



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

07
INTERIM
REPORT

Corporate Mission

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



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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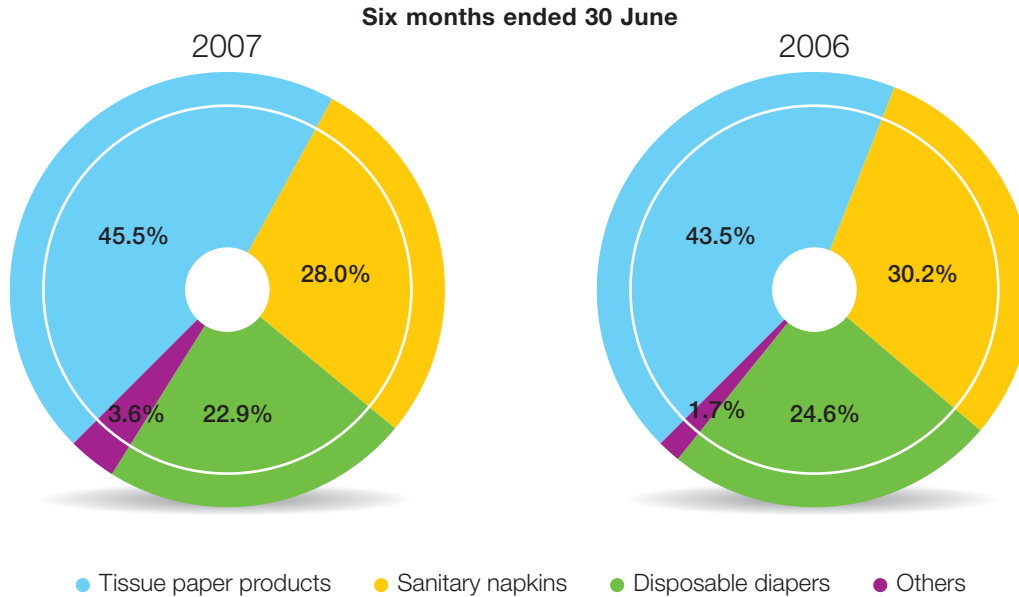
Hengan International Group Company Limited

“Growing with You for a Better Life”

Financial Summary

	Unaudited Six months ended 30 June		
	2007 HK\$'000	2006 HK\$'000	% of Change
Turnover	2,743,931	2,038,262	34.6
Profit attributable to shareholders	469,554	330,482	42.1
Gross profit margin	39.1%	41.5%	
Net profit margin	17.1%	16.2%	
Earnings per share	43.44 HK cents	30.58 HK cents	
Finished goods turnover	54 days	63 days	
Accounts receivable turnover	29 days	26 days	

Turnover by Products



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, the unaudited condensed consolidated cash flow statement and the unaudited condensed consolidated statement of changes in equity of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007, and the unaudited condensed consolidated balance sheet of the Group as at 30 June 2007, together with the comparative figures and selected explanatory notes. The interim financial statements have been reviewed by the Company’s audit committee and the Company’s auditors, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
Turnover	4	2,743,931	2,038,262
Cost of goods sold		(1,670,567)	(1,192,072)
Gross profit		1,073,364	846,190
Other gains — net		32,907	40,720
Distribution costs		(387,291)	(338,785)
Administrative expenses		(92,009)	(89,742)
Operating profit	5	626,971	458,383
Finance costs		(45,556)	(25,372)
Profit before income tax		581,415	433,011
Income tax expense	6	(110,306)	(101,281)
Profit for the period		471,109	331,730
Attributable to:			
Shareholders of the Company		469,554	330,482
Minority interest		1,555	1,248
		471,109	331,730
Earnings per share for profit attributable to shareholders of the Company — basic	7	43.44 HK cents	30.58 HK cents
Dividends	8	302,673	194,538

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,867,461	1,655,075
Construction-in-progress	9	476,417	387,560
Leasehold land and land use rights	9	74,501	63,529
Intangible assets	9	454,774	454,940
Deferred tax assets		41,111	59,825
Prepayment for non-current assets		197,801	175,153
		3,112,065	2,796,082
Current assets			
Inventories		1,103,931	1,094,259
Trade receivables	10	461,152	412,494
Other receivables, prepayments and deposits		154,266	157,851
Restricted bank deposits	11	34,811	—
Bank balances and cash		1,074,800	1,020,669
		2,828,960	2,685,273
Total assets		5,941,025	5,481,355
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	108,098	108,077
Other reserves		1,879,587	1,688,062
Retained earnings			
— Proposed dividend		302,673	270,192
— Unappropriated retained earnings		823,537	726,896
		3,113,895	2,793,227
Minority interest		24,340	23,787
Total equity		3,138,235	2,817,014

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	<i>Note</i>	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans — unsecured		146,233	69,837
Convertible bonds	13	1,534,564	1,497,313
Deferred tax liabilities		12,358	12,239
Deferred income on government grants		9,646	10,166
		1,702,801	1,589,555
Current liabilities			
Trade and bills payables	12	515,107	443,930
Other payables and accrued charges		271,301	328,576
Deferred income on government grants		1,673	1,622
Taxation payable		60,563	96,693
Trust receipt bank loans		1,875	1,433
Current portion of long-term bank loans — unsecured		100,845	61,981
Short-term bank loans — unsecured		116,435	140,551
Short-term bank loans — secured	11	32,190	—
		1,099,989	1,074,786
Total liabilities		2,802,790	2,664,341
Total equity and liabilities		5,941,025	5,481,355
Net current assets		1,728,971	1,610,487
Total assets less current liabilities		4,841,036	4,406,569

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Six months ended 30 June 2006					
	Attributable to the Company's shareholders					
	Share capital	Other reserves	Retained earnings	Subtotal	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2006	108,077	1,719,325	510,389	2,337,791	24,497	2,362,288
2005 final dividends paid	—	—	(172,923)	(172,923)	(697)	(173,620)
Profit for the period	—	—	330,482	330,482	1,248	331,730
Appropriation to statutory reserves	—	42,687	(42,687)	—	—	—
Depreciation transfer on buildings	—	(898)	898	—	—	—
Reversal of deferred taxation associated with property revaluation in previous years	—	240	—	240	—	240
Disposal of available-for-sale financial assets	—	(22,124)	—	(22,124)	—	(22,124)
Convertible bonds — equity component	—	20,941	—	20,941	—	20,941
Translation of subsidiaries' accounts	—	36,188	—	36,188	167	36,355
Balance at 30 June 2006	108,077	1,796,359	626,159	2,530,595	25,215	2,555,810

	Unaudited					
	Six months ended 30 June 2007					
	Attributable to the Company's shareholders					
	Share capital	Other reserves	Retained earnings	Subtotal	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2007	108,077	1,688,062	997,088	2,793,227	23,787	2,817,014
2006 final dividends paid	—	—	(270,244)	(270,244)	(1,458)	(271,702)
Profit for the period	—	—	469,554	469,554	1,555	471,109
Appropriation to statutory reserves	—	71,086	(71,086)	—	—	—
Depreciation transfer on buildings	—	(898)	898	—	—	—
Reversal of deferred taxation associated with property revaluation in previous years	—	240	—	240	—	240
Conversion of convertible bonds	21	3,979	—	4,000	—	4,000
Translation of subsidiaries' accounts	—	117,118	—	117,118	456	117,574
Balance at 30 June 2007	108,098	1,879,587	1,126,210	3,113,895	24,340	3,138,235

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Net cash generated from operating activities	579,070	331,077
Net cash used in investing activities	(348,667)	(240,833)
Net cash (used in)/generated from financing activities	(193,042)	538,792
Net increase in bank balances and cash	37,361	629,036
Bank balances and cash at 1 January	1,020,669	499,937
Effect of foreign exchange rate changes	16,770	18,441
Bank balances and cash at 30 June	1,074,800	1,147,414

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture, distribute and sell personal hygiene products through a network of independent retailers. The Group has manufacturing plants in various parts of the People's Republic of China (the "PRC") and sells mainly in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information was approved for issue on 5 September 2007.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting." The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

3. Accounting policies

The accounting policies and basis of preparation adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, except for the adoption of the following new standards, amendments to standards and interpretations which are mandatory for financial year ending 31 December 2007:

HKFRS 7, "Financial Instruments: Disclosures";
HKAS 1, "Amendment to Presentation of Financial Statements: Capital Disclosures";
HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKAS 29 — Financial Reporting in Hyperinflationary Economies";
HK(IFRIC)-Int 8, "Scope of HKFRS 2";
HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives"; and
HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment".

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for 2007 and have not been early adopted:

- HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009;
- HKAS 23 (Revised), "Borrowing Costs", effective for annual periods beginning on or after 1 January 2009;
- HK(IFRIC)-Int 11, "HKFRS 2 — Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007; and
- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008.

4 Segment information

(a) Business segment analysis

	Unaudited Six months ended 30 June									
	2007					2006				
	Sanitary napkins	Disposable diapers	Tissue paper products	Skincare and cleansing products, hygiene materials and others	Group	Sanitary napkins	Disposable diapers	Tissue paper products	Skincare and cleansing products, hygiene materials and others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	798,423	630,875	1,265,961	149,287	2,844,546	637,699	501,149	890,736	80,543	2,110,127
Inter-segment sales	(31,284)	(3,266)	(16,258)	(49,807)	(100,615)	(23,160)	(633)	(3,133)	(44,939)	(71,865)
Turnover of the Group	767,139	627,609	1,249,703	99,480	2,743,931	614,539	500,516	887,603	35,604	2,038,262
Segment results	271,021	109,311	166,651	46,261	593,244	222,418	65,792	128,204	8,577	424,991
Unallocated income/(costs)					820					(7,328)
Other gains — net					32,907					40,720
Operating profit					626,971					458,383
Finance costs					(45,556)					(25,372)
Profit before income tax					581,415					433,011
Income tax expense					(110,306)					(101,281)
Profit for the period					471,109					331,730
Minority interest					(1,555)					(1,248)
Profit attributable to shareholders of the Company					469,554					330,482

(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.

5 Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
<i>Crediting</i>		
Gains on disposals of assets classified as held-for-sale	—	29,654
Government grant income	26,051	2,908
<i>Charging</i>		
Depreciation of property, plant and equipment	90,897	82,438
Amortisation of leasehold land and land use rights	1,819	2,027
Amortisation of patents and trademarks	255	243
Losses on disposals of property, plant and equipment	714	1,170
Operating lease expenses in respect of factory premises and sales liaison offices	9,872	7,034
Staff costs	154,573	123,836
Provision for obsolete stock	603	9,779

6 Income tax expense

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong profits tax (<i>Note (a)</i>)	1,136	505
PRC income tax (<i>Note (b)</i>)	88,840	97,578
Deferred income tax (<i>Note (c)</i>)	20,330	3,198
Taxation charges	110,306	101,281

- (a) Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the period.
- (b) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates applicable to the PRC subsidiaries.
- (c) Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

7 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$469,554,000 (2006: HK\$330,482,000) and on the weighted average number of 1,080,959,276 ordinary shares (2006: 1,080,766,355) in issue during the period.

Diluted earnings per share is not presented as the convertible bonds issued do not have any dilutive effect on the earnings per share.

8 Dividends

	Unaudited	
	2007	2006
	HK\$'000	HK\$'000
Proposed interim dividend of 28 HK cents per share (2006: 18 HK cents)	302,673	194,538

The interim dividend proposed by the Board in a meeting held on 5 September 2007 is not reflected as a dividend payable in this condensed consolidated interim financial information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

9 Capital expenditure — net book value

	Property, plant and equipment HK\$'000	Construction- in-progress HK\$'000	Leasehold land and land use rights HK\$'000	Intangible assets		
				Goodwill HK\$'000	Patents and trademarks HK\$'000	Total HK\$'000
Unaudited						
At 1 January 2006	1,376,213	246,659	47,554	452,030	3,174	455,204
Exchange differences	14,462	2,983	438	—	33	33
Additions, at cost	9,530	177,645	2,595	—	—	—
Transfer from construction- in-progress	56,186	(56,186)	—	—	—	—
Disposals/write-off	(1,965)	(255)	—	—	—	—
Depreciation/amortisation for the period	(82,438)	—	(2,027)	—	(243)	(243)
At 30 June 2006	1,371,988	370,846	48,560	452,030	2,964	454,994
Unaudited						
At 1 January 2007	1,655,075	387,560	63,529	452,030	2,910	454,940
Exchange differences	52,825	12,419	1,898	—	89	89
Additions, at cost	17,890	310,334	10,893	—	—	—
Transfer from construction- in-progress	233,896	(233,896)	—	—	—	—
Disposals/write-off	(1,328)	—	—	—	—	—
Depreciation/amortisation for the period	(90,897)	—	(1,819)	—	(255)	(255)
At 30 June 2007	1,867,461	476,417	74,501	452,030	2,744	454,774

10 Trade receivables

The majority of the Group's sales is on open accounts with credit terms ranging from 30 days to 75 days. At 30 June 2007, the ageing analysis of the trade receivables was as follows:

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
1-30 days	184,976	214,982
31-180 days	254,363	186,127
181-365 days	21,813	6,145
Over 365 days	—	5,240
	461,152	412,494

There was no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. The carrying value of the trade receivables approximates their fair value due to the short-term maturity.

11 Restricted bank deposits

The balance represented deposits placed as securities for short-term bank loans amounting to HK\$32,190,000 (2006: nil). The deposits, carrying fixed interest rates ranging from 2.79% to 3.06% (2006: nil) per annum, will mature within one year from the balance sheet date.

12 Trade and bills payables

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Trade payables (<i>Note (a)</i>)	482,061	410,571
Bills payables (<i>Note (b)</i>)	33,046	33,359
	515,107	443,930

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

(a) At 30 June 2007, the ageing analysis of the trade payables was as follows :

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
1-30 days	313,687	301,226
31-180 days	150,622	100,602
181-365 days	9,069	7,287
Over 365 days	8,683	1,456
	482,061	410,571

(b) Bills payables of approximately HK\$33,046,000 (2006: HK\$33,359,000) are normally with maturity periods within 180 days.

13 Convertible bonds

On 16 May 2006, the Company issued zero-coupon convertible bonds due on 16 May 2011 (the "maturity date") in the aggregate principal amount of HK\$1.5 billion with an initial conversion price of HK\$19.13 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 126.15 per cent of their principal amount on the maturity date.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

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

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Face value of convertible bonds issued on 16 May 2006	1,500,000	1,500,000
Issuing expenses	(31,989)	(31,989)
Equity component	(20,941)	(20,941)
Liability component on initial recognition on 16 May 2006	1,447,070	1,447,070
Accumulated interest expense	91,494	50,243
Amount converted to ordinary shares of the Company	(4,000)	—
Liability component	1,534,564	1,497,313

The fair value of the liability component of the convertible bonds as at 30 June 2007 amounted to approximately HK\$1,547,729,000. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 4.82% per annum.

14 Share capital

	Authorised share capital Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1 January 2007 and 30 June 2007	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 2007	1,080,766,355	108,077
Issue of shares upon conversion of convertible bonds (<i>Note</i>)	209,095	21
At 30 June 2007	1,080,975,450	108,098

Note:

During the period, convertible bonds with a face value of approximately HK\$4,000,000 were converted into ordinary shares of the Company at a conversion price of HK\$19.13.

15 Capital commitments

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Contracted but not provided for in respect of		
Plant and machinery	423,020	363,802
Land and buildings	136,094	68,785
	559,114	432,587

16 Contingent liabilities

There were no material contingent liabilities for the Group as at 30 June 2007 and 31 December 2006.

17 Related party transactions

(a) During the period, the Group had carried out the following related party transactions:

	Unaudited Six months ended 30 June 2007 HK\$'000	2006 HK\$'000
Purchases from Weifang Power		
— heat energy	7,678	3,091
— electricity energy	15,576	—

Pursuant to agreements dated 12 July 2006 between a wholly-owned subsidiary of the Company and Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power"), an electricity company, the Group purchased electricity energy and heat energy from Weifang Power at prices lower than the prevailing market prices. Weifang Power is 95% beneficially owned by the sons of Mr. Sze Man Bok and Mr. Hui Lin Chit, the executive directors and substantial shareholders of the Company.

(b) For the six months ended 30 June 2007, the key management compensation amounted to approximately HK\$1,866,000 (2006: HK\$1,814,000).

BUSINESS OVERVIEW

In the first half of 2007, China's economy maintained a steady and swift growth with expediting industrial growth, rising consumption levels of both urban and rural citizens, as well as rapid expanding of export business.

The PRC industrial sector of the PRC maintained relatively fast growing pace in the first half of 2007 and achieved substantial improvement in efficiency. According to the National Bureau of Statistics of China, from January to May 2007, sales of the "Above-Scale Industrial Enterprises" increased by 18.1% as compared to same period last year while net profit reached RMB\$902.6 billion, representing an increase of 42.1% from the same period last year. Comprehensive Index of Industrial Economic Efficiency has obviously increased.

In addition to the consistent growth of the PRC industrial sector, income of people in cities and villages also rose. According to the National Bureau of Statistics, disposable income of the people in the cities for the first half of 2007 was RMB7,052, an increase of 14.2% over the same period last year after excluding the impact of inflation factor, indicating that overall income level of Chinese population was in its upward trend. Apart from population in the first-tier cities, income per capita of the population in the second and third tier cities, towns, villages and agricultural areas in the PRC also experienced escalating growth. The increase in income per capita stimulated the rise of living standard in the PRC, which together with the enhancement of education level, have led to greater demand for quality personal hygiene products among Chinese population, including the town and rural population. As a result, the consumption of quality personal hygiene products in the first half of 2007 was further boosted. Furthermore, during the period under review, prices of certain major raw materials continued to inflate, leading to an increase in production costs. In line with the consolidation of the personal hygiene products industry, some small-to-middle size manufacturers experienced operational difficulties and dropped out of the market, while certain large scale manufacturers with economies of scale, including the Group, were benefited during this industry consolidation process and thus expanded rapidly.

In response to rising raw material costs, the Group has not only kept on improving its product quality and realign its product mix, but also enhanced production efficiency through shortening workflow and reducing raw material wastage rate to achieve economies of scale. Moreover, the Group was also benefited from appreciation of Renminbi as it sourced most of its raw materials from overseas.

For the six months ended 30 June 2007, the Group's turnover and profit attributable to shareholders were approximately HK\$2,743,931,000 and HK\$469,554,000, representing an increase of approximately 34.6% and 42.1% over the same period last year respectively. The Group's three main businesses, namely, tissue paper, disposable diaper and sanitary napkin products all recorded satisfactory sales growth. Despite the upsurge in the costs of some major raw materials during the period under review, the Group's overall gross profit margin for first half year of 2007 only dropped to approximately 39.1% as compared to the corresponding period of last year (2006 first half: 41.5%), thanks to the aforementioned effective cost control measures implemented by the Group.

In addition, percentage of the total distribution costs and administrative expenses to the Group's total turnover for the period has been lowered to approximately 17.5% (2006 first half: 21.0%), mainly resulted from its effective cost controls and economies of scale.

BUSINESS REVIEW

Tissue Papers

During the first half of 2007, the continuous rising domestic income per capita and living standard have driven the surge in market demand for quality tissue products leading to strong growth in the sales of the tissue products of the Group. In addition, although China is the largest country consuming tissue papers in Asia, vast development potential in average consumption of tissue papers per capita still exists as compared to western countries.

According to market statistics, the Group's tissue paper business continued to maintain its leading position in terms of sales turnover in the PRC markets in 2006. During the period under review, the sales of tissue paper products increased by approximately 40.8% to approximately HK\$1,249,703,000, accounting for approximately 45.5% of the Group's total sales. The Group's product brand "Hearttex" has earned a great reputation and has become a popular household brand in the PRC market. During the period, the Group has launched the "cartoon" and the "skin soothing" series of products and has received good response from the market.

During the period under review, the Group continued to focus on manufacturing products with higher profit margins including box tissue papers, pocket handkerchiefs and wet tissues, which totally accounted for approximately 73.1% of total tissue papers sales.

To meet the ever increasing market demand, the Group has constantly expanded its capacity. The Group's Shantong Phase II production base commenced operation in July. Coupled with existing production facilities, the Group's annual production capacity has expanded to approximately 240,000 tonnes. It is expected that the expanded production capacity can generate lucrative returns to the Group.

During the period under review, the gross profit margin of the Group's tissue paper business was approximately 31.4% (2006 first half: 37.2%). The decrease was mainly attributable to the upsurge in price of wood pulp.

On the environmental protection front, the PRC government proactively adopted various measures to curb pollution caused by different industry sectors. Some small-to-medium size manufacturers have not yet installed proper environmental protection facilities, thus creating serious pollution, whilst, the Group's environmental protection facilities have already met China and international standards. The Group believed that the PRC government's environmental protection measures will accelerate the consolidation of the tissue paper industry, which will be beneficial to the Group.

Sanitary Napkins

As a leading large scale personal hygiene product manufacturer, the Group maintained a robust growth in its sanitary napkin business during the period under review. The Group's mid-to-high end products, "Anerle" and "Space 7", continued to gain popularity in the market. During the period, sales of the Group's sanitary napkin business amounted to approximately HK\$767,139,000, representing an increase of approximately 24.8% from that of the previous year, and accounting for approximately 28.0% of the Group's total turnover. Mid-to-high end sanitary napkin products contributed 84.3% of the total sales of the Group's sanitary napkins (2006 first half: 79.8%). Notwithstanding the rise in the price of some major raw materials over the period, the Group was able to keep the gross profit margin of sanitary napkin business fairly stable at approximately 54.2% (2006 first half: 54.7%) leveraging on its increasingly stringent cost control measures.

It is expected that the demand for mid-to-high quality sanitary napkins products in the PRC market will be constantly rising in the future. As such, the Group will acutely monitor any market changes and adjust its product mix and marketing strategies effectively to capture market opportunities.

Disposable Diapers

Despite weather changes have affected the consumption of disposable diapers, the increase in living standard and fertility rate in the PRC, together with the fact that there was still a great room for improvement in the penetration rate of disposable diapers, the growth of disposable diapers industry remained steady in the first half of 2007.

In the first half of 2007, sales revenue of the Group's disposable diapers business increased by approximately 25.4% to approximately HK\$627,609,000, accounting for approximately 22.9% of the Group's overall sales. Although prices of some major raw materials rose during the period under review, gross profit margin for disposable diapers business remained fairly stable at approximately 31.6% (2006 first half: 31.3%) which was mainly attributable to the strengthened internal cost controls of the Group. In the future, the Group will persist in product quality enhancement, as well as manufacturing versatile types of disposable diaper products to improve profitability.

Skincare and Cleansing Products

Sales of "MissMay" products amounted to approximately HK\$17,390,000 (2006 first half: HK\$15,049,000) accounting for approximately 0.6% of the Group's total turnover. Therefore, it did not bring any material impact to the Group's overall results.

First-aid Products

Sales of the Group's first-aid products under the brand names of "Banitore", "Bandi" and "Comfitore" have sustained satisfactory growth in the first half of 2007. Sales had reached approximately HK\$11,862,000 (2006 first half: HK\$10,718,000), representing a period-on-period increase of approximately 10.7%. This business only accounted for approximately 0.4% of the Group's total turnover.

DISTRIBUTION AND MARKETING STRATEGIES

The Group has a nationwide distribution network to sell its diversified personal hygiene products. In view of the escalating demand for personal hygiene products, the Group will further expand to new markets. In addition to strengthening the cooperation with large-scale superstores, the Group had also recruited a number of sales and marketing professionals to promote its products through traditional sales channels to various small shops and local convenient stores, so as to increase its market coverage.

During the period, leveraging on its economies of scale achieved by the rapid expansion the Group's business, distribution costs as a percentage of the Group's total turnover lowered to approximately 14.1% (2006 first half: 16.6%).

FUTURE PROSPECTS

As the living standard of people in China continues to rise and the market demand for quality consumer products grows, the Group foresees a bright prospect for the personal care and hygiene product market. In the first half of the year, the Group's various business segments, including tissue paper, disposable diapers, and sanitary napkin products, all performed encouragingly. It is expected that all three business segments will continue to grow steadily in the second half of the year.

As a leading integrated personal hygiene products manufacturer, the Group has three major business segments in which less wood pulp is used in sanitary napkin and diaper products. As such, although the price of wood pulp has increased significantly since the second half of 2006, the Group can reduce the risk of relying on any one single business, and strengthen its profit base.

As for the tissue paper business front, the Group will continue to expand production capacity to satisfy the strong market demand. The Group's Fujian Phase II production base and Hunan Phase II production base are expected to commence operation in March and December 2008 respectively. The Group's annual production capacity will be further enhanced to approximately 360,000 tonnes. It is expected that the Group will be further benefited from economies of scale, and will be able to reduce proportion of outsourcing, thus enhancing the profitability of tissue paper business. In the coming years, the Group will develop broader range of products to cater for customers' diversified needs. Furthermore, as the Group's products are substantially for domestic sales, cancellation of export tax rebate by the PRC government since July 2007 will not have any significant impact on the Group's results.

In view of the improving living standard, the Group expects that the demand for disposable diapers will continue to grow. Hence, the Group will launch new products in the second half of 2007 and 2008. In addition, the Group will increase the production capacity of disposable diapers by carrying out technical upgrading on existing production facilities and increasing new product lines to satisfy the market demand.

The Group will capture business opportunity arising from the consolidation of sanitary napkin industry by manufacturing more mid-to-high end products with better gross profit margin in order to enhance product mix and hence profitability. Meanwhile, the Group will fortify its market promotion efforts, enhance product quality and improve brand recognition and reputation.

Looking into the coming half year, the Group expects that its three main businesses will continue to maintain steady growth. The Group will continue to expand production capacity and achieve greater economies of scale in order to satisfy market demand. The management strongly believes that by leveraging on the quality products, extensive distribution network, renowned brand names and reasonable pricing, the Group's products will be able to maintain its leading position in the personal hygiene products market in mainland China and generate lucrative returns to shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group's financial position remained healthy. As at 30 June 2007, the Group's bank balances and cash (including restricted bank deposits) amounted to approximately HK\$1,109,611,000 (31 December 2006: HK\$1,020,669,000), convertible bonds liability portion was approximately HK\$1,534,564,000 (31 December 2006: HK\$1,497,313,000) and short-term and long-term bank loans totally amounted to approximately HK\$397,578,000 (31 December 2006: HK\$273,802,000). During the first half of 2007, the Group's capital expenditure for acquisition and installation of production facilities amounted to approximately HK\$339,117,000.

The annual interest rates of bank loans ranged from approximately 4.6% to 5.3%. Apart from bank deposits of approximately HK\$34,811,000 which were placed in a bank as securities for bank loans, there were no charges on the Group's assets for bank loans. As at 30 June 2007, the Group's gross gearing ratio was approximately 62.0% (31 December 2006: 63.4%), which was calculated on the basis of the amount of borrowings as a percentage of the total shareholders' equity. The net gearing ratio, which was calculated on the basis of the amount of borrowings less bank balances and cash as a percentage of the total shareholders' equity, was approximately 26.4% (31 December 2006: 26.9%).

As at 30 June 2007, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISKS

A large portion of the Group's income is in Renminbi while a large portion of its raw materials purchases are required to be settled in US dollar. The Group had never any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding company.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2007, the Group employed approximately 18,700 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.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of 28 HK cents (2006: 18 HK cents) per share for the six months ended 30 June 2007 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 5 October 2007. Dividend warrants will be despatched to shareholders on or about 16 October 2007.

The Register of Members of the Company will be closed from 2 October 2007 to 5 October 2007 (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 branch share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by 4:00 p.m. on 28 September 2007.

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

At 30 June 2007, 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 interests (interests of spouse or child under 18)	Corporate	Other interests	Total interests	Total interests as % of the relevant issued share capital
			interests controlled (interests of corporation)			
Mr. Sze Man Bok	225,173,505	—	—	—	225,173,505	20.83%
Mr. Hui Lin Chit	207,618,693	10,667,058*	—	—	218,285,751	20.19%
Mr. Yeung Wing Chun	38,344,257	45,619*	—	—	38,389,876	3.55%
Mr. Zhang Shi Pao	12,404,027*	—	—	—	12,404,027	1.15%
Mr. Hung Ching Shan	7,650,000	—	—	—	7,650,000	0.71%
Mr. Xu Da Zuo	20,270,135*	—	—	—	20,270,135	1.88%
Mr. Xu Chun Man	16,493,445*	—	—	—	16,493,445	1.53%
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 2007, 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

For the six months ended 30 June 2007, no option has been granted since the adoption of the Share Option Scheme by the shareholders of the Company on 2 May 2003. In accordance with the scheme, the Company may grant up to 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 six months ended 30 June 2007. 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 is chaired by an independent non-executive director and comprises three independent non-executive directors. It meets at least two times a year.

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 2007.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2007, 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 2007, 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

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2007.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all our 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. 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, 5 September 2007