恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

2011

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 manufacturing and distribution of fast moving family consumer products.

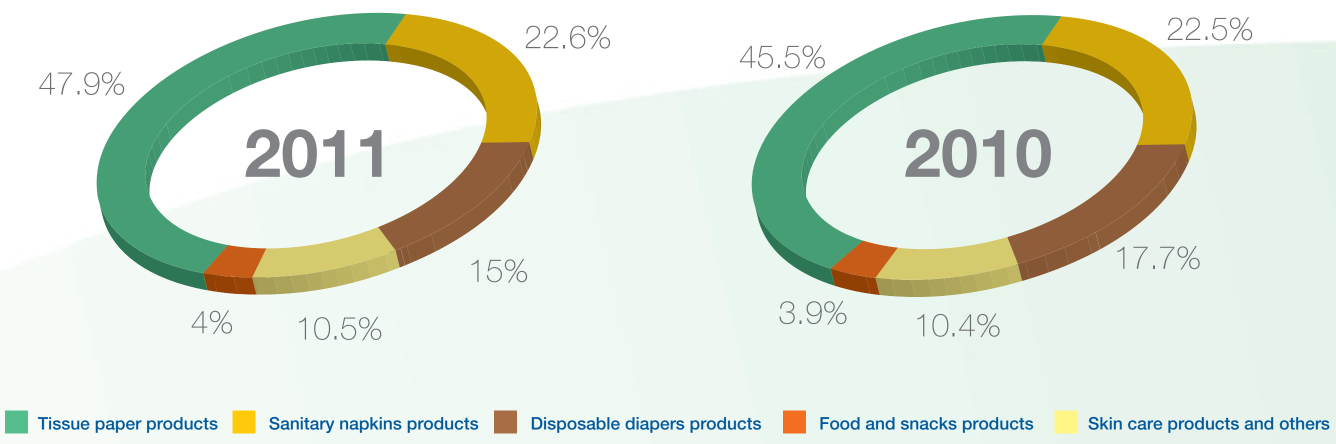
Hengan International Group Company Limited

"Growing with You for a Better Life"

FINANCIAL SUMMARY

	Unaudited Six months ended 30 June		
	2011 HK$'000	2010 HK$'000	% of change
Revenue	8,188,704	6,426,325	27.4%
Profit attributable to shareholders	1,181,997	1,202,789	-1.7%
Gross profit margin	38.6%	45.5%	
Earnings per share			
— Basic	96.6 HK cents	98.6 HK cents	
— Diluted	96.3 HK cents	98.2 HK cents	
Finished goods turnover	45 days	46 days	
Trade receivables turnover	33 days	27 days	

ANALYSIS OF REVENUE BY PRODUCTS



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 interim statement of income, the unaudited condensed consolidated interim statement of comprehensive income, the unaudited condensed consolidated interim statement of changes in equity and the unaudited condensed consolidated interim cash flow statement of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011, and the unaudited condensed consolidated interim balance sheet of the Group as at 30 June 2011, 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 STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Unaudited Six months ended 30 June	
		2011	2010
	Note	**HK$'000**	HK$'000
Revenue	6	**8,188,704**	6,426,325
Cost of goods sold		**(5,028,811)**	(3,500,301)
Gross profit		**3,159,893**	2,926,024
Other gains — net		**81,644**	92,899
Distribution costs		**(1,540,089)**	(1,219,819)
Administrative expenses		**(352,355)**	(308,761)
Operating profit	7	**1,349,093**	1,490,343
Finance income		**127,969**	30,404
Finance costs		**(63,124)**	(27,399)
Finance income — net		**64,845**	3,005
Profit before income tax		**1,413,938**	1,493,348
Income tax expense	8	**(206,441)**	(265,432)
Profit for the period		**1,207,497**	1,227,916
Profit attributable to:			
Shareholders of the Company		**1,181,997**	1,202,789
Non-controlling interests		**25,500**	25,127
		1,207,497	1,227,916
Earnings per share for profit attributable to shareholders of the Company	9		
— Basic		**96.6 HK cents**	98.6 HK cents
— Diluted		**96.3 HK cents**	98.2 HK cents
Dividends	10	**737,381**	734,525

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Unaudited Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Profit for the period	**1,207,497**	1,227,916
Other comprehensive income:		
— Currency translation differences	**297,486**	93,601
Total comprehensive income for the period	**1,504,983**	1,321,517
Total comprehensive income attributable to:		
Shareholders of the Company	**1,466,425**	1,294,450
Non-controlling interests	**38,558**	27,067
	1,504,983	1,321,517

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2011

	Note	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	4,877,509	4,519,090
Construction-in-progress	11	1,166,302	665,130
Leasehold land and land use rights	11	618,518	613,982
Intangible assets	11	601,560	606,508
Prepayment for non-current assets		416,478	537,714
Deferred income tax assets		109,100	98,213
Long-term bank deposits	13	733,297	786,274
		8,522,764	7,826,911
Current assets			
Inventories		2,584,408	2,760,090
Trade and bills receivables	12	1,545,412	1,395,837
Other receivables, prepayments and deposits		529,422	532,479
Derivative financial instruments		13,799	13,802
Restricted bank deposits	13	68,944	59,237
Cash and cash equivalents	13	8,115,250	5,989,024
		12,857,235	10,750,469
Total assets		21,379,999	18,577,380
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	16	122,422	122,422
Other reserves		4,175,804	3,630,385
Retained earnings			
— Proposed dividend		737,381	856,953
— Unappropriated retained earnings		6,087,337	5,893,427
		11,122,944	10,503,187
Non-controlling interests		360,903	322,345
Total equity		11,483,847	10,825,532

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2011

	Note	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	15	1,180,905	1,497,050
Deferred income tax liabilities		139,819	172,637
Deferred income on government grants		4,556	5,281
		1,325,280	1,674,968
Current liabilities			
Trade payables	14	1,168,501	1,318,908
Other payables and accrued charges		786,760	659,696
Current income tax liabilities		239,959	283,085
Bank borrowings	15	6,375,652	3,815,191
		8,570,872	6,076,880
Total liabilities		9,896,152	7,751,848
Total equity and liabilities		21,379,999	18,577,380
Net current assets		4,286,363	4,673,589
Total assets less current liabilities		12,809,127	12,500,500

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Unaudited					
	Attributable to shareholders of the Company					
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 1 January 2010	121,931	4,936,821	3,958,254	9,017,006	279,977	9,296,983
Profit for the period	—	—	1,202,789	1,202,789	25,127	1,227,916
Currency translation differences	—	91,661	—	91,661	1,940	93,601
Total comprehensive income	—	91,661	1,202,789	1,294,450	27,067	1,321,517
Transactions with owners						
2009 final dividends paid	—	—	(731,588)	(731,588)	—	(731,588)
Share-based compensation	—	17,525	—	17,525	—	17,525
Total of transactions with owners	—	17,525	(731,588)	(714,063)	—	(714,063)
Appropriation to statutory reserves	—	177,233	(177,233)	—	—	—
Transfer to retained earnings	—	(2,000,000)	2,000,000	—	—	—
Balance at 30 June 2010	121,931	3,223,240	6,252,222	9,597,393	307,044	9,904,437
Balance at 1 January 2011	**122,422**	**3,630,385**	**6,750,380**	**10,503,187**	**322,345**	**10,825,532**
Profit for the period	**—**	**—**	**1,181,997**	**1,181,997**	**25,500**	**1,207,497**
Currency translation differences	**—**	**284,428**	**—**	**284,428**	**13,058**	**297,486**
Total comprehensive income	**—**	**284,428**	**1,181,997**	**1,466,425**	**38,558**	**1,504,983**
Transactions with owners						
2010 final dividends paid	**—**	**—**	**(856,953)**	**(856,953)**	**—**	**(856,953)**
Share-based compensation	**—**	**10,285**	**—**	**10,285**	**—**	**10,285**
Total of transactions with owners	**—**	**10,285**	**(856,953)**	**(846,668)**	**—**	**(846,668)**
Appropriation to statutory reserves	**—**	**250,706**	**(250,706)**	**—**	**—**	**—**
Balance at 30 June 2011	**122,422**	**4,175,804**	**6,824,718**	**11,122,944**	**360,903**	**11,483,847**

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Unaudited Six months ended 30 June **2011** **HK$'000**	2010 HK$'000
Net cash generated from operating activities	**1,380,370**	1,377,276
Net cash used in investing activities	**(646,811)**	(1,099,798)
Net cash generated from/(used in) financing activities	**1,273,033**	(490,193)
Net increase/(decrease) in cash and cash equivalents	**2,006,592**	(212,715)
Cash and cash equivalents at 1 January	**5,989,024**	4,449,674
Effect of foreign exchange rate changes	**119,634**	34,181
Cash and cash equivalents at 30 June	**8,115,250**	4,271,140

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. GENERAL INFORMATION

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") are engaged in the manufacturing, distribution and sale of personal hygiene products, food and snack products and skin care products in the People's Republic of China (the "PRC"), Hong Kong and certain overseas markets.

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's shares have been listed on The Stock Exchange of Hong Kong Limited since December 1998.

This condensed consolidated interim financial information is presented in units of thousands HK dollars (HK$'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 30 August 2011. This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 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 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

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

3. ACCOUNTING POLICIES *(Continued)*

(a) *New and amended standards adopted by the Group in 2011*

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party.

(b) *Amendments and interpretations to existing standards effective in 2011 but not currently relevant to the Group*

- Amendment to HKAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to HK(IFRIC) — Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- HK(IFRIC) — Int-19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA, except for amendment to HKAS 34 'Interim financial reporting' as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

3. ACCOUNTING POLICIES *(Continued)*

(c) *New standards and amendments to standards issued but not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:*

- HKFRS 1 (Amendment) 'Severe hyperinflation and removal of fixed dates for first-time adopters'
- HKFRS 7 (Amendment) 'Disclosures — Transfers of financial assets'
- HKFRS 9 'Financial instruments'
- HKFRS 10 'Consolidated financial statements'
- HKFRS 11 'Joint arrangements'
- HKFRS 12 'Disclosure of interests in other entities'
- HKFRS 13 'Fair value measurements'
- HKAS 1 (Amendment) 'Presentation of financial statements'
- HKAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets'
- HKAS 19 (Amendment) 'Employee benefits'
- HKAS 27 (as amended in 2011) is renamed 'Separate financial statements'
- HKAS 28 (as amended in 2011) 'Investment in associates and joint ventures'

4. ESTIMATES

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2010.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

There have been no changes in the risk management policies of the Group.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

As at 30 June 2011, the contractual maturities of financial liabilities were as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
At 30 June 2011			
Bank borrowings	**6,375,652**	**948,308**	**232,597**
Interest payables	**87,350**	**12,722**	**6,415**
Trade and other payables	**1,769,431**	**—**	**—**
At 31 December 2010			
Bank borrowings	3,815,191	1,349,155	147,895
Interest payables	63,525	14,916	950
Trade and other payables	1,747,243	—	—

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5. FINANCIAL RISK MANAGEMENT *(Continued)*

5.3 Fair value estimation (Continued)

The following table presents the Group's assets that are measured at fair value at 30 June 2011.

	Unaudited 30 June 2011 Level 2 HK$'000	Audited 31 December 2010 Level 2 HK$'000
Financial assets at fair value through profit or loss		
— Derivative financial instruments	**13,799**	13,802

During the six months ended 30 June 2011, there are no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no significant changes in the reclassification of financial assets.

6. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of segment profit/(loss) without allocation of other gains/(losses) and finance income/(costs) which is consistent with that in the financial statements.

The Group's operations are mainly organised under the segments of manufacturing, distribution and sale of:

- personal hygiene products including sanitary napkins products, disposable diapers products and tissue paper products;
- food and snacks products; and
- skin care products and others

Most of the Group's companies are domiciled in the PRC. The revenue from external customers in the PRC accounted for more than 90% of the Group's total revenue.

Capital expenditures comprise additions to property, plant and equipment, construction-in-progress, leasehold land and land use rights, intangible assets and prepayment for non-current assets.

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets, including certain cash and bank balances and derivative financial instruments. Unallocated liabilities comprise corporate borrowings.

6. SEGMENT INFORMATION *(Continued)*

The segment information for the six months ended 30 June 2011 is as follows:

	Unaudited					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care products and others HK$'000	Group HK$'000
Consolidated statement of income for the six months ended 30 June 2011						
Segment revenue	2,043,915	1,491,163	3,966,481	859,152	331,891	8,692,602
Inter-segment sales	(195,418)	(259,444)	(46,805)	—	(2,231)	(503,898)
Revenue of the Group	1,848,497	1,231,719	3,919,676	859,152	329,660	8,188,704
Segment profit	626,161	158,283	401,684	62,525	35,180	1,283,833
Unallocated costs						(16,384)
Other gains — net						81,644
Operating profit						1,349,093
Finance income						127,969
Finance costs						(63,124)
Profit before income tax						1,413,938
Income tax expense						(206,441)
Profit for the period						1,207,497
Non-controlling interests						(25,500)
Profit attributable to shareholders of the Company						1,181,997
Other items for the six months ended 30 June 2011						
Addition to non-current assets	58,460	81,124	559,296	110,427	234,091	1,043,398
Depreciation charge	23,590	25,578	133,351	11,062	4,545	198,126
Amortisation charge	2,511	1,052	4,007	5,762	118	13,450

6. SEGMENT INFORMATION *(Continued)*

	Unaudited					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care products and others HK$'000	Group HK$'000
Consolidated balance sheet as at 30 June 2011						
Segment assets	2,812,508	3,520,709	10,608,449	972,975	957,776	18,872,417
Deferred income tax assets						109,100
Unallocated assets						2,398,482
Total assets						21,379,999
Segment liabilities	441,851	465,795	1,905,609	196,070	201,262	3,210,587
Deferred income tax liabilities						139,819
Current income tax liabilities						239,959
Unallocated liabilities						6,305,787
Total liabilities						9,896,152

6. SEGMENT INFORMATION *(Continued)*

The segment information for the six months ended 30 June 2010 is as follows:

	Unaudited					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care products and others HK$'000	Group HK$'000
Consolidated statement of income for the six months ended 30 June 2010						
Segment revenue	1,611,077	1,322,533	2,961,643	670,105	250,461	6,815,819
Inter-segment sales	(167,982)	(184,308)	(35,626)	—	(1,578)	(389,494)
Revenue of the Group	1,443,095	1,138,225	2,926,017	670,105	248,883	6,426,325
Segment profit	497,595	279,227	571,588	65,938	18,860	1,433,208
Unallocated costs						(35,764)
Other gains — net						92,899
Operating profit						1,490,343
Finance income						30,404
Finance costs						(27,399)
Profit before income tax						1,493,348
Income tax expense						(265,432)
Profit for the period						1,227,916
Non-controlling interests						(25,127)
Profit attributable to shareholders of the Company						1,202,789
Other items for the six months ended 30 June 2010						
Addition to non-current assets	33,749	174,916	684,991	62,367	8,315	964,338
Depreciation charge	29,389	20,848	108,397	11,234	4,285	174,153
Amortisation charge	1,712	1,207	3,733	5,557	92	12,301

6. SEGMENT INFORMATION *(Continued)*

	Unaudited					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care products and others HK$'000	Group HK$'000
Consolidated balance sheet as at 31 December 2010						
Segment assets	3,239,417	3,502,243	8,741,452	961,307	1,809,052	18,253,471
Deferred income tax assets						98,213
Unallocated assets						225,696
Total assets						18,577,380
Segment liabilities	455,888	592,198	2,130,624	219,840	42,219	3,440,769
Deferred income tax liabilities						172,637
Current income tax liabilities						283,085
Unallocated liabilities						3,855,357
Total liabilities						7,751,848

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30 June	
	2011 HK$'000	2010 HK$'000
Crediting		
Government grant income	**60,623**	67,487
Net exchange gain	**20,533**	12,043
Net gain on derivative financial instruments	**979**	24,856
Charging		
Depreciation of property, plant and equipment (Note 11)	**198,126**	174,153
Amortisation of leasehold land and land use rights (Note 11)	**8,476**	7,339
Amortisation of intangible assets (Note 11)	**4,974**	4,962
Employee benefit expense, including directors' emolument	**589,360**	460,327
Loss on disposal of property, plant and equipment	**1,839**	1,180
Operating lease rental	**35,045**	26,505
Provision for impairment of trade receivables	**223**	1,888
Provision for impairment of inventories	**5,343**	9,529
Urban Construction and Maintenance Tax and Education Surcharge	**58,707**	—

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Current income tax		
— Hong Kong profits tax	**3,759**	31,223
— PRC income tax	**246,586**	214,974
Deferred income tax, net	**(43,904)**	19,235
Income tax expense	**206,441**	265,432

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits of the Group's companies in Hong Kong for the period. Taxation on PRC income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC in which the Group operates.

Effective from 1 January 2008, the Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementations Regulations of the New CIT Law as approved by the State Council on 6 December 2007. For enterprises which were established before the publication of the New CIT Law and were entitled to preferential treatments of reduced CIT rates granted by the relevant tax authorities, the new CIT rates will be gradually increased from the preferential rates to 25% within 5 years after 1 January 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed terms may continue to enjoy such treatment until the fixed terms expire.

Enterprises incorporated in Hong Kong and other places are subject to income tax at the prevailing rates ranging from 0% to 16.5%.

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 CIT 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% (preferential rate) or 10% upon the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately HK$29,874,000 (2010: HK$29,600,000) for the six months ended 30 June 2011 have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future.

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$1,181,997,000 (2010: HK$1,202,789,000) by the weighted average number of 1,224,218,721 (2010: 1,219,313,721) ordinary shares in issue during the period.

	Unaudited Six months ended 30 June 2011	2010
Basic		
Profit attributable to shareholders of the Company (HK$'000)	**1,181,997**	1,202,789
Weighted average number of ordinary shares in issue (thousands)	**1,224,219**	1,219,314
Basic earnings per share	**96.6 HK cents**	98.6 HK cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's share options are regarded as dilutive potential ordinary shares as at 30 June 2011. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the six months ended 30 June 2011) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June 2011	2010
Diluted		
Profit attributable to shareholders of the Company (HK$'000)	**1,181,997**	1,202,789
Weighted average number of ordinary shares in issue (thousands)	**1,224,219**	1,219,314
Adjusted for share options (thousands)	**3,623**	5,902
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,227,842**	1,225,216
Diluted earnings per share	**96.3 HK cents**	98.2 HK cents

10. DIVIDENDS

	Unaudited Six months ended 30 June 2011 HK$'000	2010 HK$'000
Proposed interim dividend of HK$0.60 per share (2010: HK$0.60)	**737,381**	734,525

A dividend that related to the year ended 31 December 2010 and that amounted to HK$856,953,000 (2010: HK$731,588,000) was paid in May 2011.

In addition, an interim dividend of HK$60 cent per share (2010: HK$60 cent) was proposed by the Board of Directors on 30 August 2011. This interim dividend, amounting to HK$737,381,000 (2010: HK$734,525,000), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2011.

11. CAPITAL EXPENDITURE — NET BOOK VALUE

				Intangible assets			
	Property, plant and equipment HK$'000	Construction-in-progress HK$'000	Leasehold land and land use rights HK$'000	Goodwill HK$'000	Customer relationship HK$'000	Patents and trademarks HK$'000	Total HK$'000
At 1 January 2010	3,535,811	808,410	397,541	495,300	52,065	69,019	616,384
Additions	66,333	506,491	162,472	–	–	–	–
Transfer from construction-in-progress	362,036	(362,036)	–		–	–	–
Disposals	(1,795)	–	–	–	–	–	–
Depreciation/amortisation	(174,153)	–	(7,339)	–	(2,893)	(2,069)	(4,962)
Reclassification	4,730	–	(4,730)	–	–	–	–
Exchange differences	33,639	8,199	4,038	–	–	15	15
At 30 June 2010	3,826,601	961,064	551,982	495,300	49,172	66,965	611,437
At 1 January 2011	**4,519,090**	**665,130**	**613,982**	**495,300**	**46,280**	**64,928**	**606,508**
Additions	**74,376**	**865,207**	**92**	**–**	**–**	**–**	**–**
Transfer from construction-in-progress	**383,226**	**(383,226)**	**–**	**–**	**–**	**–**	**–**
Disposals	**(6,532)**	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation/amortisation	**(198,126)**	**–**	**(8,476)**	**–**	**(2,893)**	**(2,081)**	**(4,974)**
Exchange differences	**105,475**	**19,191**	**12,920**	**–**	**–**	**26**	**26**
At 30 June 2011	**4,877,509**	**1,166,302**	**618,518**	**495,300**	**43,387**	**62,873**	**601,560**

12. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Trade receivables	1,543,433	1,395,257
Bill receivables	9,786	8,287
	1,553,219	1,403,544
Less: provision for impairment	(7,807)	(7,707)
Trade and bill receivables, net	1,545,412	1,395,837

The ageing analysis of trade and bills receivables is as follows:

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Within 30 days	681,523	691,307
31 to 180 days	822,512	667,640
181 to 365 days	23,318	31,726
Over 365 days	18,059	5,164
	1,545,412	1,395,837

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximate their fair values at the balance sheet date.

13. CASH AND BANK BALANCES

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Long-term bank deposits		
Term deposits with initial term over one year	733,297	786,274
Restricted bank deposits	68,944	59,237
Cash and cash equivalents	8,115,250	5,989,024
Total cash and bank balances	8,917,491	6,834,535

13. CASH AND BANK BALANCES *(Continued)*

As at 30 June 2011, approximately HK$68,944,000 (31 December 2010: HK$59,237,000) of the bank balances are restricted to be drawn down until certain letters of credit issued by the Group are settled.

The cash and cash equivalents represented cash deposit held at call with banks and in hand and deposits with short-term maturity.

14. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Within 30 days	**691,016**	707,931
31 to 180 days	**451,727**	589,328
181 to 365 days	**17,642**	14,119
Over 365 days	**8,116**	7,530
	1,168,501	1,318,908

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

15. BANK BORROWINGS

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Non-current		
Long-term bank loans — unsecured	**1,180,905**	1,497,050
Current		
Trust receipt bank loans	**227,432**	207,102
Current portion of long-term bank loans — unsecured	**1,839,120**	692,432
Short-term bank loans — unsecured	**4,309,100**	2,915,657
	6,375,652	3,815,191
Total bank borrowings	**7,556,557**	5,312,241

As at 30 June 2011, the effective interest rate of the Group's borrowings was approximately 1.92% (31 December 2010: 1.74%) per annum.

15. BANK BORROWINGS *(Continued)*

Movements in bank borrowings are analysed as follows:

	Unaudited HK$'000
At 1 January 2010	2,730,200
New borrowings	2,505,084
Repayments of borrowings	(1,838,398)
Exchange difference	9,709
At 30 June 2010	3,406,595
At 1 January 2011	**5,312,241**
New borrowings	**4,542,000**
Repayments of borrowings	**(2,345,207)**
Exchange difference	**47,523**
At 30 June 2011	**7,556,557**

16. SHARE CAPITAL

	Authorised share capital Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
At 1 January 2010 to 30 June 2011	**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 2010 to 30 June 2010	1,219,313,721	121,931
At 1 January 2011 to 30 June 2011	**1,224,218,721**	**122,422**

17. CAPITAL COMMITMENTS

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Contracted but not provided for in respect of:		
Plant, machinery and equipment	**587,847**	707,244
Land and buildings	**769,747**	409,009
	1,357,594	1,116,253
Authorised but not contracted in respect of:		
Land and buildings	**408,001**	656,210
Total capital commitment	**1,765,595**	1,772,463

18. CONTINGENT LIABILITIES

At 30 June 2011, the Group had no material contingent liabilities (31 December 2010: Nil).

19. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

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

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Purchases from Weifang Power		
— electricity energy	**75,620**	45,224
— heat energy	**42,707**	32,694
	118,327	77,918

Pursuant to agreements 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 not less favorable than the prevailing market prices. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

(b) For the six months ended 30 June 2011, the key management compensation amounted to approximately HK$3,025,000 (2010: HK$3,209,000).

BUSINESS OVERVIEW

In the first half of 2011, the global economy continues to be plagued by financial crisis in Europe and the United States, which added uncertainty to the road of recovery. Despite the complicated international situation and rising commodity and consumer prices in China, China economy has maintained a good momentum thanks to the proactive fiscal policy, prudent monetary policy as well as strengthened and optimized macroeconomic measures implemented by the Chinese Government.

According to the preliminary figures from the National Bureau of Statistics of China, in the first half of 2011, China's GDP increased by 9.6% to approximately RMB20,445.9 billion, as compared with that of the last corresponding period. According to the Sixth National Population Census of the PRC conducted in April, China's urbanization process is accelerating with urban population reaching around 670 million people, or about 49.7% of the total population. The continuing urbanization heightens people's health and hygiene awareness, while increase in income brought by economic growth promotes consumption upgrade. These encourage the development of the high-quality personal and household hygiene products market.

For the six months ended 30 June 2011, the Group recorded revenue of approximately HK$8,188,704,000, representing approximately 27.4% increase from that of the last corresponding period. Profit attributable to shareholders amounted to approximately HK$1,181,997,000, which dropped by about 1.7% from the same period last year. The Board of Directors has declared an interim dividend of 60 HK cents per share (2010 first half: 60 HK cents) for the six months ended 30 June 2011.

In the first half of 2011, the Group's overall gross profit margin dropped to approximately 38.6% (2010 first half: 45.5%), mainly due to the increase in production costs resulted from rising raw material prices. Meanwhile, the Group continued to optimize its product mix, gradually expand production capacity for better economies of scale and implement strict cost control initiatives, thus reducing the impact of raw material price increase on the Group's gross profit margin.

During the period, distribution costs and administrative expenses as a percentage of revenue dropped to around 23.1% (2010 first half: 23.8%).

BUSINESS REVIEW

Tissue Paper

In recent years, the demand for quality tissue papers in China continued to grow rapidly and the market size further expanded. The China's annual tissue paper consumption per capita is still lower than that of other developed countries, which implies huge growth potential of the market.

In the first half of 2011, the Group's tissue paper business maintained a growing momentum with revenue increased by about 34.0% to approximately HK$3,919,676,000, accounting for approximately 47.9% of the total revenue (2010 first half: 45.5%). During the period, the production costs of tissue paper business increased sharply as the price of the major raw material, tissue wood pulp, surged significantly. As a result, gross profit margin of the Group's tissue paper business decreased to approximately 31.4% (2010 first half: 40.4%). The Group continued to actively enhance product mix to reduce the impact brought by rising production costs. As such, the revenue of toilet roll products with relatively lower gross profit margin only accounted for approximately 30.7% of tissue paper revenue (2010 first half: 38.1%).

The Group further expanded the production capacity for tissue paper in order to cater to the rising market demand for our "Hearttex" products. It is expected that the new tissue paper production base in Chongqing with an annualized production capacity of 60,000 tons will commence production by the end of 2011 so that the Group's annualized production capacity will reach 600,000 tons. Besides, the Group also focuses on the market development in Eastern China and the construction of a new tissue paper production base in Wuhu has commenced. In 2012, the Group will increase 60,000 tons production capacity in Chongqing and 120,000 tons production capacity in both Wuhu and Jinjiang so that the Group's total annualized production capacity is expected to reach 900,000 tons by the end of 2012.

Sanitary Napkin

Against the backdrop of accelerating urbanization, market penetration rate of sanitary napkins products grew higher year after year. During the period, the Group continued to exert its brand advantage and its sanitary napkin business recorded satisfactory growth. As a result, the revenue of sanitary napkin business increased by about 28.1% to approximately HK$1,848,497,000, accounting for approximately 22.6% of total revenue (2010 first half: 22.5%).

During the period, the drastic increase in the prices of major raw materials, petrochemical products and fluff pulp, caused pressure on the Group's production costs. Nevertheless, the Group mitigated the impact of increasing raw material prices by strengthening cost controls and increasing sales of mid-to-high-end products. As such, the gross profit margin still reached 59.6% (2010 first half: 61.7%).

In the second half of 2011, the Group will continue to optimize its product mix and introduce the high end "Princess" series to meet the market demand for high-end products. It is expected the selling price of the new series will be higher than the Group's existing sanitary products, and will improve the overall gross profit margin of sanitary napkin business.

Disposable Diaper

In recent years, alongside urbanization and the increasing per capita disposable income, the demand for disposable diapers in China grew steadily, which brought both opportunities and competitions for the industry players. In the first half of 2011, revenue from disposable diapers business grew by about 8.2% to approximately HK$1,231,719,000, accounting for about 15.0% of the total revenue (2010 first half: 17.7%). During the period, many small and medium enterprises entered into the mid and low diapers markets in view of the low entry barrier and launched low-priced products to the market. On the other hand, global brands continued to develop into second and third-tier areas. As such, the Group's diaper business only recorded a mild growth.

During the period, the prices of major raw materials, fluff pulp and petrochemical products, surged significantly. As such, the gross profit margin of disposable diapers dropped to approximately 35.3% (2010 first half: 45.7%).

To improve its competitiveness in the diapers market, the Group launched the upgraded version of mid and low end diapers from March 2011 onwards. In addition, Group will also launch high end products including "Day and Night" series and "Pull Up" series in the second half of 2011 to meet consumers' demand for high-end products. The average selling price and gross profit margin of these new series will be higher than those of the current products. It is expected that the sales performance will improve in the second half of 2011.

Food and Snacks

In the first half of 2011, revenue of the Group's food and snacks business increased by 28.2% to approximately HK$859,152,000, accounting for about 10.5% of the Group total revenue (2010 first half: 10.4%). As raw materials such as sugar, flavorings and flour have increased significantly during the period, the gross profit margin of food and snacks business dropped to around 32.0% (2010 first half: 37.6%).

First-aid Products

Revenue from the Group's first aid product business in the first half of 2011 under the brandnames of "Banitore" and "Bandi" amounted to approximately HK$17,117,000 (2010 first half: HK$17,848,000). As this business only accounted for approximately 0.2% of the Group's total revenue (2010 first half: 0.3%), it has insignificant impact on the Group's overall results.

Skincare and Cleansing Products

Revenue of the Group's skincare and cleansing product business reached approximately HK$13,451,000 (2010 first half: HK$14,290,000). As this business only accounted for approximately 0.2% of the Group's total revenue (2010 first half: 0.2%), it has only negligible impact on the Group's overall results.

Distribution and Marketing Strategy

During the period, less TV advertisements and various promotion activities were launched such that the related expenses decreased and accounted for about 9.9% of revenue (2010 first half: 10.8%).

On the other hand, the Group is subjected to new taxes including urban construction and maintenance tax and education surcharge calculated based on turnover tax, which totally accounted for around 0.7% of revenue (2010 first half: nil).

During the period, overall speaking, the sales and distribution costs to revenue ratio decreased to approximately 18.8% accordingly (2010 first half: 19.0%).

Research and Development

The Group always strives for excellence of its products. As the first and so far the only enterprise in the mainland's tissue paper industry being awarded the Enterprise Technological Centre with State Accreditation, the Group continued to allocate more resources on the research and development front, in a bid to further enhance its product quality, offer new and high quality hygiene products to consumers, and consolidate the Group's leading position in the personal hygiene product market.

Inclusion as a Hang Seng Index Constituent

On 7 June 2011, the Group was included as a constituent of the Hong Kong's Hang Seng Index. This marks another important milestone of the Group, and is also the market's recognition to the Group's prudent and active business strategy throughout the years.

Recognition and Award

In August 2011, the Group was accredited by Fujian provincial government with Fujian Quality Award. This is recognition of the Group's outstanding management and quality of our products.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 30 June 2011, the Group's cash and cash equivalents, long-term bank deposits and restricted bank deposits totally amounted to approximately HK$8,917,491,000 (31 December 2010: HK$6,834,535,000); and the Group's total borrowings amounted to approximately HK$7,556,557,000 (31 December 2010: HK$5,312,241,000). The bank borrowings were subject to floating annual interest rates ranging from approximately 0.9% to 3.4% (2010 first half: 0.7% to 2.2%). As at 30 June 2011, apart from the bank deposits of HK$68,944,000 (31 December 2010: HK$59,237,000) deposited in banks as collaterals for issuing letters of credit/guarantee for customs duty, there were no other charges on the Group's assets for its bank loans. As at 30 June 2011, the Group's gross gearing ratio was approximately 67.9% (31 December 2010: 50.6%), which was calculated on the basis of the total 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, long-term bank deposits and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests) was nil (31 December 2010: nil), as the Group was at a net cash position.

During the period, the Group's capital expenditure (excluding prepayment) amounted to approximately HK$939,675,000.

As at 30 June 2011, the Group had no material contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

As at 30 June 2011, the Group employed approximately 32,088 staff members. 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 performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

FOREIGN CURRENCY RISKS

Most of the Group's income is denominated in Renminbi while part of the raw materials purchases are imported and 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 2011, apart from certain non-deliverable forward foreign exchange contracts to sell Renminbi for United States dollar and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

OUTLOOK

Looking forward, the country's accelerating urbanization and steady and rapid economic growth will continue to drive the demand for various hygiene products. Furthermore, consumers' increasing awareness of personal hygiene will also promote growth in consumption of high quality hygiene products. Capitalizing on its brand reputation and scale advantage, the Group will continuously develop new products of high quality, improve management efficiency and expand sales network, in a bid to strengthen overall competitiveness, further enhance brand influence and expand market share.

Major raw material price started to come down from the highs around the end of the second quarter of 2011. Hence, the Group believes that the raw material cost pressures of the Group will be alleviated. At the same time, the Group will continue to optimize the product mix to further enhance the Group's gross profit margins in various business segments.

Leveraging its solid foundation and brand equity, together with its country-wide distribution network, the Group is confident in maintaining its leading position in the personal hygiene product market delivering steady growth of business and creating greater value for shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of 60 HK cents (2010: 60 HK cents) per share for the six months ended 30 June 2011 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 29 September 2011. Dividend warrants will be despatched to shareholders on or about 13 October 2011.

The Register of Members of the Company will be closed from 26 September 2011 to 29 September 2011 (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 23 September 2011.

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

At 30 June 2011, 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	Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok	228,794,599 (Note (2))	–	10,000	228,804,599	18.69%
Mr. Hui Lin Chit	224,669,751 (Note (3))	–	90,000	224,759,751	18.36%
Mr. Hung Ching Shan	7,000,000 (Note (6))	–	10,000	7,010,000	0.57%
Mr. Xu Shui Shen	–	33,030	75,000	108,030	0.01%
Mr. Xu Da Zuo	19,777,321 (Notes (4)&(5))	–	65,000	19,842,321	1.62%
Mr. Xu Chun Man	16,167,445 (Note (5))	–	10,000	16,177,445	1.32%
Mr. Sze Wong Kim	151,700	–	–	151,700	0.01%
Mr. Hui Ching Chi	40,000	–	–	40,000	0.003%
Mr. Loo Hong Shing Vincent	100,000	30,000	85,000	215,000	0.02%

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 32 and 33.

(2) Out of the 228,794,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 228,228,999 ordinary shares while Mr. Sze had personal interests in 565,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

(3) An Ping Holdings Limited held 224,669,751 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 as nominee in trust for Credit Suisse, 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) Out of the 19,777,321 listed ordinary shares, Skyful Holdings Limited held 17,270,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company. The remaining 2,507,321 shares were held by HIIL.

(5) These interests were held by Hengan International Investments Limited ("HIIL"), a nominee company holding shares of the Company on behalf of certain Directors and senior management of the Group and their family members.

(6) Wan Li Company Limited held 7,000,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

(7) 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 2011, 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
Tin Lee Investments Limited	(1)	Beneficial owner	228,228,999 (L)	18.64%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	228,228,999 (L)	18.64%
An Ping Holdings Limited	(2)	Beneficial owner	224,669,751 (L)	18.35%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,669,751 (L)	18.35%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	477,168,750 (L)	38.98%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	477,168,750 (L)	38.98%
Credit Suisse Trust Limited	(3)	Trustee	477,168,750 (L)	38.98%
JP Morgan Chase & Co	(4)	Beneficial owner	2,510,250 (L)	0.21%
	(4)	Beneficial owner	589,926 (S)	0.05%
	(4)	Investment manager	13,542,500 (L)	1.11%
	(4)	Custodian corporation/ approved lending agent	56,974,161 (L)	4.65%

(L) denotes long position *(S) denotes short position*

Notes:

(1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of the Sze's Family Trust.

(2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of the Hui Family Trust.

(3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust and the Wan Li Trust and is deemed to be interested in the shares held by these trusts.

(4) JP Morgan Chase & Co and its various wholly-owned subsidiaries held the shares on behalf of the accounts they managed.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

SHARE OPTION 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. The table below sets out movements in the share options granted under the Scheme during the six months ended 30 June 2011:

	Number of share options								
Eligible person	Balance as at 01/01/2011	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled/ lapsed during the period	Balance as at 30/06/2011	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Sze Man Bok	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Hui Lin Chit	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2011–02/05/2013
Hung Ching Shan	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Shui Shen	75,000	–	–	–	–	75,000	25.05	12/07/2007	12/07/2011–02/05/2013
Xu Da Zuo	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2011–02/05/2013
Xu Chun Man	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Loo Hong Shing Vincent	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2011–02/05/2013

Eligible person	Number of share options: Balance as at 01/01/2011	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled/ lapsed during the period	Balance as at 30/06/2011	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Employees	47,500	–	–	–	–	47,500	25.05	12/07/2007	12/07/2010–02/05/2013
	4,445,500	–	–	–	(9,000)	4,436,500	25.05	12/07/2007	12/07/2011–02/05/2013
	20,000	–	–	–	–	20,000	25.30	18/07/2007	18/07/2011–02/05/2013
	50,000	–	–	–	–	50,000	25.05	18/03/2008	12/07/2011–02/05/2013
	2,536,000	–	–	–	(94,000)	2,442,000	44.30	07/09/2009	07/09/2012–02/05/2013
	7,444,000	–	–	–	(103,000)	7,341,000			

No options lapsed during the period.

According to the Binomial Model, the fair value of the option granted, which had been charged to the consolidated income statement for the six months ended 30 June 2011, amounted to HK$10,285,000 and the remaining unamortised fair value of approximately HK$15,045,000 will be charged to the consolidated income statement in future years.

During the period, the Company has adopted another share option scheme on 26 May 2011 which is valid and effective for a period of 10 years commencing on the date of adoption of the scheme. No options were granted under this scheme during the period while 2,908,000 options exercisable at a price of HK$68.3 per share were granted by the Company to employees of the Group on 28 July 2011.

It should be noted that the value of an option varies with different variables of certain subjective assumptions, any change in variables so adopted may materially affect the fair value estimate.

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 2011.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2011, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules on 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 2011, 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. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Loo Hong Shing Vincent as executive directors, and Mr. Chan Henry, Mr. Wang Ming Fu and Ms. Ada Ying Kay Wong as independent non-executive directors.

Hong Kong, 30 August 2011