恒安國際集團有限公司*

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1044)

website: http://www.hengan.com
http://www.irasia.com/listco/hk/hengan

"Growing with You for a Better Life"

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009
FINANCIAL SUMMARY

	Unaudited Six months ended 30 June		
	2009	2008	% of
	HK$'000	*HK$'000*	change
Revenue	**5,112,692**	3,755,917	36.1%
Profit attributable to shareholders	**966,744**	627,572	54.0%
Gross profit margin	**45.0%**	39.2%	
Earnings per share			
— Basic	**82.4 HK cents**	54.9 HK cents	50.1%
— Diluted	**82.3 HK cents**	54.9 HK cents	49.9%
Finished goods turnover	**50 days**	58 days	
Trade receivables turnover	**28 days**	31 days	

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 profit and loss account, the unaudited condensed consolidated interim statement of comprehensive income, the unaudited condensed consolidated interim cash flow statement and the unaudited condensed interim consolidated statement of changes in equity of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009, and the unaudited condensed consolidated interim balance sheet of the Group as at 30 June 2009, together with the comparative figures and selected explanatory notes. The interim financial information has been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED INTERIM PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30 June	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**5,112,692**	3,755,917
Cost of goods sold		**(2,810,743)**	(2,284,115)
Gross profit		**2,301,949**	1,471,802
Other gains — net		**35,066**	44,520
Distribution costs		**(891,878)**	(660,490)
Administrative expenses		**(233,269)**	(120,391)
Operating profit	*5*	**1,211,868**	735,441
Finance income		**15,765**	22,184
Finance costs		**(43,356)**	(39,997)
Profit before income tax		**1,184,277**	717,628
Income tax expense	*6*	**(190,747)**	(88,461)
Profit for the period		**993,530**	629,167
Attributable to:			
Shareholders of the Company		**966,744**	627,572
Minority interests		**26,786**	1,595
		993,530	629,167
Earnings per share for profit attributable to shareholders of the Company	*7*		
— Basic		**82.4 HK cents**	54.9 HK cents
— Diluted		**82.3 HK cents**	54.9 HK cents
Dividends	*8*	**609,657**	365,714

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Profit for the period	**993,530**	629,167
Other comprehensive income		
Translation of subsidiaries' accounts	**(1,665)**	380,184
Other comprehensive income for the period	**(1,665)**	380,184
Total comprehensive income for the period	**991,865**	1,009,351
Total comprehensive income attributable to:		
Shareholders of the Company	**965,073**	1,006,872
Minority interests	**26,792**	2,479
	991,865	1,009,351

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	**Unaudited 30 June 2009** *HK$'000*	Audited 31 December 2008 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**3,306,840**	3,080,750
Construction-in-progress	*9*	**659,729**	813,329
Leasehold land and land use rights	*9*	**376,107**	239,408
Intangible assets	*9*	**621,339**	626,296
Deferred income tax assets		**49,935**	68,269
Non-current finance lease receivables		**—**	9,692
Prepayment for non-current assets		**357,931**	466,679
		5,371,881	5,304,423
Current assets			
Inventories		**2,143,366**	2,128,030
Trade and bills receivables	*10*	**791,755**	779,902
Other receivables, prepayments and deposits		**188,894**	195,393
Current finance lease receivables		**9,862**	13,672
Derivative financial instruments		**6,100**	—
Restricted bank deposits	*11*	**6,102**	17,040
Cash and bank balances	*12*	**4,513,729**	1,610,552
		7,659,808	4,744,589
Total assets		**13,031,689**	10,049,012
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	*17*	**121,931**	115,007
Other reserves		**6,123,148**	4,499,296
Retained earnings			
— Proposed dividend		**609,657**	460,026
— Unappropriated retained earnings		**1,602,496**	1,409,728
		8,457,232	6,484,057
Minority interests		**258,636**	231,844
Total equity		**8,715,868**	6,715,901

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET *(Continued)*

	Note	Unaudited 30 June 2009 HK$'000	Audited 31 December 2008 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	*15*	**—**	45,840
Convertible bonds	*16*	**—**	1,465,247
Deferred income tax liabilities		**55,105**	56,892
Deferred income on government grants		**6,667**	7,555
		61,772	1,575,534
Current liabilities			
Trade and bills payables	*13*	**635,169**	898,159
Discounted bills	*14*	**1,304,594**	—
Other payables and accrued charges		**523,503**	480,659
Deferred income on government grants		**1,784**	1,783
Taxation payable		**116,517**	80,152
Derivative financial instruments		**7,651**	—
Bank borrowings	*15*	**1,664,831**	296,824
		4,254,049	1,757,577
Total liabilities		**4,315,821**	3,333,111
Total equity and liabilities		**13,031,689**	10,049,012
Net current assets		**3,405,759**	2,987,012
Total assets less current liabilities		**8,777,640**	8,291,435

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to the shareholders of the Company					
	Share capital *HK$'000*	**Other reserves** *HK$'000*	**Retained earnings** *HK$'000*	**Total** *HK$'000*	**Minority interests** *HK$'000*	**Total equity** *HK$'000*
Balance at 1 January 2008	114,162	3,870,069	1,359,992	5,344,223	21,413	5,365,636
Profit for the period	—	—	627,572	627,572	1,595	629,167
Other comprehensive income:						
Translation of subsidiaries' accounts	—	379,300	—	379,300	884	380,184
Total comprehensive income	—	379,300	627,572	1,006,872	2,479	1,009,351
Appropriation to statutory reserves	—	98,359	(98,359)	—	—	—
Conversion of convertible bonds	123	23,377	—	23,500	—	23,500
Share-based compensation	—	11,318	—	11,318	—	11,318
2007 final dividends paid	—	—	(365,714)	(365,714)	—	(365,714)
Balance at 30 June 2008	114,285	4,382,423	1,523,491	6,020,199	23,892	6,044,091
Balance at 1 January 2009	**115,007**	**4,499,296**	**1,869,754**	**6,484,057**	**231,844**	**6,715,901**
Profit for the period	**—**	**—**	**966,744**	**966,744**	**26,786**	**993,530**
Other comprehensive income:						
Translation of subsidiaries' accounts	**—**	**(1,671)**	**—**	**(1,671)**	**6**	**(1,665)**
Total comprehensive income	**—**	**(1,671)**	**966,744**	**965,073**	**26,792**	**991,865**
Appropriation to statutory reserves	**—**	**138,250**	**(138,250)**	**—**	**—**	**—**
Liquidation of subsidiaries	**—**	**(6,103)**	**—**	**(6,103)**	**—**	**(6,103)**
Conversion of convertible bonds	**6,924**	**1,482,026**	**—**	**1,488,950**	**—**	**1,488,950**
Share-based compensation	**—**	**11,350**	**—**	**11,350**	**—**	**11,350**
2008 final dividends paid	**—**	**—**	**(486,095)**	**(486,095)**	**—**	**(486,095)**
Balance at 30 June 2009	**121,931**	**6,123,148**	**2,212,153**	**8,457,232**	**258,636**	**8,715,868**

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Net cash generated from operating activities	**2,329,181**	700,573
Net cash used in investing activities	**(1,092,634)**	(434,226)
Net cash generated from/(used in) financing activities	**815,555**	(438,239)
Net increase/(decrease) in cash and cash equivalents	**2,052,102**	(171,892)
Cash and cash equivalents at 1 January	**1,610,552**	2,160,031
Effect of foreign exchange rate changes	**253**	88,556
Cash and cash equivalents at 30 June	**3,662,907**	2,076,695

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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, skin care and food and snack products mainly in the People's Republic of China (the "PRC") through a network of distributors and retailers.

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 2 September 2009.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") including HKAS.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements of the Company for the year ended 31 December 2008, 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.

The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning 1 January 2009.

Relevant to the Group:

- HKAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the profit and loss account and statement of comprehensive income). The Group has elected to present two statements: a profit and loss account and a statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements.

- HKAS 23 (amendment), "Borrowing costs". The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This amendment does not have a material impact on the Group's financial statements as the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets under the original HKAS 23.

- HKFRS 2 (amendment), "Share-based payment". The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

- Amendment to HKFRS 7, "Financial instruments: disclosures". The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for financial instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its financial statements for the year ending 31 December 2009.

3. **Accounting policies** *(Continued)*

- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. There is no change in the operating segments for the Group.

  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Directors that makes strategic decisions.

  Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to previous acquisitions of tissue products and food and snack products segments remains in these segments.

- HK(IFRIC) 16, "Hedges of a net investment in a foreign operation". HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, "The effects of changes in foreign exchange rates", do apply to the hedged item.

Not relevant to the Group:

- HKAS 32 (amendment), "Financial instruments: presentation".

- HKAS 39 (amendment), "Financial instruments: Recognition and measurement".

- HK(IFRIC) 9 (amendment), "Reassessment of embedded derivatives" and HKAS 39 (amendment), "Financial instruments: Recognition and measurement".

- HK(IFRIC) 13, "Customer loyalty programmes".

- HK(IFRIC) 15, "Agreements for the construction of real estate".

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- Amendment to HKAS 39, "Financial instruments: Recognition and measurement" (effective from 1 January 2010).

- HKFRS 3 (revised), "Business combinations" and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates" and HKAS 31, "Interests in joint ventures" (effective from 1 July 2009).

- HK(IFRIC) 17, "Distributions of non-cash assets to owners" (effective from 1 January 2010).

- HK(IFRIC) 18, "Transfers of assets from customers" (effective from 1 July 2009).

- HKICPA's improvements to HKFRS published in May 2009.

4. **Segment information**

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

The Directors considers the performance of the Group from a product perspective. The chief operating decision-maker assesses 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.

4. **Segment information** *(Continued)*

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

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

Over 90% of the Group's revenue and business activities are conducted in the PRC.

Segment assets consist primarily of property, plant and equipment, construction-in-progress, leasehold land and land use rights, intangible assets, prepayment for non-current assets, inventories, receivables derivative financial instruments and operating cash. They exclude deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude items such as taxation payable, deferred income tax liabilities and corporate borrowings.

The segment information for the six months ended 30 June 2009 is as follows:

	Unaudited Six months ended 30 June 2009					
	Sanitary napkin products *HK$'000*	**Disposable diaper products** *HK$'000*	**Tissue paper products** *HK$'000*	**Food and snacks products** *HK$'000*	**Skin care and others** *HK$'000*	**Group** *HK$'000*
SEGMENT RESULTS						
Segment revenue	**1,224,728**	**1,123,725**	**2,287,679**	**482,440**	**423,673**	**5,542,245**
Inter-segment sales	**(34,146)**	**(133,658)**	**(84,115)**	**—**	**(177,634)**	**(429,553)**
Revenue of the Group	**1,190,582**	**990,067**	**2,203,564**	**482,440**	**246,039**	**5,112,692**
Segment profit	**442,532**	**156,734**	**455,729**	**67,411**	**85,341**	**1,207,747**
Unallocated costs						**(30,945)**
Other gains — net						**35,066**
Operating profit						**1,211,868**
Finance income						**15,765**
Finance costs						**(43,356)**
Profit before income tax						**1,184,277**
Income tax expense						**(190,747)**
Profit for the period						**993,530**
Minority interests						**(26,786)**
Profit attributable to shareholders of the Company						**966,744**
OTHER PROFIT AND LOSS ITEMS						
Depreciation	**26,187**	**20,416**	**95,831**	**11,337**	**6,092**	**159,863**
Amortisation charge	**1,712**	**664**	**2,382**	**5,553**	**415**	**10,726**

4. **Segment information** *(Continued)*

	Sanitary napkin products *HK$'000*	**Disposable diaper products** *HK$'000*	**Tissue paper products** *HK$'000*	**Food and snacks products** *HK$'000*	**Skin care and others** *HK$'000*	**Group** *HK$'000*
			Unaudited As at 30 June 2009			
SEGMENT ASSETS						
Segment assets	**1,642,833**	**3,578,869**	**6,046,047**	**767,246**	**492,753**	**12,527,748**
Deferred income tax assets						**49,935**
Unallocated assets						**454,006**
Total assets						**13,031,689**

The segment information for the six months ended 30 June 2008 is as follows:

	Sanitary napkin products *HK$'000*	Disposable diaper products *HK$'000*	Tissue paper products *HK$'000*	Food and snacks products *HK$'000*	Skin care and others *HK$'000*	Group *HK$'000*
			Unaudited Six months ended 30 June 2008			
SEGMENT RESULTS						
Segment revenue	964,386	906,554	1,864,678	—	242,594	3,978,212
Inter-segment sales	(21,378)	(6,163)	(47,902)	—	(146,852)	(222,295)
Revenue of the Group	943,008	900,391	1,816,776	—	95,742	3,755,917
Segment profit	350,002	153,378	166,859	—	38,516	708,755
Unallocated costs						(17,834)
Other gains — net						44,520
Operating profit						735,441
Finance income						22,184
Finance costs						(39,997)
Profit before income tax						717,628
Income tax expense						(88,461)
Profit for the period						629,167
Minority interests						(1,595)
Profit attributable to shareholders of the Company						627,572
OTHER PROFIT AND LOSS ITEMS						
Depreciation	32,536	16,171	79,432	—	6,373	134,512
Amortisation charge	1,839	351	2,034	—	371	4,595

4. **Segment information** *(Continued)*

	Sanitary napkin products HK$'000	Disposable diaper products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care and others HK$'000	Group HK$'000
			Audited As at 31 December 2008			
SEGMENT ASSETS						
Segment assets	1,315,167	2,041,084	5,159,309	725,649	471,501	9,712,710
Deferred income tax assets						68,269
Unallocated assets						268,033
Total assets						10,049,012

5. **Operating profit**

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30 June 2009 *HK$'000*	2008 *HK$'000*
Crediting		
Government grants income *(Note)*	**31,711**	60,319
Net exchange gain	**—**	29,071
Charging		
Depreciation of property, plant and equipment *(Note 9)*	**159,863**	134,512
Amortisation of leasehold land and land use rights *(Note 9)*	**5,768**	4,316
Amortisation of intangible assets *(Note 9)*	**4,958**	279
Net exchange loss	**3,518**	—
Staff costs	**335,961**	238,448
Loss on disposal of property, plant and equipment	**627**	535
Operating leases rental in respect of factory premises and sales liaison offices	**22,235**	14,618
Provision for impairment of trade receivables	**1,083**	7,992
Provision for impairment of inventories	**6,288**	20,442

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

6. **Income tax expense**

	Unaudited Six months ended 30 June 2009 *HK$'000*	2008 *HK$'000*
Hong Kong profits tax – current period	**628**	600
Hong Kong profits tax – (over)/under-provision for previous period	**(2,618)**	2,894
PRC income tax – current period	**174,791**	81,307
Deferred income tax	**17,946**	3,660
Income tax expense	**190,747**	88,461

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits of the Group's companies in Hong Kong for the period.

Effective from 1 January 2008, the Company's subsidiaries incorporated in the PRC are required to determine and pay the Corporate Income Tax ("CIT") 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 (the "DIR") as approved by the State Council on 6 December 2007. According to the new CIT Law and DIR, effective from 1 January 2008, the income tax rates for both domestic and foreign investment enterprises have been unified at 25%. 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 the effective date of the new CIT Law on 1 January 2008. For the regions that enjoy a reduced CIT rate of 15%, the tax rate would gradually increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to the grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

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% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the six months ended 30 June 2009 and the year ended 31 December 2008 since the Group plans to reinvest such profits and has no plan to distribute such profits in the foreseeable future.

7. Earnings per share

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Basic		
Earnings		
Profit attributable to shareholders of the Company	**966,744**	627,572
Weighted average number of ordinary shares in issue *(thousands)*	**1,173,002**	1,142,631
Basic earnings per share	**82.4 HK cents**	54.9 HK cents
Diluted		
Earnings		
Profit attributable to shareholders of the Company	**966,744**	627,572
Weighted average number of ordinary shares in issue *(thousands)*	**1,173,002**	1,142,631
Adjustments for:		
— Share options *(thousands)*	**1,836**	—
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,174,838**	1,142,631
Diluted earnings per share	**82.3 HK cents**	54.9 HK cents

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company of HK$966,744,000 (2008: HK$627,572,000) and the weighted average number of 1,173,002,140 (2008: 1,142,631,562) ordinary shares in issue during the period.

(b) Diluted earnings per share

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. 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 2009) 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.

8. Dividends

	Unaudited Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Proposed interim dividend of HK$0.50 per share (2008: HK$0.32)	**609,657**	365,714

A dividend that related to the period to 31 December 2008 and that amounted to HK$486,095,000 (2008: HK$365,714,000) was paid in May 2009.

The interim dividend proposed by the Board in a meeting held on 2 September 2009 is not reflected as a dividend payable in this condensed consolidated interim financial information but will be reflected as an appropriation of retained earnings for the year ending 2009.

9. Capital expenditure — net book value

	Property, plant and equipment	Construction-in-progress	Leasehold land and land use rights	Intangible assets: Goodwill	Intangible assets: Customer relationship	Intangible assets: Patents and trademarks	Intangible assets: Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	2,342,837	455,664	143,172	452,030	—	2,633	454,663
Additions	63,530	457,990	19,341	—	—	—	—
Transfer from construction-in-progress	376,274	(376,274)	—	—	—	—	—
Disposals	(2,865)	—	—	—	—	—	—
Depreciation/amortisation	(134,512)	—	(4,316)	—	—	(279)	(279)
Exchange differences	157,892	30,620	9,322	—	—	164	164
At 30 June 2008	2,803,156	568,000	167,519	452,030	—	2,518	454,548
At 1 January 2009	**3,080,750**	**813,329**	**239,408**	**495,300**	**57,802**	**73,194**	**626,296**
Additions	**30,055**	**208,582**	**142,404**	**—**	**—**	**—**	**—**
Transfer from construction-in-progress	**362,559**	**(362,559)**	**—**	**—**	**—**	**—**	**—**
Disposals	**(7,992)**	**—**	**—**	**—**	**—**	**—**	**—**
Depreciation/amortisation	**(159,863)**	**—**	**(5,768)**	**—**	**(2,844)**	**(2,114)**	**(4,958)**
Exchange differences	**1,331**	**377**	**63**	**—**	**—**	**1**	**1**
At 30 June 2009	**3,306,840**	**659,729**	**376,107**	**495,300**	**54,958**	**71,081**	**621,339**

10. Trade and bills receivables

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

	Unaudited 30 June 2009	Audited 31 December 2008
	HK$'000	*HK$'000*
Within 30 days	**387,864**	400,543
31 to 180 days	**379,539**	356,465
181 to 365 days	**8,807**	8,191
Over 365 days	**15,545**	14,703
	791,755	779,902

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 value at the balance sheet dates.

11. Restricted bank deposits

As at 30 June 2009, approximately HK$6,102,000 (31 December 2008: HK$17,040,000) of the bank balances was restricted to be drawn down until certain of the bills payables of the Group are settled.

12. Cash and bank balances

	Unaudited 30 June 2009 *HK$'000*	Audited 31 December 2008 *HK$'000*
Bank deposits over 3 months to maturity	**850,822**	—
Cash and cash equivalents	**3,662,907**	1,610,552
	4,513,729	1,610,552

13. Trade and bills payables

	Unaudited 30 June 2009 *HK$'000*	Audited 31 December 2008 *HK$'000*
Trade payables	**634,205**	878,813
Bills payables	**964**	19,346
	635,169	898,159

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2009 *HK$'000*	Audited 31 December 2008 *HK$'000*
Within 30 days	**346,159**	389,415
31 to 180 days	**263,798**	470,948
181 to 365 days	**19,213**	10,834
Over 365 days	**5,035**	7,616
	634,205	878,813

Bills payables are normally with maturity periods within 180 days.

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

14. Discounted bills

During the period, the Group discounted certain bills to banks with recourse in exchange for cash. The bills discounted to banks and remained outstanding as at 30 June 2009 amounted to HK$1,304,594,000 (31 December 2008: Nil).

The carrying amounts of discounted bills approximated their fair value as at the balance sheet dates due to short-term maturity.

15. Bank borrowings

	Unaudited 30 June 2009	Audited 31 December 2008
	HK$'000	*HK$'000*
Non-current		
Long-term bank loans — unsecured	**—**	45,840
Current		
Trust receipt bank loans	**102,407**	1,688
Short-term bank loans — unsecured	**1,475,840**	200,000
Current potion of long-term bank loans — unsecured	**86,584**	95,136
	1,664,831	296,824
Total bank borrowings	**1,664,831**	342,664

As at 30 June 2009, the effective interest rate of the borrowings was approximately 2.26% (2008: 4.52%) per annum.

Movements in bank borrowings are analysed as follows:

	Unaudited
	HK$'000
At 1 January 2008	332,037
New borrowings	42,108
Repayments of borrowings	(113,206)
Exchange difference on translation	16,524
At 30 June 2008	277,463
At 1 January 2009	**342,664**
New borrowings	**1,826,623**
Repayments of borrowings	**(504,401)**
Exchange difference on translation	**(55)**
At 30 June 2009	**1,664,831**

16. Convertible bonds

During the six months ended 30 June 2009, convertible bonds with a face value of approximately HK$1,321,960,000 were converted into 69,248,797 ordinary shares at a conversion price of HK$19.09 per share.

Since 23 June 2009 (the end of conversion period stated on the redemption notice of convertible bonds dated 3 June 2009), the convertible bond holders lost their rights to convert the convertible bonds into the Company's ordinary shares. As at 30 June 2009, convertible bonds which had not been converted into ordinary shares with face values of approximately HK$500,000, together with the interest accrued thereon, totalling approximately HK$575,000, were reclassified as other payables in the condensed consolidated interim balance sheet. Subsequent to 30 June 2009, these remaining convertible bonds were fully redeemed by the Company.

17. Share capital

	Authorised share capital Ordinary shares of HK$0.10 each	
	Number of shares	***HK$'000***
At 1 January 2008 to 30 June 2009	**3,000,000,000**	**300,000**

	Issued and fully paid Ordinary shares of HK$0.10 each	
	Number of shares	***HK$'000***
At 1 January 2008	1,141,624,908	114,162
Conversion of convertible bonds into shares	1,231,010	123
At 30 June 2008	1,142,855,918	114,285
At 1 January 2009	**1,150,064,924**	**115,007**
Conversion of convertible bonds into shares *(Note 16)*	**69,248,797**	**6,924**
At 30 June 2009	**1,219,313,721**	**121,931**

18. Capital commitments

	Unaudited 30 June 2009 *HK$'000*	Audited 31 December 2008 *HK$'000*
Contracted but not provided for in respect of:		
Plant, machinery and equipment	**214,818**	506,298
Land and buildings	**80,920**	71,995
	295,738	578,293
Authorised but not contracted in respect of:		
Land and buildings	**844,016**	843,633

19. Contingent liabilities

At 30 June 2009, the Group had no material contingent liabilities (31 December 2008: Nil).

20. Related party transactions

Parties are considered to be related if a party has the ability, directly or indirectly, to 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 or common significant influence.

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

	Unaudited Six months ended 30 June	
	2009 *HK$'000*	2008 *HK$'000*
Purchases from Weifang Power		
— electricity energy	**35,223**	31,302
— heat energy	**25,518**	16,543

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 lower than the prevailing market prices. Weifang Power is beneficially owned by the sons of Mr. Sze Man Bok and Mr. Hui Lin Chit, the executive directors and substantial shareholders of the Company.

(b) For the six months ended 30 June 2009, the key management compensation amounted to approximately HK$2,039,000 (2008: HK$ 1,997,000).

BUSINESS OVERVIEW

In the first half of 2009, the impact of the financial tsunami on the global economy has gradually emerged. Although China experienced an economic slowdown, its economy is gradually improving with the Chinese government's economic stimulus package begun to take effect. According to the National Bureau of Statistics, China's GDP amounted to approximately RMB13,986.2 billion for the first half of 2009, representing a year-on-year increase of approximately 7.1%. Per capita disposable income of urban residents and rural residents increased by approximately 9.8 and 8.1% to approximately RMB8,856 and RMB2,733 respectively, reflecting the continual urbanisation in mainland China and the improvement in people's living standard.

Thanks to the improvement in overall living standard and increase in public awareness of personal hygiene, consumer demand for personal hygiene products in mainland China is growing persistently. The economic slowdown has not taken a heavy toll on the sales of hygiene products given that they are basic necessities. As a result, the Group's tissue paper business as well as diaper and sanitary napkin businesses continued to grow.

For the six months ended 30 June 2009, the Group's revenue amounted to approximately HK$5,112,692,000, representing an increase of approximately 36.1% from the same period last year. Profit attributable to shareholders was approximately HK$966,744,000, increased by approximately 54.0% from the same period last year. During the period, the overall gross profit margin rose by approximately 5.8 percentage points year-on-year to approximately 45.0% (2008 first half: 39.2%). The increase was mainly due to the reduction in production costs as a result of the decline in prices of raw materials since the third quarter of last year. Meanwhile, the Group continued to improve product portfolio, expand production capacity gradually to enhance economies of scale, shorten work flow and improve efficiency in order to enhance operating results.

As a percentage of revenue, distribution costs and administrative expenses increased to approximately 22.0% for the period (2008 first half: 20.8%). The increase was mainly attributable to the escalating staff costs for the period and the fact that there was exchange gain recognised in the same period last year while there was exchange loss recognised during the period.

BUSINESS REVIEW

Tissue Papers

The continuous rising per capita income of people in mainland China has led to the increase in demand for quality tissue papers. However, tissue paper consumption per capita in China is still low when compared with developed countries in Europe and the United States, which implies huge growth potential in the market and growth opportunities for the Group.

For the six months ended 30 June 2009, revenue from the Group's tissue paper business jumped by around 21.3% to approximately HK$2,203,564,000, accounting for about 43.1% of the total revenue of the Group. During the period, the Group continued to manufacture and sell tissue papers of relatively higher gross profit margins, including box tissue papers, pocket handkerchiefs and wet tissue papers. These products totally accounted for approximately 65.9% of total tissue papers revenue (2008 first half: 70.4%). The production cost for tissue paper business dropped, thanks to the falling cost of wood pulp, the major raw material for producing tissue paper products. Gross profit margin of the Group's tissue paper business rose to about 41.4% (2008 first half: 29.6%). Meanwhile, the Group increased its inventory of wood pulp during the fourth quarter of last year and the first half of 2009 at a relatively low cost, in an attempt to immune from the impact of price fluctuations in the second half of the year. As at 30 June 2009, the Group had approximately 190,000 tons of wood pulp, which is sufficient for production until around January 2009.

The second phase of the Fujian plant and the second phase of the Hunan plant commenced operation in last year. As a result, the Group's annual production capacity increased to approximately 360,000 tons at the end of last year to cater to market demand.

Sanitary Napkins

The rising living standard and increasing awareness for personal hygiene of mainland consumers lead to huge growth potential of quality sanitary napkin products in the future.

During the review period, the Group's sanitary napkin business saw satisfactory growth, with revenue increased by 26.3% to about HK$1,190,582,000, accounting for approximately 23.3% of the Group's total revenue. Sales of "Space 7" sanitary napkins continued to grow and contributed approximately 57.0% of the revenue from the Group's sanitary napkin business (2008 first half: 46.0%). As a result of the decline in prices of key raw materials such as petrochemical products and fluff pulp, and the higher proportion of sales of mid-to-high end products, gross profit margin of the Group's sanitary napkin business has risen to about 59.3% (2008 first half: 58.7%).

Disposable Diapers

Affected by the sluggish global economy, consumers became more cautious in spending. The per capita income of residents in second and third tier cities of the mainland is relatively low leading to a slowdown in the growth rate of the demand for mid-to-high end disposable diapers. In addition, the Group has not launched new products for over 12 months. Therefore, the growth rate of revenue of disposable diapers was below expectation during the review period. Revenue from disposable diaper business increased by about 10.0% to approximately HK$990,067,000, accounting for about 19.4% of the total revenue (2008 first half: 24.0%).

The low market penetration rate of disposable diapers highlights the huge growth potential in the market. The Group launched the "Super Absorbent (超能吸)" series in selected regions in April of this year and received positive market response. As such, this series of products was officially launched nationwide in July and is expected to generate satisfactory revenue in the second half of the year.

Benefited from the decline in prices of major raw materials, petrochemical products and fluff pulp, tightened internal cost controls and product mix enhancement, the gross profit margin of the Group's disposable diapers business has risen to about 37.0% (2008 first half: 35.7%).

Food and Snacks Products

The Group acquired mainland confectionary manufacturer QinQin Foodstuffs Group Company Limited ("QinQin Foodstuffs") in November of last year. This move marked the Group's first step to establish a presence in the food and snacks industry. In the first half of 2009, the Group focused on integrating the logistics, transportation and supply chain management of QinQin Foodstuffs to enjoy the synergy effect.

During the period, QinQin Foodstuffs' performance was in line with our expectation despite the financial tsunami. Revenue amounted to HK$482,440,000, accounting for about 9.4% of the Group total revenue. Thanks to the fall in raw material costs and the synergy effect as mentioned above, the gross profit margin reached approximately 38.2% for the first half of 2009.

At present, QinQin Foodstuffs has about 30,000 sales outlets in 28 provinces across the country.

First Aid Products

Revenue from the Group's first aid product business under the brandnames of "Banitore", "Bandi" and "Comfitore" had reached approximately HK$15,735,000 (2008 first half: HK$16,827,000). This business only accounted for approximately 0.3% of the Group's total turnover, hence it did not affect the Group's overall results significantly.

Skincare and Cleansing Products

Turnover of the Group's skincare and cleansing product business amounted to approximately HK$12,172,000 (2008 first half: HK$6,495,000). This business only accounted for approximately 0.2% of the Group's total revenue, hence it has only negligible impact on the Group's overall results.

Distribution and Marketing Strategy

During the period under review, the Group has stepped up efforts in advertising and promotion activities. It has also strengthened collaboration with major supermarket chains and distributors. To capture growth opportunities in the mainland's consumption market in the long run, the Group has made great efforts proactively to expand its nationwide sales networks in second and third tier cities, villages, towns and agricultural areas, so as to enhance its leading market position and brand equity.

During the period, the Group's distribution costs amounted to about 17.4% of revenue (2008 first half: 17.6%), similar to that of last corresponding period.

Research and Development of Products

The Group strives for excellence of its products. As the first and so far the only enterprise in the mainland's tissue paper industry to have been awarded the Enterprise Technological Centre with State Accreditation, the Group continued to put 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.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 30 June 2009, the Group's cash and bank balances and restricted bank deposits totally amounted to approximately HK$4,519,831,000 (31 December 2008: HK$1,627,592,000); and the Group's short-term and long-term bank loans totally amounted to approximately HK$1,664,831,000 (31 December 2008: HK$342,664,000). As at 30 June 2009, convertible bonds with a face value of approximately HK$1,499,500,000 have been converted into company shares. The remaining balance with a face value of approximately HK$500,000, which did not have conversion right as at 30 June 2009 and were classified as other payables in the condensed consolidated interim balance sheet, were redeemed by cash in early July. During the period, the Group's capital expenditure for acquisition and installation of production facilities amounted to approximately HK$381,041,000.

The convertible bonds before conversion were subject to a fixed interest rate of 4.7% semi-annually while the bank borrowings were subject to floating annual interest rates ranging from approximately 0.7% to 3.0% (2008 first half: from 2.0% to 4.6%). As at 30 June 2009, there was no charge on the Group's asset for its bank loans. As at 30 June 2009, the Group's gearing ratio was approximately 19.7% (31 December 2008: 27.9%), which was calculated on the basis of the amount of total 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 bank balances and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests), was zero (31 December 2008: 2.8%) as the total amount of cash and bank balances and restricted bank deposits was larger than the total amount of bank loans.

As at 30 June 2009, the Group had no material contingent liabilities.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2009, the Group employed approximately 22,000 full-time and temporary employees. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonuses are linked to the Group's financial results as well as individual's performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

FOREIGN CURRENCY RISKS

A large portion of the Group's income is denominated in Renminbi while most of the raw materials purchased are required to be settled in US dollar. The Group has never had any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding companies. As at 30 June 2009, the Group had not issued any material financial instruments or entered into any material contracts for foreign currency hedging purposes.

OUTLOOK

The gradual recovery of the global economy and the continuous economic growth in China set the stage for the rapid development of China's fast-moving consumer product industry. Given the overall improvement of people's living standard and growing awareness of the importance of hygiene, and the accelerating urbanization and marketization, the Group remains cautiously optimistic about the prospects of the personal care and hygiene product market. With the Group's solid business foundation and core competitive strength in this industry, we are confident that the Group will continue to lead the development of the mainland personal hygiene product market.

Regarding the tissue paper business, the Group will continue to develop high quality tissue paper products to cater for demands of different market segments. The Group will continue to expand its production capacity. It is estimated that the annualised production capacity will grow to about 420,000 tons and 540,000 tons by the end of 2009 and 2010 respectively.

For sanitary napkin business, the Group will continue to optimize product mix and boost sales of mid-to-high end brands such as "Anerle" and "Space 7" in order to meet market demand. The Group will also strengthen promotion efforts to boost its market share and expand the production capacity to fulfill market demand.

For the disposable diaper business, apart from promoting the "Super Absorbent" series as mentioned above, the Group will drive business growth by product mix optimization and production technology advancement. To cater to market demand, the Group will boost the production capacity of disposable diapers and increase investments in research and development for new products.

With regard to food and snacks business, the Group will focus on integrating the logistics, supply chain and distribution network as well as brand management of QinQin Foodstuffs with the Group's existing personal hygiene product business, so as to solidify its earnings base. The Group aims to develop the food and snacks business into its fourth major business.

In the future, the Group will continue to uphold its belief that quality takes precedence and will enhance technology, improve product quality and refine product portfolio to capture market opportunities. The Group will also expand sales network, step up advertising and promotion efforts, reinforce the Group's brand equity and boost market share, with a view to consolidating the Group's leading position in the personal hygiene product market, maintaining steady growth, and creating greater value for our shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of 50 HK cents (2008: 32 HK cents) per share for the six months ended 30 June 2009 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 2 October 2009. Dividend warrants will be despatched to shareholders on or about 21 October 2009.

The Register of Members of the Company will be closed from 28 September 2009 to 2 October 2009 (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 25 September 2009.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises three independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2009.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2009, the Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2009, 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 announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Da Zuo, Mr. Xu Chun Man and Mr. Loo Hong Shing Vincent as executive directors, and Mr. Chan Henry, Mr. Chu Cheng Chung and Ms. Ada Ying Kay Wong as independent non-executive directors.

Hong Kong, 2 September 2009

* *for identification purpose only*