	146,860
31 - 180 days	**91,733**	52,744
181 - 365 days	**2,900**	1,776
Over 365 days	**2,150**	273
	275,928	201,653

11. Share capital

	Authorised share capital Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
At 1 January 2005 and 30 June 2005	**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 2005 and 30 June 2005	1,080,766,355	108,077

12. Capital commitments

	Unaudited As at 30 June 2005 HK$'000	Audited As at 31 December 2004 HK$'000
Contracted but not provided for in respect of		
Plant, machinery and equipment	**308,973**	399,068
Land and buildings	**76,308**	74,650
Authorised but not contracted for in respect of		
Land and buildings	**726**	—
	386,007	473,718

13. Contingent liabilities

There were no material contingent liabilities as at 30 June 2005 and 31 December 2004.

BUSINESS OVERVIEW

The mainland China economy experienced sustainable and robust growth in the first half of 2005 with income per capita continued to increase. According to a report from National Bureau of Statistics of the PRC, gross domestic product ("GDP") for the first half of 2005 amounted to RMB6,742.2 billion, representing a period-on-period growth of 9.5%. Commodity retail sales totaled RMB2,961 billion, an increase of 12% over that for the corresponding period of the previous year. Meanwhile, income for urban and rural population also surged. With reference to the figures from the National Bureau of Statistics, urban household disposable income per family for the first half of 2005 increased by 9.5% over that for the corresponding period of the previous year, while income per capita for rural population also recorded growth of 12.5%. The increase in income per capita significantly improved people's living standard. Together with the elevation of education level, people from rural area became more concern about the quality of personal hygiene products, which expedited the growth in consumption of personal hygiene products.

The Chinese personal hygiene products industry continued to experience rapid growth in the first half of 2005. Market demand for quality personal hygiene and care products kept on increasing and market competition further intensified. In addition, prices of commodities and prices for the Group's major raw materials, wood pulp and petrochemical materials, continued to surge, increasing the production costs of the Group since last year. As such, the Group proactively explored modern sales and marketing channels, enhanced product quality, boardened and adjusted product mix to provide diversified and quality personal hygiene products, so as to maintain its leading market position. On the other hand, to minimise the impact brought forth by the increase in raw material costs, the Group implemented stringent cost controls, improved production and management efficiency and optimised production process, with the view of reducing production costs.

For the six months ended 30 June 2005, the Group's turnover amounted to approximately HK$1,537,328,000, representing an increase of approximately 41.9% as compared with that for the corresponding period of last year. Profit attributable to shareholders was approximately HK$204,073,000, an increase of about 61.6% as compared with that for the corresponding period of the previous year. The remarkable performance for the first half of 2005 was mainly attributable to the growth in sales of tissue papers and disposable diapers. As the price of raw materials increased and the gross profit margins for tissue papers and disposable diapers businesses were lower than that for sanitary napkins business, overall gross profit margin for the first half of 2005 decreased by 1.7% to approximately 40.9% (IH 2004: 42.6%).

Besides, the Group benefited from economies of scale as a result of the prominent growth in turnover such that the proportion of selling and adminstrative expenses to turnover dropped from 25.9% for the first half of 2004 to 24.6% for the first half of 2005.

BUSINESS REVIEW

Tissue papers

The Group's "Hearttex" tissue products are under the high-end tissue product category in the mainland China. Currently, "Hearttex" offers a wide range of product series including facial tissues, pocket handkerchiefs, toilet rolls, wet tissues and sterilized wet tissues etc. As the income and living standard of domestic customers continued to rise, the market demand for quality tissue products surged at the same time. During the first half of 2005, tissue paper products recorded strong growth in sales by approximately 45.6% to HK$648,782,000 as compared with the same period of last year. Tissue papers business accounted for approximately 42.2% of the total turnover of the Group.

In view of the continual increase in raw material costs for tissue products in the first half of 2005, the Group endeavoured to enhance its production and management efficiency so as to reduce the impact on production costs brought by surge of raw material costs. In addition, the Group also put more efforts on marketing the higher gross profit margin products. As a result, the gross profit margin of tissue business only dropped to 38.8% when compared to that of 42.4% for the same period of last year.

To satisfy the ever increasing demand for high quality tissue products in the mainland China market in recent years, the Group invested in the construction of two paper raw material production bases in Shandong and Fujian provinces in order to increase the production capacity of tissue products. The annual production capacity of each production base is approximately 60,000 tons. The Shandong production base commenced operation on 28 August 2005. Following the commencement of operation of the Fujian production base in the second quarter of 2006, the Group's annual production capacity for tissue paper raw material will increase significantly. It is expected that with the large expansion in production capacity, the Group will benefit from economies of scale effect, and also reduce the proportion of out-sourcing for production, contributing to a higher profit for the tissue business.

Disposable diapers

When the income per capita continued to rise and attained a certain level, more people could afford to purchase disposable diapers products. As the penetration rate of disposable diapers was relatively low, and the Group possess a strong distribution network, sales from diaper products surged in the first half of 2005.

The Group continuously improved the quality of diaper products in various aspects, and launched various "slim & comfort" as well as "dry and breathable" series of products to meet the market demand. In the first half of 2005, sales of diapers accounted for approximately 22.5% of the total sales. During the period , the Group implemented cost control measures, and benefited from the economies of scale, which substantially offset the adverse impact of rise in raw materials costs. Therefore, the gross profit margin of diaper products for the period was approximately 33.2%, representing a drop by 1.1% from 34.3% for the same period of last year. In the future, the Group will actively enhance the quality of its products, and launch more new products to improve its profitability.

Sanitary napkins (including pantiliners)

The mainland China sanitary napkins market started to enter into a mature stage. As the entry barrier for low-end sanitary napkin products is relatively lower, there have been numerous small-scale competitors in the market which intensified market competition by offering low price products. This imposed pressure on the sales of the Group's mid-to-low-end "Anle" sanitary napkin products. On the other hand, the improvement of living standard of consumers in mainland China stimulated the demand for higher quality feminine products. As such, the Group focused on developing mid-to-high-end "Anerle" sanitary napkin products, as well as implementing various distribution and marketing promotion strategies, and enhancement of product mix, which contributed to the satisfactory business growth in sanitary napkins business during the first half of 2005.

The Group's mid-to-high-end brand "Anerle", especially the "Space 7" series of products, continued to be popular in the first half of the year. On the other hand, sales of the Group's mid-to-low-end brand "Anle" sanitary napkins continued to drop in the period under review, due to price competition from the low-end competitors. Overall speaking, sales revenue of sanitary napkins recorded a satisfactory growth of 21.3%, and "Anerle" sanitary napkin products accounted for approximately 75.7% of the total sales revenue for sanitary napkins (IH 2004: 69.3%). Sales of sanitary napkins accounted for approximately 31.6% of the Group's total sales during the first half of 2005. During the period under review, as there was an increase in sales of the Group's mid-to-high-end sanitary napkin products, the gross margin of sanitary napkins business increased from 46.7% in the same period of last year to 50.7% in the period.

With the increasing demand for the mid-to-high-end female hygiene products in mainland China, the Group will keep an eye on changes in the market supply and demand, adjust product mix appropriately to satisfy market demand and enhance the Group's sales performance and profitability.

Skin cleansing and care products

The skin cleansing and care product market remained highly competitive in mainland China. Sales of "MissMay" products during the period dropped by approximately 5.4% to approximately HK$17,905,000, resulting in a loss of approximately HK$1,618,000. However, as "MissMay" cleansing and skin care products only contributed 1.2% of the Group's total turnover, the impact on the Group was minimal. In the future, the Group will introduce numerous packaging and product quality enhancement, and adopt new marketing strategies to attract more customers and propel product sales and profitability.

First-aid products

In the first half of 2005, "Banitore", "Bandi" and "Comfitore" introduced by Hengan Pharmacare Company Limited ("Hengan Pharmacare"), a 70% owned subsidiary of the Group, recorded satisfactory performance with sales of HK$12,668,000, and gross profit margin of 30.2%. Sales of Hengan Pharmacare contributed 0.8% of the overall sales of the Group.

Distribution and marketing strategies

The Group has a nationwide distribution network to promote its wide range of personal hygiene products. During the period, the Group endeavored to deepen its distribution network coverage to increase penetration rate of its products and boost sales performance.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2005, the Group employed approximately 15,000 full-time and temporary employees. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual's performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

As at 30 June 2005, the Group's bank balances and cash amounted to approximately HK$396,918,000 (31 December 2004: HK$543,807,000), with short-term and long-term bank loans of approximately HK$770,189,000 (31 December 2004: HK$776,743,000). During the period, the Group's capital expenditure incurred in purchasing and contructing new production facilities was approximately HK$312,613,000.

The annual interest rates of bank loans ranged from approximately 0.9% and 4.8%. All bank loans are unsecured. As at 30 June 2005, the Group's gross gearing ratio and net gearing ratio were approximately 35.6% and 17.3% respectively (31 December 2004: 37.2% and 11.2% respectively). Those ratios were calculated on the basis of "bank loans" and "bank loans less bank balances and cash" to the shareholders' fund (not including minority interests). The increase in gross gearing ratio and net gearing ratio was mainly attributable to the requirement of more fund for constructing the two new production bases for tissue paper raw materials. The management expects that the ratio will reach a higher level by the end of 2005 and start to decrease in 2006.

FOREIGN CURRENCY RISKS

Approximately 98% of the Group's income is in Renminbi while certain of its raw materials and equipment purchases are required to be settled in US dollar, Japanese Yen or Euro dollar. As at 30 June 2005, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

FUTURE PROSPECTS

As the demand for quality consumer goods in the mainland China continued to increase, the Group will endeavour to develop its different business segments. For tissue business, the Group will develop variety of product series and capitalise on the expansion of production capacity following the commencement of operation of the two new production bases in August 2005 and the second quarter of 2006 respectively to satisfy market demand.

During the first half of 2005, market demand for disposable diapers continued to surge. It is expected that the increasing trend will prevail in the second half of the year. To cater for the rapidly increasing market demand, the Group will continue to expand production lines of disposable diapers. In addition, the Group will endeavor to develop sanitary napkins and pantiliners business, focusing on manufacturing mid-to-high-end products with higher gross profit to provide consumers with diversified products. The Group will enhance sales performance for its skin cleansing and care products through its product sales strategy and improvement in product quality.

In July 2005, The People's Bank of China appreciated the exchange rate of Renminbi by 2%. As approximately 98% of the Group's income is in Renminbi while certain of its raw materials and equipment purchases are required to be settled in US dollar, Japanese Yen or Euro dollar, overall production cost will be reduced such that appreciation of Renminbi is favourable to the Group's profitability in the future.

In the second half of this year, the Group will install new production lines for disposable diapers, and will renovate and enhance the production efficiency of existing production facilities in order to improve production capacity, produce more quality personal hygiene products and satisfy the growing market demand in mainland China. By leveraging on its quality products, extensive sales network, renowned brand name and reasonable product pricing, the management is confident that the Group's products will maintain their leading market position amidst intensified market competition and bring higher returns to shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of HK 12 cents (2004: HK 10 cents) per share for the six months ended 30 June 2005 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 26 September 2005. Dividend warrants will be despatched to shareholders on or about 13 October 2005.

The Register of Members of the Company will be closed from 26 September 2005 to 30 September 2005 (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 2005.

DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2005, the interests of each director in the shares, short position 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 owners)	Family interessts (interests of spouse or child under 18)	Corporate interests controlled (interests of corporation)	Other interests	Total interests	Total interests as % of the relevant issued share capital
Mr. Sze Man Bok	220,335,505	—	—	—	220,335,505	20.39%
Mr. Hui Lin Chit	203,928,693	6,630,224*	—	—	210,558,917	19.48%
Mr. Yeung Wing Chun	40,794,257	45,619*	—	—	40,839,876	3.78%
Mr. Zhang Shi Pao	12,404,027*	—	—	—	12,404,027	1.15%
Mr. Hung Ching Shan	8,480,000	—	—	—	8,480,000	0.78%
Mr. Xu Da Zuo	20,270,135*	—	—	—	20,270,135	1.88%
Mr. Xu Chun Man	18,053,445*	—	—	—	18,053,445	1.67%
Mr. Loo Hong Shing Vincent	100,000	30,000	—	—	130,000	0.01%

* 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 2005, the Company had not been notified of any substantial shareholder's interests and short positions, being 5% or more of the Company's issued share capital, other than those of Mr. Sze Man Bok and Mr. Hui Lin Chit as disclosed above.

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.

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 Audit Committee comprising three independent non-executive directors was established in March 1999 and is chaired by an independent non-executive director.

The Audit Committee provides an important link between the Board and the Company's external and internal 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, including the interim report for the six months ended 30 June 2005.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2005, 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 2005, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Board has reviewed the Company's corporate governance practices. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2005 except the following:

(a) Under the Code Provisions A.4.1 and A.4.2, non-executive directors should be appointed for a specific term and every director should be subject to retirement by rotation at least once every three years. The existing non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's current Articles of Association (the "Articles of Association").

(b) According to the Articles of Association, not exceeding one-third of the directors for the time being shall retire from office by rotation at each annual general meeting and the directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. The appointment of non-executive directors and the Articles of Association do not comply fully with the Code Provisions.

The directors will review the appointment terms of non-executive directors and the relevant articles of the Articles of Association in the second half of this year and propose ratifications and amendments, if necessary, to ensure compliance with the Code.

REMUNERATION COMMITTEE

A Remuneration Committee, comprising three independent non-executive directors and an executive director, has been established in July 2005. The committee was set up to review and approve the remuneration packages of the directors and senior management, including the terms of salary and bonus schemes and other long-term incentive schemes. Meetings will be held in the second half of this year to discuss the above in details.

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

As at the date of this report, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Yeung Wing Chun, Mr. Zhang Shi Pao, Mr. Hung Ching Shan, Mr. Xu Da Zuo, Mr. Xu Chun Man and Mr. Loo Hong Shing Vincent as executive directors and Mr. Chan Henry, Mr. Chu Cheng Chung and Ms. Ada Ying Kay Wong as independent non-executive directors.

Hong Kong, 6 September 2005