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**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)

Websites: <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 2011 FINANCIAL SUMMARY

	Unaudited		% of change
	2011 HK\$'000	2010 HK\$'000	
Revenue	<b>8,188,704</b>	6,426,325	27.4%
Profit attributable to shareholders	<b>1,181,997</b>	1,202,789	-1.7%
Gross profit margin	<b>38.6%</b>	45.5%	
Earnings per share			
— Basic	<b>96.6HK Cents</b>	98.6 HK cents	
— Diluted	<b>96.3HK Cents</b>	98.2 HK cents	
Finished goods turnover	<b>45 days</b>	46 days	
Trade receivables turnover	<b>33 days</b>	27 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 statement of income, the unaudited condensed consolidated interim statement of comprehensive income, the unaudited condensed consolidated interim statement of changes in equity and the unaudited condensed consolidated interim cash flow statement of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011, and the unaudited condensed consolidated interim balance sheet of the Group as at 30 June 2011, together with the comparative figures and selected explanatory notes. The interim financial information has been reviewed by the Company’s audit committee and the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME**  
 FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2011

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

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

AS AT 30 JUNE 2011

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

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2011*

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

# **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

*FOR THE SIX MONTHS ENDED 30 JUNE 2011*

## **1. GENERAL INFORMATION**

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

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Uglan House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

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

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

## **2. BASIS OF PREPARATION**

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## **3. ACCOUNTING POLICIES**

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

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



### 3. ACCOUNTING POLICIES *(Continued)*

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

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

- Amendment to HKAS 34 ‘Interim financial reporting’ is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.
- HKAS 24 (Revised), “Related Party Disclosures” is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party.

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

- Amendment to HKAS 32 ‘Classification of rights issues’ is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.
- Amendment to HK(IFRIC) — Int-14 ‘Prepayments of a minimum funding requirement’ is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.
- HK(IFRIC) — Int 19 ‘Extinguishing financial liabilities with equity instruments’ is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA, except for amendment to HKAS 34 ‘Interim financial reporting’ as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

### 3. ACCOUNTING POLICIES *(Continued)*

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

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

### 4. ESTIMATES

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

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

## 5. FINANCIAL RISK MANAGEMENT

### 5.1 *Financial risk factors*

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

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

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

### 5.2 *Liquidity risk*

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

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

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

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 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).

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

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

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

## 6. SEGMENT INFORMATION

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

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

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

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

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

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

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

## 6. SEGMENT INFORMATION *(Continued)*

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

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

## 6. SEGMENT INFORMATION (Continued)

	Unaudited					
	Sanitary napkins products <i>HK\$'000</i>	Disposable diapers products <i>HK\$'000</i>	Tissue paper products <i>HK\$'000</i>	Food and snacks products <i>HK\$'000</i>	Skin care products and others <i>HK\$'000</i>	Group <i>HK\$'000</i>
<b>Consolidated balance sheet</b>						
<b>as at 30 June 2011</b>						
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						<u>2,398,482</u>
Total assets						<u><u>21,379,999</u></u>
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						<u>6,305,787</u>
Total liabilities						<u><u>9,896,152</u></u>

## 6. SEGMENT INFORMATION (Continued)

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

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



## 6. SEGMENT INFORMATION (Continued)

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

## 7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

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

## 8. INCOME TAX EXPENSE

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

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

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

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

Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

According to the New CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% (preferential rate) or 10% upon the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately HK\$29,874,000 (2010: HK\$29,600,000) for the six months ended 30 June 2011 have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future.

## 9. EARNINGS PER SHARE

### (a) Basic

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

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

### (b) Diluted

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

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

## 10. DIVIDENDS

**Unaudited**  
**Six months ended 30 June**  
**2011**                                  2010  
**HK\$'000**                              **HK\$'000**

Proposed interim dividend of HK\$0.60 per share  
(2010: HK\$0.60)

737,381      734,525

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

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

## 11. CAPITAL EXPENDITURE — NET BOOK VALUE

	Property, plant and equipment <i>HK\$'000</i>	Construction- in progress <i>HK\$'000</i>	Leasehold land and land use rights <i>HK\$'000</i>	Intangible assets			Total <i>HK\$'000</i>
				Goodwill <i>HK\$'000</i>	Customer relationship <i>HK\$'000</i>	Patents and trademarks <i>HK\$'000</i>	
At 1 January 2010	3,535,811	808,410	397,541	495,300	52,065	69,019	616,384
Additions	66,333	506,491	162,472	—	—	—	—
Transfer from construction- in-progress	362,036	(362,036)	—	—	—	—	—
Disposals	(1,795)	—	—	—	—	—	—
Depreciation/amortisation	(174,153)	—	(7,339)	—	(2,893)	(2,069)	(4,962)
Reclassification	4,730	—	(4,730)	—	—	—	—
Exchange differences	33,639	8,199	4,038	—	—	15	15
At 30 June 2010	<u><u>3,826,601</u></u>	<u><u>961,064</u></u>	<u><u>551,982</u></u>	<u><u>495,300</u></u>	<u><u>49,172</u></u>	<u><u>66,965</u></u>	<u><u>611,437</u></u>
At 1 January 2011	<b>4,519,090</b>	<b>665,130</b>	<b>613,982</b>	<b>495,300</b>	<b>46,280</b>	<b>64,928</b>	<b>606,508</b>
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	<u><u>4,877,509</u></u>	<u><u>1,166,302</u></u>	<u><u>618,518</u></u>	<u><u>495,300</u></u>	<u><u>43,387</u></u>	<u><u>62,873</u></u>	<u><u>601,560</u></u>

## 12. TRADE AND BILLS RECEIVABLES

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

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

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

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

### 13. CASH AND BANK BALANCES

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

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

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

### 14. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

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

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

## 15. BANK BORROWINGS

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

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

Movements in bank borrowings are analysed as follows:

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

## 16. SHARE CAPITAL

**Authorised share capital**  
**Ordinary shares of HK\$0.10 each**  
*Number of*  
*shares* *HK\$'000*

At 1 January 2010 to 30 June 2011	<u><b>3,000,000,000</b></u>	<u><b>300,000</b></u>
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**Issued and fully paid**  
**Ordinary shares of HK\$0.10 each**  
*Number of*  
*shares* *HK\$'000*

At 1 January 2010 to 30 June 2010	<u>1,219,313,721</u>	<u>121,931</u>
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At 1 January 2011 to 30 June 2011	<u><b>1,224,218,721</b></u>	<u><b>122,422</b></u>
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## 17. CAPITAL COMMITMENTS

<b>Unaudited</b>	Audited
<b>30 June</b>	31 December
<b>2011</b>	2010
<i>HK\$'000</i>	<i>HK\$'000</i>

Contracted but not provided for in respect of:		
Plant, machinery and equipment	<b>587,847</b>	707,244
Land and buildings	<b>769,747</b>	409,009
	<u><b>1,357,594</b></u>	<u>1,116,253</u>
Authorised but not contracted in respect of:		
Land and buildings	<b>408,001</b>	656,210
	<u><b>408,001</b></u>	<u>656,210</u>
Total capital commitment	<u><b>1,765,595</b></u>	<u>1,772,463</u>

## 18. CONTINGENT LIABILITIES

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



## 19. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

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

Pursuant to agreements between a wholly-owned subsidiary of the Company and Weifang Hengan Thermal Power Co., Ltd. (“Weifang Power”), an electricity company, the Group purchased electricity energy and heat energy from Weifang Power at prices not less favorable than the prevailing market prices. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

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

## **BUSINESS OVERVIEW**

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

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

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

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

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

## **BUSINESS REVIEW**

### **Tissue Paper**

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

In the first half of 2011, the Group's tissue paper business maintained a growing momentum with revenue increased by about 34.0% to approximately HK\$3,919,676,000, accounting for approximately 47.9% of the total revenue (2010 first half: 45.5%). During the period, the production costs of tissue paper business increased sharply as the price of the major raw material, tissue wood pulp, surged significantly. As a result, gross profit margin of the Group's tissue paper business

decreased to approximately 31.4% (2010 first half: 40.4%). The Group continued to actively enhance product mix to reduce the impact brought by rising production costs. As such, the revenue of toilet roll products with relatively lower gross profit margin only accounted for approximately 30.7% of tissue paper revenue (2010 first half: 38.1%).

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

### **Sanitary Napkin**

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

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

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

### **Disposable Diaper**

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

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

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

### **Food and Snacks**

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

### **First-aid Products**

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

### **Skincare and Cleansing Products**

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

### **Distribution and Marketing Strategy**

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

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

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

## **Research and Development**

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

## **Inclusion as a Hang Seng Index Constituent**

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

## **Recognition and Award**

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

## **LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS**

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

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

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

## **HUMAN RESOURCES AND MANAGEMENT**

As at 30 June 2011, the Group employed approximately 32,088 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

## **FOREIGN CURRENCY RISKS**

Most of the Group's income is denominated in Renminbi while part of the raw materials purchases are imported and settled in US dollar. The Group has never had any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding companies.

As at 30 June 2011, apart from certain non-deliverable forward foreign exchange contracts to sell Renminbi for United States dollar and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

## **OUTLOOK**

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

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

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

## **INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

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

The Register of Members of the Company will be closed from 26 September 2011 to 29 September 2011 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by 4:00 p.m. on 23 September 2011.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **AUDIT COMMITTEE**

The Audit Committee is chaired by an independent non-executive director and comprises three independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2011.

## **COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES**

For the six months ended 30 June 2011, the Company has adopted the Model Code as set out in Appendix 10 to the 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 2011, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

## **CORPORATE GOVERNANCE**

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

## **ACKNOWLEDGEMENT**

On behalf of the Board of Directors, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board  
**Hengan International Group Company Limited**  
**Sze Man Bok**  
*Chairman*

*As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Loo Hong Shing Vincent as executive directors, and Mr. Chan Henry, Mr. Wang Ming Fu and Ms. Ada Ying Kay Wong as independent non-executive directors.*

Hong Kong, 30 August 2011

\* *for identification purpose only*