恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

STOCK CODE: 1044

08 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.

Hengan International Group Company Limited

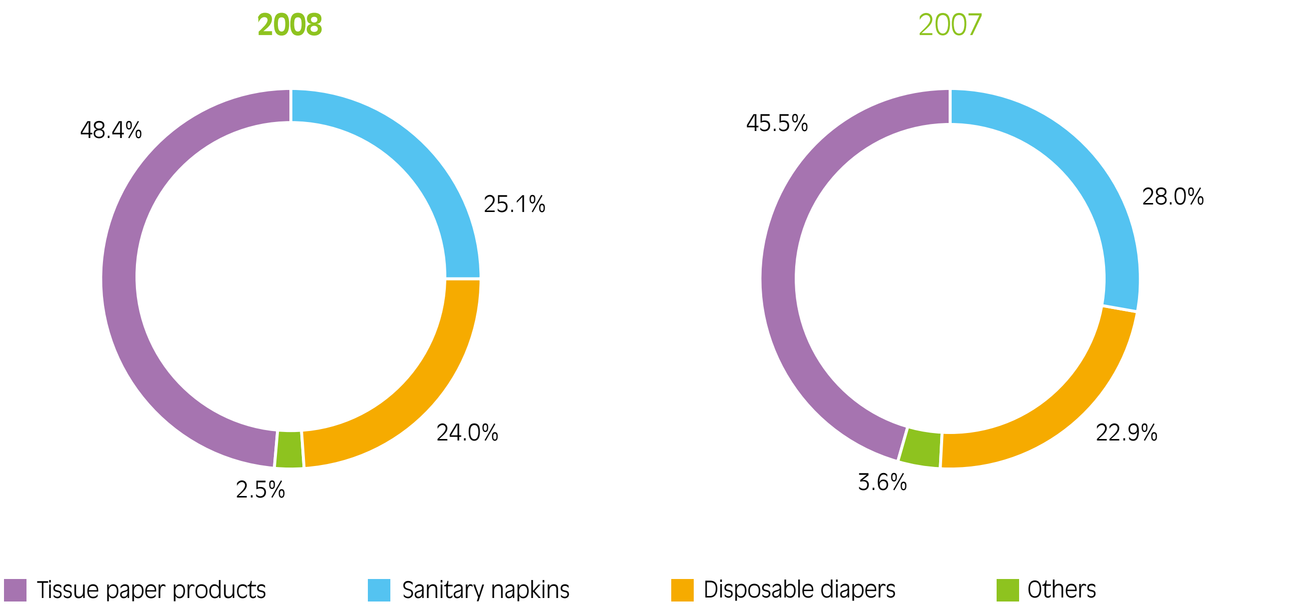
"Growing with You for a Better Life"

FINANCIAL SUMMARY

	Unaudited Six months ended 30 June		
	2008 HK$'000	2007 HK$'000 Restated	% of Change
Turnover	**3,755,917**	2,743,931	36.9
Profit attributable to shareholders	**627,572**	470,518	33.4
Gross profit margin	**39.2%**	39.1%	
Net profit margin	**16.7%**	17.1%	
Earnings per share	**54.9 HK cents**	43.5 HK cents	
Finished goods turnover	**58 days**	54 days	
Trade receivables turnover	**31 days**	29 days	

TURNOVER BY PRODUCTS

Six months ended 30 June



INTERIM FINANCIAL INFORMATION

The Board of Directors of Hengan International Group Company Limited ("Hengan International" or the "Company") (the "Board") is pleased to present 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 2008, and the unaudited condensed consolidated balance sheet of the Group as at 30 June 2008, together with the comparative figures and selected explanatory notes. The interim financial information has been reviewed by the Company's audit committee and the Company's auditor, 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 INTERIM PROFIT AND LOSS ACCOUNT

	Note	**Unaudited Six months ended 30 June 2008 HK$'000**	2007 HK$'000 Restated (Note 3(a))
Turnover	4	**3,755,917**	2,743,931
Cost of goods sold		**(2,284,115)**	(1,670,567)
Gross profit		**1,471,802**	1,073,364
Other gains — net		**44,520**	25,811
Distribution costs		**(660,490)**	(387,291)
Administrative expenses		**(120,391)**	(91,036)
Operating profit	5	**735,441**	620,848
Finance income		**22,184**	7,096
Finance costs		**(39,997)**	(45,556)
Profit before income tax		**717,628**	582,388
Income tax expense	6	**(88,461)**	(110,306)
Profit for the period		**629,167**	472,082
Attributable to:			
Shareholders of the Company		**627,572**	470,518
Minority interests		**1,595**	1,564
		629,167	472,082
Earnings per share for profit attributable to the shareholders of the Company			
— basic and diluted	7	**54.9 HK cents**	43.5 HK cents
Dividends	8	**365,714**	302,673

The notes on pages 7 to 20 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	Unaudited 30 June 2008 HK$'000	Audited 31 December 2007 HK$'000 Restated (Note 3(a))
ASSETS			
Non-current assets			
Property, plant and equipment	9	**2,803,156**	2,342,837
Construction-in-progress	9	**568,000**	455,664
Leasehold land and land use rights	9	**167,519**	143,172
Intangible assets	9	**454,548**	454,663
Deferred income tax assets		**44,407**	45,216
Prepayment for non-current assets		**318,466**	322,219
		4,356,096	3,763,771
Current assets			
Inventories		**1,729,539**	1,329,120
Trade receivables	10	**684,586**	594,455
Other receivables, prepayments and deposits		**246,574**	381,593
Restricted bank deposits	11	**105,939**	144,889
Cash and cash equivalents		**2,076,695**	2,160,031
		4,843,333	4,610,088
Total assets		**9,199,429**	8,373,859
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	15	**114,285**	114,162
Other reserves		**4,382,423**	3,870,069
Retained earnings			
— Proposed dividend		**365,714**	365,714
— Unappropriated retained earnings		**1,157,777**	994,278
		6,020,199	5,344,223
Minority interests		**23,892**	21,413
Total equity		**6,044,091**	5,365,636

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET *(continued)*

	Note	**Unaudited 30 June 2008 HK$'000**	Audited 31 December 2007 HK$'000 Restated (Note 3(a))
LIABILITIES			
Non-current liabilities			
Long-term bank loans — unsecured	13	**74,675**	85,227
Convertible bonds	14	**1,581,741**	1,562,833
Deferred income on government grants		**10,886**	11,211
		1,667,302	1,659,271
Current liabilities			
Trade and bills payables	12	**802,928**	672,830
Other payables and accrued charges		**408,073**	370,850
Deferred income on government grants		**2,110**	1,981
Taxation payable		**72,137**	56,481
Trust receipt bank loans	13	**2,107**	3,602
Current portion of long-term bank loans — unsecured	13	**111,559**	114,465
Short-term bank loans — unsecured	13	**–**	10,000
Short-term bank loans — secured	13	**89,122**	118,743
		1,488,036	1,348,952
Total liabilities		**3,155,338**	3,008,223
Total equity and liabilities		**9,199,429**	8,373,859
Net current assets		**3,355,297**	3,261,136
Total assets less current liabilities		**7,711,393**	7,024,907

The notes on pages 7 to 20 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to the shareholders of the Company					
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2007, as previously reported	108,077	1,688,062	997,088	2,793,227	23,787	2,817,014
Prior year adjustment (Note 3(a))	—	(33,372)	(131)	(33,503)	(377)	(33,880)
Balance at 1 January 2007, as restated	108,077	1,654,690	996,957	2,759,724	23,410	2,783,134
2006 final dividends paid	—	—	(270,244)	(270,244)	(1,458)	(271,702)
Profit for the period	—	—	470,518	470,518	1,564	472,082
Appropriation to statutory reserves	—	71,086	(71,086)	—	—	—
Conversion of convertible bonds	21	3,979	—	4,000	—	4,000
Translation of subsidiaries' accounts	—	116,063	—	116,063	444	116,507
Balance at 30 June 2007	108,098	1,845,818	1,126,145	3,080,061	23,960	3,104,021
Balance at 1 January 2008, as previously reported	**114,162**	**4,040,849**	**1,359,700**	**5,514,711**	**22,595**	**5,537,306**
Prior year adjustment (Note 3(a))	**—**	**(170,780)**	**292**	**(170,488)**	**(1,182)**	**(171,670)**
Balance at 1 January 2008, as restated	**114,162**	**3,870,069**	**1,359,992**	**5,344,223**	**21,413**	**5,365,636**
2007 final dividends paid	**—**	**—**	**(365,714)**	**(365,714)**	**—**	**(365,714)**
Profit for the period	**—**	**—**	**627,572**	**627,572**	**1,595**	**629,167**
Appropriation to statutory reserves	**—**	**98,359**	**(98,359)**	**—**	**—**	**—**
Conversion of convertible bonds	**123**	**23,377**	**—**	**23,500**	**—**	**23,500**
Share option scheme — value of services provided	**—**	**11,318**	**—**	**11,318**	**—**	**11,318**
Translation of subsidiaries' accounts	**—**	**379,300**	**—**	**379,300**	**884**	**380,184**
Balance at 30 June 2008	**114,285**	**4,382,423**	**1,523,491**	**6,020,199**	**23,892**	**6,044,091**

The notes on pages 7 to 20 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Net cash generated from operating activities	**700,573**	579,070
Net cash used in investing activities	**(434,226)**	(348,667)
Net cash used in financing activities	**(438,239)**	(193,042)
Net (decrease)/increase in cash and cash equivalents	**(171,892)**	37,361
Cash and cash equivalents at 1 January	**2,160,031**	1,020,669
Effect of foreign exchange rate changes	**88,556**	16,770
Cash and cash equivalents at 30 June	**2,076,695**	1,074,800

The notes on pages 7 to 20 form an integral part of this condensed interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 distributors and retailers. The Group has manufacturing plants in various provinces 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.

These condensed consolidated interim financial information was approved for issue on 17 September 2008.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 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 of the Company for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. Accounting policies

Except as set out below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

(a) Prior year adjustment — change of accounting policy

In the previous years, the buildings, which comprise mainly factories, retail outlets and offices, and are included in property, plant and equipment of the Group were stated at fair value, based on periodic but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amounts of buildings and the net amounts were restated to the revalued amount of the assets, while all the other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

In the current period, the Company's directors decided to apply the same accounting policy across all the property, plant and equipment of the Group, accordingly buildings are restated at historical cost less accumulated deprecation and impairment losses, if any. The Company's directors are of the view that in applying the new accounting policy on buildings can provide more comparable and relevant information to the users of the financial information because this accounting policy is commonly used in manufacturing industry to reflect the actual usage of the buildings which are held for long term operation use. The change in accounting policy has been accounted for retrospectively and the financial information for the six months ended 30 June 2007 in the condensed consolidated financial information has been restated in order to comply with HKAS 8 "Accounting policies, changes in accounting estimates and errors".

3. Accounting policies *(continued)*

(a) Prior year adjustment — change of accounting policy *(continued)*

The effect of the change of accounting policy is as follows:

	Six months ended 30 June		Year ended 31 December	
	2008	2007	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000
At 30 June/31 December:				
Decrease in property, plant and equipment	**(218,149)**	(46,572)	(209,641)	(46,119)
Decrease/(increase) in reserves				
— Retained earnings	**(553)**	65	(292)	131
— Other reserves	**177,918**	33,769	170,780	33,372
— Minority interests	**343**	380	1,182	377
Decrease in deferred income tax liabilities	**40,441**	12,358	37,971	12,239
For the period/year ended:				
Increase in profit for the period/year	**5,280**	973	2,194	1,871

As the effect of the change of accounting policy on the financial information for the six months ended 30 June 2007 and the financial statements for the year ended 31 December 2007 is not significant, there is no material effect on the corresponding basic and diluted earnings per share figures.

(b) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

(c) Adoption of HKFRSs

The following interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2008.

Relevant to the Group:

- HK(IFRIC)-Int 11, 'HKFRS 2 — Group and treasury share transactions'

Not relevant to the Group:

- HK(IFRIC)-Int 12, 'Service concession arrangements';
- HK(IFRIC)-Int 14, 'HKAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction'.

3. Accounting policies *(continued)*

(c) Adoption of HKFRSs *(continued)*

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted by the Group:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Management is in the process of assessing the impact to the financial statements of the Group.

- HKAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not expected to have any material impact to the Group as the Group has applied a policy of capitalising borrowing costs.

- HKFRS 2 (amendment) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact to the Group.

- HKFRS 3 (amendment), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting and consolidation on the Group.

- HKAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of assessing the revised disclosure requirements of this standard.

- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments.

- HK(IFRIC)-Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. This is not relevant to the Group as the Group does not have such programmes.

4. Segment information

(a) Primary reporting format — business segment analysis

	Unaudited Six months ended 30 June 2008				
	Sanitary napkins HK$'000	Disposable diapers HK$'000	Tissue paper products HK$'000	Skincare and cleansing products, hygiene materials and others HK$'000	Group HK$'000
Segment turnover	964,386	906,554	1,864,678	242,594	3,978,212
Inter-segment sales	(21,378)	(6,163)	(47,902)	(146,852)	(222,295)
Turnover of the Group	943,008	900,391	1,816,776	95,742	3,755,917
Segment results	350,002	153,378	166,859	38,516	708,755
Unallocated costs					(17,834)
Other gains–net					44,520
Operating profit					735,441
Finance income					22,184
Finance costs					(39,997)
Profit before income tax					717,628
Income tax expense					(88,461)
Profit for the period					629,167
Minority interests					(1,595)
Profit attributable to the shareholders of the Company					627,572

4. Segment information *(continued)*

(a) Primary reporting format — business segment analysis *(continued)*

	Unaudited Six months ended 30 June 2007 Restated				
	Sanitary napkins HK$'000	Disposable diapers HK$'000	Tissue paper products HK$'000	Skincare and cleansing products, hygiene materials and others HK$'000	Group HK$'000
Segment turnover	798,423	630,875	1,265,961	149,287	2,844,546
Inter-segment sales	(31,284)	(3,266)	(16,258)	(49,807)	(100,615)
Turnover of the Group	767,139	627,609	1,249,703	99,480	2,743,931
Segment results	271,829	109,465	166,651	46,272	594,217
Unallocated income					820
Other gains-net					25,811
Operating profit					620,848
Finance income					7,096
Finance costs					(45,556)
Profit before income tax					582,388
Income tax expense					(110,306)
Profit for the period					472,082
Minority interests					(1,564)
Profit attributable to the shareholders of the Company					470,518

(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	
	2008	2007
	HK$'000	HK$'000
		Restated
Crediting		
Government grant income (Note)	**60,319**	26,051
Charging		
Depreciation of property, plant and equipment (Note 9)	**134,512**	89,924
Amortisation of leasehold land and land use rights (Note 9)	**4,316**	1,819
Amortisation of intangible assets (Note 9)	**279**	255
Staff costs	**238,448**	154,573
Loss on disposals of property, plant and equipment	**535**	714
Operating leases rental in respect of factory premises and sales liaison offices	**14,618**	9,872
Provision for impairment of trade receivables	**7,992**	7,944
Provision for impairment of inventories/inventories written-off	**20,442**	1,438

Note: These mainly represented government subsidies from certain PRC municipal governments as encouragement of the Group's investments.

6. Income tax expense

	Unaudited Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
		Restated
Hong Kong profits tax	**3,494**	1,136
PRC income tax	**81,307**	88,840
Deferred taxation	**3,660**	20,330
Income tax expense	**88,461**	110,306

6. Income tax expense *(continued)*

Hong Kong profits tax has been provided for at the rate of 17.5% (2007: 17.5%) on the estimated assessable profits for the period.

PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates ranging from 0% to 25% (2007: 0% to 33%) applicable to the PRC subsidiaries. Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increase to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate.

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.

According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the six months ended 30 June 2008 since the Group has no plan to distribute such profits in the foreseeable future.

7. Earnings per share — basic and diluted

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK$627,572,000 (2007: HK$470,518,000) and on the weighted average number of 1,142,631,562 ordinary shares (2007: 1,080,959,276) in issue during the period.

Diluted earnings per share is not presented as the convertible bonds and share options issued do not have material dilutive effect on the earnings per share for the periods presented.

8. Dividends

	Unaudited Six months ended 30 June	
	2008 HK$'000	2007 HK$'000
Proposed interim dividend of 32 HK cents per share (2007: 28 HK cents)	**365,714**	302,673

The interim dividend proposed by the Board in a meeting held on 17 September 2008 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 2008.

9. Capital expenditure — net book value

	Property, plant and equipment Restated HK$'000	Construction-in-progress HK$'000	Leasehold land and land use rights HK$'000	Intangible assets: Goodwill HK$'000	Intangible assets: Patents and trademarks HK$'000	Intangible assets: Total HK$'000
At 1 January 2007, as previously reported	1,655,075	387,560	63,529	452,030	2,910	454,940
Prior year adjustment (Note 3(a))	(46,119)	—	—	—	—	—
At 1 January 2007, as restated	1,608,956	387,560	63,529	452,030	2,910	454,940
Exchange differences	51,401	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	(89,924)	—	(1,819)	—	(255)	(255)
At 30 June 2007	1,820,891	476,417	74,501	452,030	2,744	454,774
At 1 January 2008, as previously reported	**2,552,478**	**455,664**	**143,172**	**452,030**	**2,633**	**454,663**
Prior year adjustment (Note 3(a))	**(209,641)**	**—**	**—**	**—**	**—**	**—**
At 1 January 2008, as restated	**2,342,837**	**455,664**	**143,172**	**452,030**	**2,633**	**454,663**
Exchange differences	**157,892**	**30,620**	**9,322**	**—**	**164**	**164**
Additions, at cost	**63,530**	**457,990**	**19,341**	**—**	**—**	**—**
Transfer from construction-in-progress	**376,274**	**(376,274)**	**—**	**—**	**—**	**—**
Disposals/write-off	**(2,865)**	**—**	**—**	**—**	**—**	**—**
Depreciation/amortisation for the period	**(134,512)**	**—**	**(4,316)**	**—**	**(279)**	**(279)**
At 30 June 2008	**2,803,156**	**568,000**	**167,519**	**452,030**	**2,518**	**454,548**

10. Trade receivables

The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. At 30 June 2008, the ageing analysis of the trade receivables was as follows:

	Unaudited 30 June 2008 HK$'000	Audited 31 December 2007 HK$'000
Current to 30 days	**255,839**	235,076
31 to 180 days	**408,443**	332,785
181 to 365 days	**15,784**	14,816
Over 365 days	**4,520**	11,778
	684,586	594,455

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. The carrying amounts of the trade receivables approximated their fair values as at the balance sheet dates due to the short-term maturity.

11. Restricted bank deposits

The balance represented deposits of HK$100,375,000 (31 December 2007: HK$130,468,000) placed as securities for short-term bank loans amounting to HK$86,042,000 (31 December 2007: HK$118,743,000). The deposits, carrying fixed interest rates ranging from 3.06% to 3.33% (31 December 2007: 2.79% to 3.33%) per annum, will mature within one year from the balance sheet date.

In addition, approximately HK$5,564,000 (31 December 2007: HK$14,421,000) of the bank balances was restricted to be drawn down until certain of the bills payables of the Group are settled.

12. Trade and bills payables

	Unaudited 30 June 2008 HK$'000	Audited 31 December 2007 HK$'000
Trade payables	**787,042**	646,601
Bills payables	**15,886**	26,229
	802,928	672,830

The carrying amounts of trade and bills payables approximated their fair values as at the balance sheet date due to short-term maturity.

At 30 June 2008, the ageing analysis of the trade payables was as follows:

	Unaudited 30 June 2008 HK$'000	Audited 31 December 2007 HK$'000
Current to 30 days	**277,822**	418,946
31 to 180 days	**472,524**	202,519
181 to 365 days	**15,741**	17,710
Over 365 days	**20,955**	7,426
	787,042	646,601

Bills payables were normally with maturity periods within 180 days.

13. Bank borrowings

	Unaudited 30 June 2008 HK$'000	Audited 31 December 2007 HK$'000
Non-current		
Long-term bank loans — unsecured	**74,675**	85,227
Current		
Trust receipt bank loans	**2,107**	3,602
Current potion of long-term bank loans — unsecured	**111,559**	114,465
Short-term bank loans — unsecured	**—**	10,000
Short-term bank loans — secured	**89,122**	118,743
	202,788	246,810
Total	**277,463**	332,037

As at 30 June 2008, the average effective interest rate of the bank borrowings was approximately 4.74% (31 December 2007: 4.8%).

Movements in bank borrowings are analysed as follows:

	Unaudited HK$'000
At 1 January 2008	**332,037**
Exchange differences	**16,524**
New borrowings	**42,108**
Repayments of borrowings	**(113,206)**
At 30 June 2008	**277,463**
At 1 January 2007	273,802
Exchange differences	430
New borrowings	539,336
Repayments of borrowings	(415,990)
At 30 June 2007	397,578

14. 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$19.12 per ordinary share of the Company (adjusted to HK$19.09 on 24 October 2007). 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, included in long-term borrowings, 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 2008 HK$'000	Audited 31 December 2007 HK$'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 finance expenses	**174,591**	132,183
Right of conversion exercised by bond holders	**(39,920)**	(16,420)
Liability component	**1,581,741**	1,562,833

During the period, convertible bonds with a face value of approximately HK$23,500,000 were converted into ordinary shares of the Company at a conversion price of HK$19.09.

The fair value of the liability component of the convertible bonds as at 30 June 2008 amounted to approximately HK$1,582,170,000 (2007: HK$1,564,207,000). The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 5.1% (2007: 5.3%) per annum.

15. Share capital

	Authorised share capital Ordinary shares of HK$0.10 each	
	Number of shares	**HK$'000**
At 1 January 2008 and 30 June 2008	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 2008	1,141,624,908	114,162
Issue of shares upon conversion of convertible bonds (Note 14)	1,231,010	123
At 30 June 2008	1,142,855,918	114,285
At 1 January 2007	1,080,766,355	108,077
Issue of shares upon conversion of convertible bonds	209,095	21
At 30 June 2007	1,080,975,450	108,098

16. Capital commitments

	Unaudited 30 June 2008 HK$'000	Audited 31 December 2007 HK$'000
Contracted but not provided for in respect of:		
Plant, machinery and equipment	**193,291**	146,221
Land and buildings	**77,213**	60,870
	270,504	207,091

17. Contingent liabilities

There were no material contingent liabilities for the Group as at 30 June 2008 and 31 December 2007.

18. Related party transactions

Related parties are individuals and companies where the individual, company or group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; or when the parties are subject to common control or common significant influence.

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

	Unaudited Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Purchases from Weifang Power		
— electricity energy	**31,302**	15,576
— heat energy	**16,543**	7,678

Pursuant to an agreement dated 12 July 2006 entered into 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 2008, the key management compensation amounted to approximately HK$1,997,000 (2007: HK$1,866,000).

19. Events subsequent to the balance sheet date

On 12 September 2008, Ever Town Investments Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire 51% equity interests in Qin Qin Foodstuffs Group Company Limited ("Qin Qin") at a consideration of approximately HK$260.4 million. Qin Qin and its subsidiaries are principally engaged in the manufacturing and distribution of snack food in the PRC. This transaction is regarded as a discloseable and connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and its completion is subject to the finalisation of certain conditions precedent as stipulated in the conditional sale and purchase agreement. The details of the transaction are set out in the announcement of the Company dated 12 September 2008.

BUSINESS OVERVIEW

In the first half of 2008, mainland China's economy maintained a steady growth. Urbanisation, marketisation, internationalisation together with growing population in mainland China continued to create market demand. Although the economy of mainland China was adversely affected by the occurrences of snow storm in early 2008, Sichuan's earthquake in May and the slackening global economy, the growth momentum of the mainland China economy persisted as a result of the joint efforts of the Chinese government and the Chinese people. According to the National Bureau of Statistics, Gross Domestic Products ("GDP") of mainland China rose approximately by 10.4% year-on-year to approximately RMB13,061.9 billion in the first half of 2008; the overall consumer price level surged by approximately 7.9%; disposable income per capita for urban and rural citizens were RMB8,065 and RMB2,528 respectively, representing increases of 14.4% and 19.8% over the same period last year. Excluding the effect of inflation, the actual growth was approximately 6.3% and 10.3% respectively.

Hygiene product market in mainland China continued to grow rapidly in line with economic development. Benefiting from enhancement of overall living standards in mainland China and increasing awareness in health and hygiene, demand for quality personal hygiene products increases and results in persistent growth of the production volume and consumption volume. However, comparing with developed countries in Europe and the United States, the penetration rate and utilisation rate of hygiene products in mainland China were still relatively low, indicating the immense potential of the market.

During the period under review, the surging price of raw materials globally affected every industry. The continued increase in the prices of major raw materials such as wood pulp and petrochemical products increased the production and transportation costs of the Group. Nevertheless, the Group raised the selling prices for tissue products, optimised product portfolio, implemented effective purchasing strategies, adopted various measures to enhance production efficiency, including shortening workflow and reducing raw material wastage rate, and benefited from appreciation of Renminbi, so as to partially offset the upsurging pressures on different costs.

Owing to the fierce market competition and increasing production cost pressure resulted from the escalating raw material prices, a number of companies of relatively smaller scale, with lower brand popularity and reputation, comparatively inferior production facilities, poor hygienic and serious pollution conditions were closed down. Market consolidation was accelerated, creating more opportunities for large manufacturers which were bigger in scale and with higher brand recognition and better product quality.

During the period, the growth momentum of the Group's three main businesses, namely tissue paper, disposable diaper and sanitary napkin products continued. For the six months ended 30 June 2008, the Group's turnover amounted to approximately HK$3,755,917,000, representing a year-on-year growth of approximately 36.9%. Profit attributable to shareholders was approximately HK$627,572,000, representing an increase of approximately 33.4% over the same period last year. The overall gross profit margin of the Group for the first half of 2008 remained fairly stable at about 39.2% (2007 first half: 39.1%).

As a percentage of revenue, distribution costs and administrative expenses increased to about 20.8% during the period (2007 first half: 17.4%). The increase was mainly attributable to the Group's strategy to increase the expenses in marketing, advertising and promotion and also due to the increase in transportation expenses resulting from rising petroleum price in mainland China and escalating staff costs.

BUSINESS REVIEW

Tissue Papers

For the period under review, the Group's tissue paper business continued to grow. Thanks to the rising income per capita of Chinese people, stronger consumption power and higher living standards as well as increasing market demand for quality tissue papers, the tissue paper market in mainland China developed rapidly. The consumption of tissue paper in mainland China was still relatively low when compared with that of developed countries in Europe and the United States, hence it is an enormous market with immense growth potential. Meanwhile, the strict enforcement of the environment laws and regulations by the Chinese government and rising cost of raw materials accelerated market consolidation, giving rise to new opportunities for the Group.

For the six months ended 30 June 2008, the Group's sales of tissue paper products increased by approximately 45.4% to approximately HK$1,816,776,000, accounting for approximately 48.4% of the Group's total sales. During the period under review, the Group continued to focus on manufacturing products with higher gross profit margins, including box tissue papers, pocket handkerchiefs and wet tissues, which totally accounted for approximately 70.4% of total tissue papers sales (2007 first half: 73.1%).

During the period, the price of the Group's major raw material, wood pulp, continued to rise despite Renminbi appreciation, pushing up the production costs of tissue paper business. As a result, the gross profit margin of the Group's tissue business declined to approximately 29.6% during the period (2007 first half: 31.4%). To alleviate the pressure on gross profit margin from surging costs, the Group raised the selling price of tissue paper products by 5% to 10%, effective from 1 March 2008. The positive effects from the price adjustment will be fully reflected in the second half of 2008, easing the pressure of gross profit margin.

The Group further expanded production capacity during the period in order to satisfy growing market demand. Fujian production base Phase II commenced operation in April 2008, boosting the Group's overall annual production capacity to approximately 300,000 tonnes which helped the Group enhance the benefits of economies of scale and reduce its production costs accordingly. In addition, the Hunan production base Phase II will commence operation in December 2008, further increasing the annual production capacity to approximately 360,000 tonnes.

Sanitary Napkins

With the overall growth of mainland China's economy and elevating consumption level, the consumption of feminine hygiene products grew progressively, indicating the great growth potential of sanitary napkin market.

During the period under review, the Group's sanitary napkin business continued to achieve a satisfactory growth. Sales increased by approximately 22.9% to approximately HK$943,008,000, accounting for approximately 25.1% of the Group's total turnover. On the cost front, although surge in global oil price pushed up the price of the Group's petrochemical raw materials, the Group was able to offset the impacts of the surge in raw material prices through constantly improving its product mix and expanding the production of mid-to-high end sanitary napkin products with higher gross profit margins, such as "Space 7" and "Anerle". Among all, "Space 7" sanitary napkin products accounted for approximately 46.0% of the Group's turnover in sanitary napkin business (2007 first half: 38.7%), and the overall gross profit margin of sanitary napkin business rose to about 58.7% accordingly (2007 first half: 54.2%).

Disposable Diapers

The penetration rate of the baby disposable diaper market in mainland China was still relatively low. According to the statistics published by the China National Household Paper Industry Association, the penetration rate of the baby disposable diaper market in mainland China in 2007 was just about 17.3%, far below than that of developed countries. With growing economy and improving living standards of Chinese people, baby disposable diaper products will be more accepted by consumers.

For the six months ended 30 June 2008, sales of the Group's disposable diapers business increased by about 43.5% to approximately HK$900,391,000, accounting for about 24.0% of the Group's overall sales. Despite increase in certain raw material prices during the period, the Group continued to improve product mix, producing product series with higher gross profit margin and implementing effective cost controls. As a result, the gross profit margin of disposable diapers for the period rose to approximately 35.7% (2007 first half: 31.6%).

Skincare and Cleansing Products

Sales of "MissMay" products amounted to approximately HK$6,495,000 (2007 first half: HK$17,390,000) during the period, accounting for approximately 0.2% 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" continued to maintain a satisfactory growth in the first half of 2008. Sales had reached approximately HK$16,827,000 (2007 first half: HK$11,862,000). This business only accounted for approximately 0.4% of the Group's total turnover, hence it did not affect the Group's overall results significantly.

Distribution and Marketing Strategies

To grasp the business opportunities arising from the rapid market growth, the Group during the period increased its marketing, advertising and sales promotion efforts strategically, strengthened the cooperation with major supermarket chain stores and local distributors, and extended product coverage to the second-tier and third-tier cities, towns, villages and agricultural areas by developing its nationwide distribution network so as to strengthen its leading position and brand equity in the market.

For vigorous business expansion, the Group continued to strengthen its working team which, together with rising inflation and implementation of the new Labor Law in mainland China, propelled an increase in staff costs. Furthermore, rising petroleum price in mainland China also led to an increase in the Group's transportation expenses.

In view of above factors, distribution costs as a percentage of the Group's turnover increased to approximately 17.6% (2007 first half: 14.1%). Nonetheless, after the marketing, advertising and promotion activities have started to take effect, the related expenses may be reduced in the second half of 2008 in order to amplify cost effectiveness.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group's financial position remained healthy. As at 30 June 2008, the Group's cash and cash equivalents and restricted bank deposits totally amounted to approximately HK$2,182,634,000 (31 December 2007: HK$2,304,920,000); convertible bonds liability portion was approximately HK$1,581,741,000 (31 December 2007: HK$1,562,833,000) and short-term and long-term bank loans totally amounted to approximately HK$277,463,000 (31 December 2007: HK$332,037,000). During the period, the Group's capital expenditure for acquisition and installation of production facilities amounted to approximately HK$540,861,000, and the related prepayments made thereon amounted to approximately HK$318,466,000.

The convertible bonds were subject to a fixed interest rate of 4.7% (2007 first half: 4.7%) semi-annually while the bank borrowings were subject to floating annual interest rates ranging from approximately 2.04% to 4.63% (2007 first half: from 4.62% to 5.26%). As at 30 June 2008, apart from the bank deposits of approximately HK$105,939,000 (31 December 2007: HK$144,889,000) deposited in banks as collaterals, there were no other charges on the Group's assets for its bank loans. As at 30 June 2008, the Group's gross gearing ratio was approximately 30.9% (31 December 2007: 35.5%), which was calculated on the basis of the amount of borrowings as a percentage of the total shareholders' equity (not including minority interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests), was zero (31 December 2007: zero).

As at 30 June 2008, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISKS

A large portion of the Group's income is denominated in Renminbi while most of the raw materials purchased are required to be settled in US dollar. The Group has never had 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 companies. As at 30 June 2008, the Group had not issued any material financial instruments or entered into any material contracts for foreign currency hedging purposes.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2008, the Group employed a total of approximately 21,200 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. Year-end bonuses and incentives are 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.

FUTURE PROSPECTS

Looking ahead to the second half of 2008, sustained growth of mainland China's economy and increasing income of Chinese people will continue to raise the awareness of health and hygiene of Chinese people. We strongly believe that the prospects of personal care and hygiene product market in mainland China are promising with immense potential. We are confident that the Group's three major business segments will be able to maintain the growth momentum in the first half of 2008, and make progress steadily according to our established development strategies and plans.

On tissue paper business front, the Group will continue to consolidate its leading market position by developing various new product series with higher gross profit margin to cater for customers' diversified needs. In addition, the Group also continues to expand production capacity in order to further enhance economies of scale and increase profit of tissue paper business. The Group will progressively enhance the production efficiency of Fujian's production base Phase II which commenced operation in April 2008, and set up the Hunan production base Phase II which is expected to commence operation in December 2008.

Disposable diapers market has entered into a fast growing stage. Therefore, the Group will carry out technical revamp on existing production lines and add new production lines in order to increase its production capacity.

With regard to sanitary napkin business, in view of the growing demand for premium sanitary napkin products due to increasing consumption power of women in mainland China, the Group will further improve its product mix in the second half of 2008 by increasing the percentage of mid-to-high end products, thus enlarging its market share and mitigating the pressure of surging raw material prices and logistic costs.

As mentioned in note 19 of the accounting portion of this interim report, the Group plans to acquire the controlling interest in a long-standing company engaged in the manufacturing and distribution of snack food. Benefiting from the rapid growth of economy and rising income of Chinese people, the snack food industry in the PRC grew steadily. Capitalising on the Group's experience in fast-moving consumer industry and logistics, distribution and brand management, we believe that this company will become another brilliant growing point of the Group in the future.

Looking forward, the Group will continue to strengthen its research and development capacity so as to develop more new products with higher quality. It will also expand its sales network, upgrade its product quality and customer services in order to further strengthen its brand equity. The Group will further enhance its production capacity in line with market demand so as to have better economies of scale. Capitalising on extensive experience of our management in hygienic product industry and our consistent high standards and requirements on product quality, the Group will seize the existing market opportunities and strive to generate lucrative returns to our shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of 32 HK cents (2007: 28 HK cents) per share for the six months ended 30 June 2008 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 13 October 2008. Dividend warrants will be despatched to shareholders on or about 17 October 2008.

The Register of Members of the Company will be closed from 13 October 2008 to 15 October 2008 (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 10 October 2008.

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

At 30 June 2008, 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:

	Capacity/Nature of Interest					
	Number of shares			Number of unlisted shares (Note(1))		
Name of Directors	**Personal interests/ Beneficiary**	**Family interests**	**Corporate interests**	**Personal interests**	**Total**	**Approximate percentage of shareholding**
Mr. Sze Man Bok	226,988,505	–	–	20,000	227,008,505	19.86%
Mr. Hui Lin Chit	224,619,751 (Note (3))	–	–	180,000	224,799,751	19.67%
Mr. Yeung Wing Chun	38,344,257	45,619 (Note (2))	–	20,000	38,409,876	3.36%
Mr. Hung Ching Shan	7,390,000	–	–	20,000	7,410,000	0.65%
Mr. Xu Da Zuo	20,270,135 (Note (2))	–	–	130,000	20,400,135	1.79%
Mr. Xu Chun Man	16,493,445 (Note (2))	–	–	20,000	16,513,445	1.45%
Mr. Loo Hong Shing Vincent	100,000	30,000	–	170,000	300,000	0.03%

Notes:

(1) Unlisted share are share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 28 and 29.

(2) 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.

(3) An Ping Holdings Limited ("An Ping Holdings") holds 224,619,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited, the shares of which are wholly owned by Credit Suisse Trust Limited, the trustee of The Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of The Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of The Hui Family Trust in the Company.

(4) Interests in shares and share options were long position.

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 IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 30 June 2008, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
An Ping Holdings	(1)	Beneficial owner	224,619,751	19.65%
An Ping Investments	(1) & (2)	Trustee	224,619,751	19.65%
Seletar Limited	(1) & (2)	Trustee	224,619,751	19.65%
Serangoon Limited	(1) & (2)	Trustee	224,619,751	19.65%
Credit Suisse Trust Limited	(2)	Trustee	224,619,751	19.65%

Notes:

(1) An Ping Holdings, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments. An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited, the shares of which are wholly owned by Credit Suisse Trust Limited, the trustee of The Hui Family Trust.

(2) Credit Suisse Trust Limited as trustee of The Hui Family Trust is deemed to be interested in the 224,619,751 shares held by this trust.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

SHARE OPTIONS SCHEME

The Company has adopted the share option scheme (the "Scheme") on 2 May 2003 and shall be valid and effective for a period of 10 years commencing on the date of adoption of the Scheme. No options were granted under the Scheme during the period. The table below sets out movements in the share options granted under the Scheme during the six months ended 30 June 2008:

	Number of share options								
Eligible person	Balance as at 01/01/2008	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled/ lapsed during the period	Balance as at 30/06/2008	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Mr. Sze Man Bok	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Hui Lin Chit	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2010–02/05/2013
	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Yeung Wing Chun	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Hung Ching Shan	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Da Zuo	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2010–02/05/2013
	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Loo Hong Shing Vincent	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2010–02/05/2013
	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Zhang Shi Pao (resigned on 19 July 2007)	10,000	–	–	(10,000)	–	–	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	(10,000)	–	–	25.30	18/07/2007	18/07/2010–02/05/2013
Employees	5,210,000	–	–	–	255,500	4,954,500	25.05	12/07/2007	12/07/2010–02/05/2013
	5,210,000	–	–	–	255,500	4,954,500	25.05	12/07/2007	12/07/2011–02/05/2013
	–	–	–	10,000	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	–	–	10,000	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013

No options lapsed during the period.

According to the Binomial Model, the market value of the option granted on 12 July 2007 and 18 July 2007 for employees and Directors were approximately HK$73,754,000 and HK$4,405,000 respectively, out of which approximately HK$10,678,000 and HK$640,000 were related to the period ended 30 June 2008 and were charged to the profit and loss account for the period accordingly.

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 2008.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2008, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules of the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2008, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions set out in the Code on Corporate Governance Practice contained in Appendix 14 to the Listing Rules of the Stock Exchange during the period.

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, 17 September 2008