



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044



2012

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.



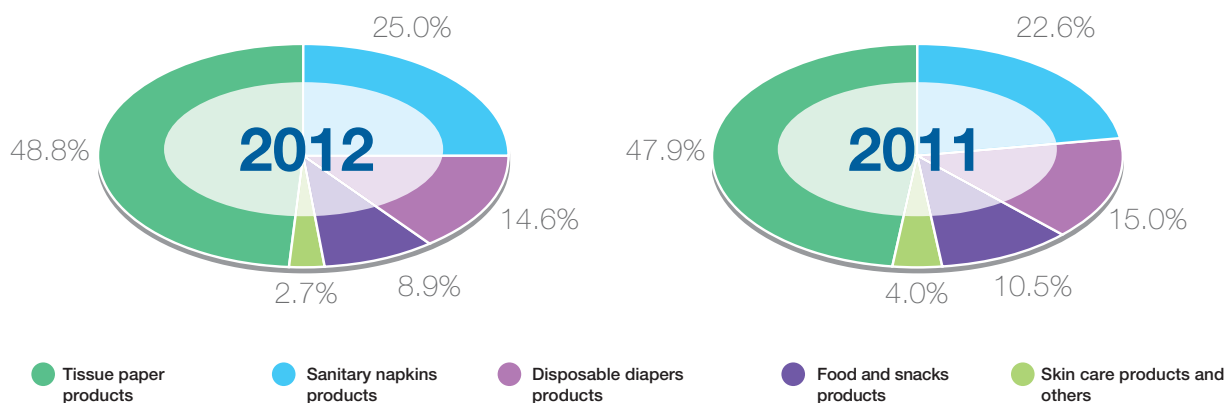
Hengan International Group Company Limited

“Growing with You for a Better Life”

FINANCIAL SUMMARY

	Unaudited Six months ended 30 June		
	2012 HK\$'000	2011 HK\$'000	% of change
Revenue	9,041,725	8,188,704	10.4%
Profit attributable to shareholders	1,626,288	1,181,997	37.6%
Gross profit margin	44.2%	38.6%	
Earnings per share			
– Basic	HK\$1.323	HK\$0.966	
– Diluted	HK\$1.322	HK\$0.963	
Finished goods turnover	50 days	45 days	
Trade receivables turnover	35 days	33 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 2012, and the unaudited condensed consolidated interim balance sheet of the Group as at 30 June 2012, 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 2012

	Note	Unaudited	
		Six months ended 30 June 2012	2011
		HK\$'000	HK\$'000
Revenue	6	9,041,725	8,188,704
Cost of goods sold		(5,043,018)	(5,028,811)
Gross profit		3,998,707	3,159,893
Other gains — net		185,205	81,644
Distribution costs		(1,607,445)	(1,540,089)
Administrative expenses		(438,820)	(352,355)
Operating profit	7	2,137,647	1,349,093
Finance income		22,654	127,969
Finance costs		(107,944)	(63,124)
Finance (cost)/income — net		(85,290)	64,845
Profit before income tax		2,052,357	1,413,938
Income tax expense	8	(410,608)	(206,441)
Profit for the period		1,641,749	1,207,497
Profit attributable to:			
Shareholders of the Company		1,626,288	1,181,997
Non-controlling interests		15,461	25,500
		1,641,749	1,207,497
Earnings per share for profit attributable to shareholders of the Company			
— Basic	9	HK\$1.323	HK\$0.966
— Diluted	9	HK\$1.322	HK\$0.963
Dividends	10	921,771	737,381

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Profit for the period	1,641,749	1,207,497
Other comprehensive income:		
– Currency translation differences	(88,186)	297,486
Total comprehensive income for the period	1,553,563	1,504,983
Attributable to:		
Shareholders of the Company	1,537,614	1,466,425
Non-controlling interests	15,949	38,558
Total comprehensive income for the period	1,553,563	1,504,983

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2012

	Note	Unaudited 30 June 2012 HK\$'000	Audited 31 December 2011 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	6,277,694	5,203,336
Construction-in-progress	11	2,274,102	2,053,903
Land use rights	11	1,015,433	850,365
Intangible assets	11	595,965	601,212
Prepayments for non-current assets		329,104	439,325
Deferred income tax assets		171,118	131,110
Long-term bank deposits	13	2,034,096	296,040
		12,697,512	9,575,291
Current assets			
Inventories		3,433,334	2,934,323
Trade and bills receivables	12	1,555,165	1,892,632
Other receivables, prepayments and deposits		738,917	589,734
Derivative financial instruments		—	258
Restricted bank deposits	13	59,081	68,640
Cash and bank balances	13	7,229,736	8,258,202
		13,016,233	13,743,789
Total assets		25,713,745	23,319,080
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	16	122,903	122,901
Other reserves		3,213,441	3,489,931
Retained earnings			
— Proposed dividend		921,771	921,756
— Unappropriated retained earnings		8,714,272	7,806,825
		12,972,387	12,341,413
Non-controlling interests		327,483	377,334
Total equity		13,299,870	12,718,747

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

AS AT 30 JUNE 2012

	Note	Unaudited 30 June 2012 HK\$'000	Audited 31 December 2011 HK\$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	15	2,666,451	403,735
Deferred income tax liabilities		165,451	180,903
Deferred income on government grants		2,922	3,807
		2,834,824	588,445
Current liabilities			
Trade payables	14	1,689,293	1,881,313
Other payables and accrued charges		1,198,855	968,976
Derivative financial instruments		1,148	1,869
Current income tax liabilities		303,152	345,102
Bank borrowings	15	6,386,603	6,814,628
		9,579,051	10,011,888
Total liabilities		12,413,875	10,600,333
Total equity and liabilities		25,713,745	23,319,080
Net current assets		3,437,182	3,731,901
Total assets less current liabilities		16,134,694	13,307,192

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited						
	Attributable to the Company's shareholders					Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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							
— Value of employee services	—	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	
Balance at 1 January 2012	122,901	3,489,931	8,728,581	12,341,413	377,334	12,718,747	
Profit for the period	—	—	1,626,288	1,626,288	15,461	1,641,749	
Currency translation differences	—	(88,674)	—	(88,674)	488	(88,186)	
Total comprehensive income	—	(88,674)	1,626,288	1,537,614	15,949	1,553,563	
Transactions with owners							
2011 final dividends paid	—	—	(921,767)	(921,767)	(65,800)	(987,567)	
Share-based compensation							
— Value of employee services	—	14,624	—	14,624	—	14,624	
— Proceeds from shares issued	2	501	—	503	—	503	
Total of transactions with owners	2	15,125	(921,767)	(906,640)	(65,800)	(972,440)	
Appropriation to statutory reserves	—	297,059	(297,059)	—	—	—	
Transfer to retained earnings	—	(500,000)	500,000	—	—	—	
Balance at 30 June 2012	122,903	3,213,441	9,636,043	12,972,387	327,483	13,299,870	

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	1,951,044	1,678,451
Income tax paid	(507,112)	(298,081)
Net cash generated from operating activities	1,443,932	1,380,370
Cash flows from investing activities		
Purchase of property, plant and equipment, including additions of construction-in-progress	(1,586,503)	(935,900)
Additions of land use rights	(180,702)	(92)
Proceeds from disposal of property, plant and equipment and land use rights	890	4,693
Proceeds from derivative financial instruments	—	982
Decrease in prepayments for non-current assets	108,141	132,552
Decrease/(increase) in restricted bank deposits	9,209	(8,260)
(Increase)/decrease in long-term and short-term bank deposits	(391,954)	70,606
Interest received	130,137	88,608
Net cash used in investing activities	(1,910,782)	(646,811)
Cash flows from financing activities		
Proceeds from bank borrowings	6,688,809	4,542,000
Repayment of bank borrowings	(4,844,530)	(2,345,207)
Interest paid	(107,944)	(66,807)
Dividends paid	(921,767)	(856,953)
Proceeds from shares issued under the employee share option scheme	503	—
Net cash generated from financing activities	815,071	1,273,033
Net increase in cash and cash equivalents	348,221	2,006,592
Cash and cash equivalents at 1 January	4,229,036	5,989,024
Effect of foreign exchange rate changes	(5,460)	119,634
Cash and cash equivalents at 30 June	4,571,797	8,115,250

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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 29 August 2012. 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 2012 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 2011, 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 2011, as described in those annual financial statements.

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

There are no amended standard and interpretation that are effective for the first time for this interim period that could be expected to have a material impact to the Group.

The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKAS 1 (Amendment) ‘Presentation of financial statements’, effective for annual periods beginning on or after 1 July 2012.

3. ACCOUNTING POLICIES *(Continued)*

- HKFRS 10 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2013.
- HKAS 27 (revised in 2011) 'Separate financial statements', effective for annual periods beginning on or after 1 January 2013.
- HKFRS 11 'Joint arrangements', effective for annual periods beginning on or after 1 January 2013.
- HKAS 28 (revised in 2011) 'Associates and joint ventures', effective for annual periods beginning on or after 1 January 2013.
- HKFRS 12 'Disclosure of interests in other entities', effective for annual periods beginning on or after 1 January 2013.
- HKFRS 13 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013.
- HKAS 19 (Amendment) 'Employee benefits', effective for annual periods beginning on or after 1 January 2013.
- HKFRS 7 (Amendment) 'Financial instruments: Disclosures — Offsetting financial assets and financial liabilities', effective for annual periods beginning on or after 1 January 2013.
- HKAS 32 (Amendment) 'Financial instruments: Presentation — Offsetting financial assets and financial liabilities', effective for annual periods beginning on or after 1 January 2014.
- HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2015.
- HKFRS 7 and HKFRS 9 (Amendments) "Mandatory effective date and transition disclosures", effective for annual periods beginning on or after 1 January 2015.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, 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 judgements 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 2011.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial information does 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 as at 31 December 2011.

There have been no changes in the risk management department since 2011 year end or in any risk management policies.

5.2 Liquidity risk

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

As at 30 June 2012 the contractual maturities of financial liabilities were as follows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 3 and 5 years HK\$'000
At 30 June 2012			
Bank borrowings	6,386,603	2,097,165	569,286
Interest payables	152,374	78,420	22,598
Trade and other payables	2,679,561	—	—
At 31 December 2011			
Bank borrowings	6,814,628	403,735	—
Interest payables	67,235	6,075	—
Trade and other payables	2,601,880	—	—

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 financial assets and liabilities that are measured at fair value at 30 June 2012.

	Unaudited 30 June 2012 Level 2 HK\$'000	Audited 31 December 2011 Level 2 HK\$'000
Financial assets at fair value through profit or loss		
— Derivative financial instruments	—	258
Financial liabilities at fair value through profit or loss		
— Derivative financial instruments	(1,148)	(1,869)

During the six months ended 30 June 2012, 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 annual 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.

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

6. SEGMENT INFORMATION (Continued)

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.

The segment information for the six months ended 30 June 2012 is as follows:

	Unaudited					Group HK\$'000
	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	
Consolidated income statement for the six months ended 30 June 2012						
Segment revenue	2,433,211	1,474,816	4,540,409	809,055	239,183	9,496,674
Inter-segment sales	(168,319)	(153,573)	(129,605)	—	(3,452)	(454,949)
Revenue of the Group	2,264,892	1,321,243	4,410,804	809,055	235,731	9,041,725
Segment profit	930,514	270,583	699,877	41,073	32,616	1,974,663
Unallocated costs						(22,221)
Other gains — net						185,205
Operating profit						2,137,647
Finance income						22,654
Finance costs						(107,944)
Profit before income tax						2,052,357
Income tax expense						(410,608)
Profit for the period						1,641,749
Non-controlling interests						(15,461)
Profit attributable to shareholders of the Company						1,626,288
Other items for the six months ended 30 June 2012						
Addition to non-current assets	39,019	3,689	1,388,671	73,451	154,234	1,659,064
Depreciation charge	31,360	20,686	170,078	17,468	5,194	244,786
Amortisation charge	2,127	668	7,289	5,791	31	15,906

6. SEGMENT INFORMATION (Continued)

	Unaudited					Group HK\$'000
	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	
Consolidated balance sheet as at 30 June 2012						
Segment assets	3,822,265	2,998,079	14,695,119	1,108,865	2,409,297	25,033,625
Deferred income tax assets						171,118
Unallocated assets						509,002
Total assets						<u>25,713,745</u>
Segment liabilities	417,019	713,950	3,219,931	336,041	148,215	4,835,156
Deferred income tax liabilities						165,451
Current income tax liabilities						303,152
Unallocated liabilities						<u>7,110,116</u>
Total liabilities						<u>12,413,875</u>

6. SEGMENT INFORMATION (Continued)

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

	Unaudited					Group HK\$'000
	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	
Consolidated income statement						
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					Group HK\$'000
	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	
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

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Crediting		
Government grant income	90,108	60,623
Net exchange gain	—	20,533
Net gain on derivative financial instruments	621	979
Charging		
Depreciation of property, plant and equipment (Note 11)	244,786	198,126
Amortisation of land use rights (Note 11)	10,687	8,476
Amortisation of intangible assets (Note 11)	5,219	4,974
Employee benefit expense, including directors' emoluments	731,090	589,360
Loss on disposal of property, plant and equipment	2,435	1,839
Operating lease rentals	42,731	35,045
Provision for impairment of trade receivables	1,727	223
Provision for impairment of inventories	7,332	5,343
Net exchange loss	25,685	—
City Construction and Maintenance Tax and Educational Surcharge	71,116	58,707

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	51,691	3,759
– PRC income tax	414,529	246,586
Deferred income tax, net	(55,612)	(43,904)
Income tax expense	410,608	206,441

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 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. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%. In current year, some subsidiaries entitled to exemptions or reductions from the standard income tax rate according to the CIT law approved by the National People's Congress on 16 March 2007.

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\$46,386,000 (2011: HK\$29,874,000) for the six months ended 30 June 2012 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 the Company of HK\$1,626,288,000 (2011: HK\$1,181,997,000) by the weighted average number of 1,229,015,853 (2011: 1,224,218,721) ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2012	2011
Basic		
Profit attributable to shareholders of the Company (HK\$'000)	1,626,288	1,181,997
Weighted average number of ordinary shares in issue (thousands)	1,229,016	1,224,219
Basic earnings per share (HK\$)	HK\$1.323	HK\$0.966

(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 2012. 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 2012) 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	
	2012	2011
Diluted		
Profit attributable to shareholders of the Company (HK\$'000)	1,626,288	1,181,997
Weighted average number of ordinary shares in issue (thousands)	1,229,016	1,224,219
— Share options (thousands)	995	3,623
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,230,011	1,227,842
Diluted earnings per share (HK\$)	HK\$1.322	HK\$0.963

10. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Proposed interim dividend of HK\$0.75 (2011: HK\$0.60) per share	921,771	737,381

A dividend of HK\$921,767,000 (2011: HK\$856,953,000) that related to the year ended 31 December 2011 was paid in May 2012.

An interim dividend of HK\$0.75 per share (2011: HK\$0.60) was proposed by the Board of Directors on 29 August 2012. This interim dividend, amounting to HK\$921,771,000 (2011: HK\$737,381,000), 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 2012.

11. CAPITAL EXPENDITURE – NET BOOK VALUE

	Unaudited						
	Property, plant and equipment	Construction- in progress	Land use rights	Intangible assets			Total
				Goodwill	Customer relationship	Patents and trademarks	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
At 1 January 2012	5,203,336	2,053,903	850,365	495,300	40,495	65,417	601,212
Additions	58,636	1,527,867	180,702	—	—	—	—
Transfer from construction- in-progress	1,295,746	(1,295,746)	—	—	—	—	—
Disposals	(3,325)	—	—	—	—	—	—
Depreciation/amortisation	(244,786)	—	(10,687)	—	(2,893)	(2,326)	(5,219)
Exchange differences	(31,913)	(11,922)	(4,947)	—	—	(28)	(28)
At 30 June 2012	6,277,694	2,274,102	1,015,433	495,300	37,602	63,063	595,965

12. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2012 HK\$'000	Audited 31 December 2011 HK\$'000
Trade receivables	1,552,518	1,843,657
Bills receivables	11,164	57,348
	1,563,682	1,901,005
Less: provision for impairment	(8,517)	(8,373)
Trade and bills receivables, net	1,555,165	1,892,632

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

	Unaudited 30 June 2012 HK\$'000	Audited 31 December 2011 HK\$'000
Within 30 days	689,088	1,003,328
31 to 180 days	817,234	841,474
181 to 365 days	32,104	35,028
Over 365 days	16,739	12,802
	1,555,165	1,892,632

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. 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 as at the balance sheet date.

13. LONG-TERM BANK DEPOSITS, RESTRICTED BANK DEPOSITS, AND CASH AND BANK BALANCES

	Unaudited 30 June 2012 HK\$'000	Audited 31 December 2011 HK\$'000
Long-term bank deposits		
Term deposits with initial term over one year	2,034,096	296,040
Restricted bank deposits	59,081	68,640
Cash and bank balances		
– Term deposits with initial term between three months and one year	2,657,939	4,029,166
– Cash and cash equivalents	4,571,797	4,229,036
	7,229,736	8,258,202
Total cash and bank balances	9,322,913	8,622,882

As at 30 June 2012, approximately HK\$59,081,000 (31 December 2011: HK\$68,640,000) of the bank balances were restricted to be drawn down until certain letters of credit issued by the Group are settled.

The cash and cash equivalents represented cash deposits 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 2012 HK\$'000	Audited 31 December 2011 HK\$'000
Within 30 days	1,057,518	1,002,675
31 to 180 days	605,226	851,895
181 to 365 days	18,920	14,930
Over 365 days	7,629	11,813
	1,689,293	1,881,313

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 2012 HK\$'000	Audited 31 December 2011 HK\$'000
Non-current		
Long-term bank loans — unsecured	2,666,451	403,735
Current		
Trust receipt bank loans	894,788	520,015
Current portion of long-term bank loans — unsecured	973,398	1,266,713
Short-term bank loans — unsecured	4,518,417	5,027,900
	6,386,603	6,814,628
Total bank borrowings	9,053,054	7,218,363

As at 30 June 2012, the effective interest rate of the Group's borrowings was approximately 2.80 % (31 December 2011: 2.03%) per annum.

Movements in bank borrowings are analysed as follows:

	Unaudited HK\$'000
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
At 1 January 2012	7,218,363
New borrowings	6,688,809
Repayments of borrowings	(4,844,530)
Exchange difference	(9,588)
At 30 June 2012	9,053,054

16. SHARE CAPITAL

	Authorised share capital	
	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1 January 2011 to 30 June 2012	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 2011 to 30 June 2011	1,224,218,721	122,422
At 1 January 2012	1,229,007,721	122,901
Share-based compensation		
— Proceeds from shares issued	20,000	2
At 30 June 2012	1,229,027,721	122,903

17. CAPITAL COMMITMENTS

	Unaudited	Audited
	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Contracted but not provided for in respect of:		
Machinery and equipment	641,140	706,466
Leasehold land and buildings	591,544	809,980
Land use rights	2,780	2,795
	1,235,464	1,519,241
Authorised but not contracted in respect of:		
Leasehold land and buildings	240,384	291,549
Total capital commitment	1,475,848	1,810,790

18. CONTINGENT LIABILITIES

At 30 June 2012, the Group had no material contingent liabilities (31 December 2011: 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:

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	80,968	75,620
— heat energy	48,945	42,707
	129,913	118,327

Pursuant to agreements between a wholly-owned subsidiary of the Company and 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 2012, the key management compensation amounted to approximately HK\$5,281,000 (2011: HK\$3,025,000).

20. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

- (a) Details of the interim dividend proposal are described in Note 10.
- (b) The Board of Directors announced that on 27 July 2012 ("Date of Grant"), 11,758,000 share options (the "Share Options") to subscribe for a total of 11,758,000 ordinary shares of HK\$0.10 each in the share capital of the Company were granted to certain directors and employees of the Group (the "Grantees"), subject to the acceptance of the Grantees, under the share option scheme adopted by the Company on 26 May 2011.

Exercise price of Share Options granted is: HK\$72.75 per Share, which represents the highest of (i) the nominal value of the Shares; (ii) the closing price of HK\$72.75 per Share as stated in the daily quotation sheet issued by The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the Date of Grant; and (iii) the average closing price of HK\$72.48 per Share as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the Date of Grant.

20. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE *(Continued)*

(b) *(Continued)*

The validity period of the Share Options shall be the Date of Grant to 27 July 2022 and the Share Options shall lapse at the expiry of the validity period.

The Share Options granted shall be exercisable during the following periods: (a) up to 50% of the Share Options shall be exercisable from 28 July 2015 to 27 July 2016 (the "First Period"); (b) additional 25% of the Share Options together with any Share Options not exercised during the First Period shall be exercisable from 28 July 2016 to 27 July 2017 (the "Second Period"); and (c) the remaining 25% of the Share Options together with any Share Options not exercised during the First Period or the Second Period shall be exercisable from 28 July 2017 to 27 July 2022.

BUSINESS REVIEW

The first half of 2012 remained challenging with the European debt crisis continuing to cloud global economies. China's economic growth slowed to 7.6% in the second quarter, ending the first half with a 7.8% growth in the country's economy. In view of the complex economic conditions, the Chinese Government launched proactive fiscal and economic policies to adjust the economic structure and manage inflation risk, enabling the country's economy to stay on track at a growth rate above its annual target of 7.5%.

China's Gross Domestic Product rose further to RMB22,709.8 billion in the first half, according to the National Bureau of Statistics of China. Household incomes also continued to grow at healthy paces. The per capita disposable income of urban households rose 9.7% to approximately RMB12,509 and that of rural households increased by 12.4% to approximately RMB4,303. Job creation in urban areas also reached about 6 million for the first half, underlying the sustained momentum of urbanization in China. The ongoing urbanization and wealth effect among local citizens have continued to drive consumption demand while at the same time promoting people's awareness of health and hygiene.

For the six months ended 30 June 2012, the Group's revenue amounted to approximately HK\$9,041,725,000 (2011 first half: HK\$8,188,704,000), rising about 10.4% from that of the last corresponding period. Profit attributable to shareholders increased by 37.6% to approximately HK\$1,626,288,000 (2011 first half: HK\$1,181,997,000) year-on-year. The Board of Directors has declared an interim dividend of HK\$0.75 per share (2011 first half: HK\$0.60) for the six months ended 30 June 2012.

Thanks to the lower raw material prices, the enhanced product mix, economies of scale and tighter cost control, the Group's overall gross profit margin rose to approximately 44.2% (2011 first half: 38.6%). As a percentage of revenue, distribution costs and administrative expenses remained fairly stable at around 22.6% for the period (2011 first half: 23.1%).

TISSUE PAPER

The market for quality tissue papers in China has been growing rapidly due to improving living standards and higher awareness of personal hygiene. China's annual tissue paper consumption per capita is still lower than that of other developed countries, implying huge growth potential of the market. Meanwhile, market competition intensified as major competitors stepped up promotion to boost sales.

In the first half of 2012, sales growth of the Group's tissue paper business was unsatisfactory. Revenue of the segment increased by about 12.5% to approximately HK\$4,410,804,000 accounting for approximately 48.8% of total revenue (2011 first half: 47.9%). The slower growth was mainly due to the insufficient production capacity of the Group, which resulted from the delay of the commencement of the production lines in Chongqing and Wuhu. The Group adjusted its product mix hence reducing the revenue contribution of lower margin products. As such, the revenue of toilet roll only accounted for approximately 29.3% of tissue paper revenue during the first half of 2012 (2011 first half: 30.7%). The Chongqing production lines have been completed by phases in the first and the second quarters of 2012, adding 60,000 tons each to the Group's annualized tissue paper production capacity. In addition, a new production line with annualized production capacity of 60,000 tons has been installed in Jinjiang in mid July. With the new additional production capacity available, the Group had launched more extensive promotion campaign in mid June to boost sales. As such, the sales growth rate of tissue segment has resumed to a satisfactory level from July onwards.

The gross profit margin rose to approximately 36.1% (2011 first half: 31.4%), which reflected the drop in production costs as a result of lower price of tissue wood pulp, the major raw material for manufacturing tissue paper, in the first half of 2012.

The Group will continue to invest in production capacity expansion in 2012. Apart from those mentioned above, the construction of the production lines with annualized production capacity of 60,000 tons and 120,000 tons in Jinjiang and Wuhu respectively is in progress, and is expected to be completed in three months. The Group's tissue paper annualized production capacity will reach about 900,000 tons in aggregate by the end of this year.

SANITARY NAPKIN

Accelerating urbanization and rising living standards continue to be the driving factors of the sanitary napkin market with the market penetration rate increasing gradually. To capture the growth potential, the Group continued to invest in new products, enhancing product mix and raising brand awareness, aiming to boost sales growth of the business.

During the first half, the revenue of sanitary napkin business increased by about 22.5% to approximately HK\$2,264,892,000, accounting for around 25.0% of total revenue (2011 first half: 22.6%). Cost pressure of the Group eased amid falling prices of major raw materials, petrochemical products and fluff pulp. In addition, the Group spared no efforts in adopting stringent cost controls and increasing sales of mid-to-high-end products. As such, the gross profit margin expanded to 64.1% (2011 first half: 59.6%).

By the end of June, the "Space Seven Princess series" was launched nationwide. Looking ahead into the second half of 2012, the Group will continue to introduce more mid-to-high-end products and enhance existing products aiming at satisfying customer needs.

DISPOSABLE DIAPER

The penetration rate of disposable diapers is still very low in China implying huge growth potential in this sector. Urbanization along with increasing disposable income continue to drive the shift from reusable baby cloth diapers to disposable diapers.

During the period, the Group continued to focus on mid-to-high-end products, the sale of which increased by approximately 16.5%. On the other hand, competition has intensified in the low-end diaper ("simplified diaper") market as mid and small market players launched extensive promotional campaign to boost sales when raw material costs were low so that the sales of simplified diapers dropped by 13.5%. As such, in the first half of 2012, the overall revenue from the disposable diapers business grew only by about 7.3% to approximately HK\$1,321,243,000, accounting for about 14.6% of total revenue (2011 first half: 15.0%).

During the period, the prices of major raw materials, namely, fluff pulp and petrochemical products, decreased. Hence, the gross profit margin of disposable diapers rose to approximately 41.6% (2011 first half: 35.3%).

Looking ahead, with small and medium players entering the mid-and-low-end diapers markets and multinational players continuing their development in second-and-third tier cities, competition in China diaper market will be further intensified. The Group will continue to invest more in product development and promotion in order to capture the growing market demand. The Group is prudently optimistic about the long term outlook of the disposable diapers business.

FOOD AND SNACKS

The poison capsule incident in mainland China which came to light in April this year brought negative impact on the snack food industry, especially for fruit jelly industry. Although the Group has never used raw materials with problems in its products, the sales of the Group's fruit jelly product had dropped by around 12.1% accordingly. Despite the increase in sales of other snack food products, revenue of the Group's food and snacks business fell by about 5.8% in the first half of 2012 to approximately HK\$809,055,000, accounting for about 8.9% of the Group's total revenue (2011 first half: 10.5%). The Group expects that the revenue of this segment will gradually improve in the second half of the year. Lower prices of major raw materials, such as sugar, flavorings and flour, have led to an increased gross profit margin to around 37.9% (2011 first half: 32.0%).

FIRST AID PRODUCTS

During the period, revenue from the Group's first aid product business under the "Banitore" and "Bandi" brands amounted to approximately HK\$19,617,000 (2011 first half: HK\$17,117,000). This business only accounted for approximately 0.2% of the Group's total revenue (2011 first half: 0.2%), and had insignificant impact on the Group's overall results.

DISTRIBUTION AND MARKETING EXPENSES

During the period, the selling and distribution cost as a percentage of sales remained fairly stable at 17.8% (2011 first half: 18.8%).

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 during the period, 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.

RECOGNITION AND AWARD

During the period, the Group was awarded "2012 China Enterprise Reputation and Credibility Award" and "Asia's Best Employer Brand Award 2012 — China region". In addition, Mr. Hui Lin Chit, the CEO of the Group, was also awarded the "Redbud Outstanding Entrepreneur Award", "2012 RISI Best CEO for Tissue Manufacturing Enterprise — Asia region" and was selected as one of the "Forbes China Best CEOs". These are recognitions of the Group's outstanding performance of the Group and its market leadership in China's personal hygiene product market.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 30 June 2012, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK\$9,322,913,000 (31 December 2011: HK\$8,622,882,000) in total; and the Group's total borrowings amounted to approximately HK\$9,053,054,000 (31 December 2011: HK\$7,218,363,000). The bank borrowings were subject to floating annual interest rates ranging from approximately 1.2% to 4.5% (2011 first half: 0.9% to 3.4%). As at 30 June 2012, apart from the bank deposits of HK\$59,081,000 (31 December 2011: HK\$68,640,000) deposited in banks as restricted bank deposits for issuing letters of credit, there were no other charges on the Group's assets for its bank loans. As at 30 June 2012, the Group's gross gearing ratio was approximately 69.8% (31 December 2011: 58.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term bank deposits as a percentage of the shareholders' equity (not including non-controlling interests) was negative 1.6% (31 December 2011: negative 10.8%), as the Group was at a net cash position.

During the period, the Group's capital expenditure amounted to approximately HK\$1,659,064,000.

As at 30 June 2012, the Group had no material contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

As at 30 June 2012, the Group employed approximately 31,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees 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

Despite China's slowing headline economic growth in the past few quarters, the country's economy still maintained steady growth and urbanization continued to accelerate. This will provide a favorable foundation for the development of personal hygiene products in China. Consumers' rising awareness of personal hygiene and pursuit of quality will spur consumption of high-quality hygiene products. Capitalizing on its brand equity and business scale, the Group will continue to develop more quality products and expand its sales network, aiming at capturing the rising market demand.

In view of the growing market demand, the Group will continue to invest in production capacity across its key business lines as planned. The Group also strives to improve product quality and enhance management efficiency to boost its overall competitiveness while enhancing brand influence and increasing market share.

Going forward, the Group will continue to monitor raw materials prices closely so as to facilitate swift response to market changes whenever necessary. The Group will also continue to optimize its product mix to further enhance the Group's gross profit margins.

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 HK\$0.75 (2011: HK\$0.60) per share for the six months ended 30 June 2012 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 28 September 2012. Dividend warrants will be despatched to shareholders on or about 11 October 2012.

The Register of Members of the Company will be closed from 25 September 2012 to 28 September 2012 (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 24 September 2012.

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

At 30 June 2012, 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 (the "Listing Rules") were as follows:

Name of Directors	Capacity/Nature of Interest		Number of unlisted shares		Total	Approximate percentage of shareholding
	Number of shares		(Note (1))			
	Personal interests/ Beneficiary	Family interests	Personal interests/ Beneficiary			
Mr. Sze Man Bok	228,804,599 (Note (2))	—	—	—	228,804,599	18.62%
Mr. Hui Lin Chit	224,669,751 (Note (3))	—	—	—	224,669,751	18.28%
Mr. Hung Ching Shan	7,000,000 (Note (6))	—	—	—	7,000,000	0.57%
Mr. Xu Shui Shen	—	33,030	20,000	—	53,030	0.004%
Mr. Xu Da Zuo	19,777,321 (Notes (4)&(5))	—	—	—	19,777,321	1.61%
Mr. Xu Chun Man	16,167,445 (Notes (5)&(7))	—	—	—	16,167,445	1.32%
Mr. Sze Wong Kim	151,700	—	20,000	—	171,700	0.01%
Mr. Hui Ching Chi	40,000	—	20,000	—	60,000	0.005%
Mr. Loo Hong Shing Vincent	40,000	—	85,000	—	125,000	0.01%

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 34 to 35.
- (2) Out of the 228,804,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 228,228,999 ordinary shares while Mr. Sze had personal interests in 575,600 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 Hengan International Investments Limited ("HIIL").
- (5) These interests were held by 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) Out of the 16,167,445 listed ordinary shares, Zhong Shen Investment Limited held 12,000,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Holdings Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as trustee of the Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of the Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Zhong Shen Trust in the Company. The remaining 4,167,445 shares were held by HIIL.
- (8) 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 2012, 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)	18.57%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	228,228,999 (L)	18.57%
An Ping Holdings Limited	(2)	Beneficial owner	224,669,751 (L)	18.28%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,669,751 (L)	18.28%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.64%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.64%
Credit Suisse Trust Limited	(3)	Trustee	487,168,750 (L)	39.64%
JP Morgan Chase & Co	(4)	Beneficial owner	3,296,777 (L)	0.27%
	(4)	Beneficial owner	261,300 (S)	0.02%
	(4)	Investment manager	12,066,780 (L)	0.98%
	(4)	Custodian corporation/ approved lending agent	59,676,580 (L)	4.86%

(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, the Wan Li Trust and others 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 2012. 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 “Schemes”) on 2 May 2003 and 26 May 2011 and shall be valid and effective for a period of 10 years commencing on the date of adoption of the Schemes. The table below sets out movements in the share options granted under the Schemes during the six months ended 30 June 2012:

Eligible person	Number of share options					Balance as at 30/06/2012	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2012	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled/lapsed during the period				
Directors									
Sze Man Bok	10,000	—	(10,000)	—	—	—	25.30	18/07/2007	18/07/2011– 02/05/2013
Xu Shui Shen	10,000	—	—	—	—	10,000	68.30	28/07/2011	28/07/2014– 27/07/2021
	5,000	—	—	—	—	5,000	68.30	28/07/2011	28/07/2015– 27/07/2021
	5,000	—	—	—	—	5,000	68.30	28/07/2011	28/07/2016– 27/07/2021
Sze Wong Kim	10,000	—	—	—	—	10,000	68.30	28/07/2011	28/07/2014– 27/07/2021
	5,000	—	—	—	—	5,000	68.30	28/07/2011	28/07/2015– 27/07/2021
	5,000	—	—	—	—	5,000	68.30	28/07/2011	28/07/2016– 27/07/2021
Hui Ching Chi	10,000	—	—	—	—	10,000	68.30	28/07/2011	28/07/2014– 27/07/2021
	5,000	—	—	—	—	5,000	68.30	28/07/2011	28/07/2015– 27/07/2021
	5,000	—	—	—	—	5,000	68.30	28/07/2011	28/07/2016– 27/07/2021
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 30/06/2012	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2012	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled/ lapsed during the period				
Participants	5,000	–	–	–	–	5,000	25.05	12/07/2007	12/07/2011– 02/05/2013
	10,000	–	(10,000)	–	–	–	25.05	18/03/2008	12/07/2011– 02/05/2013
	2,391,000	–	–	–	(31,000)	2,360,000	44.30	07/09/2009	07/09/2012– 02/05/2013
	1,421,500	–	–	–	(82,500)	1,339,000	68.30	28/07/2011	28/07/2014– 27/07/2021
	710,750	–	–	–	(41,250)	669,500	68.30	28/07/2011	28/07/2015– 27/07/2021
	710,750	–	–	–	(41,250)	669,500	68.30	28/07/2011	28/07/2016– 27/07/2021
	5,404,000	–	(20,000)	–	(196,000)	5,188,000			

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 2012, amounted to HK\$14,624,000 and the remaining unamortised fair value of approximately HK\$47,772,000 will be charged to the consolidated income statement in future years.

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 2012.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2012, 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 2012, 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, 29 August 2012