



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

INTERIM REPORT
2014



CORPORATE MISSION



“GROWING WITH YOU FOR A BETTER LIFE”

has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of “Integrity, Diligence, Innovation and Dedication”. Our goal is “to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team”. By building an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market need, Hengan International will become China’s leading corporation in manufacturing and distribution of fast moving family consumer products.

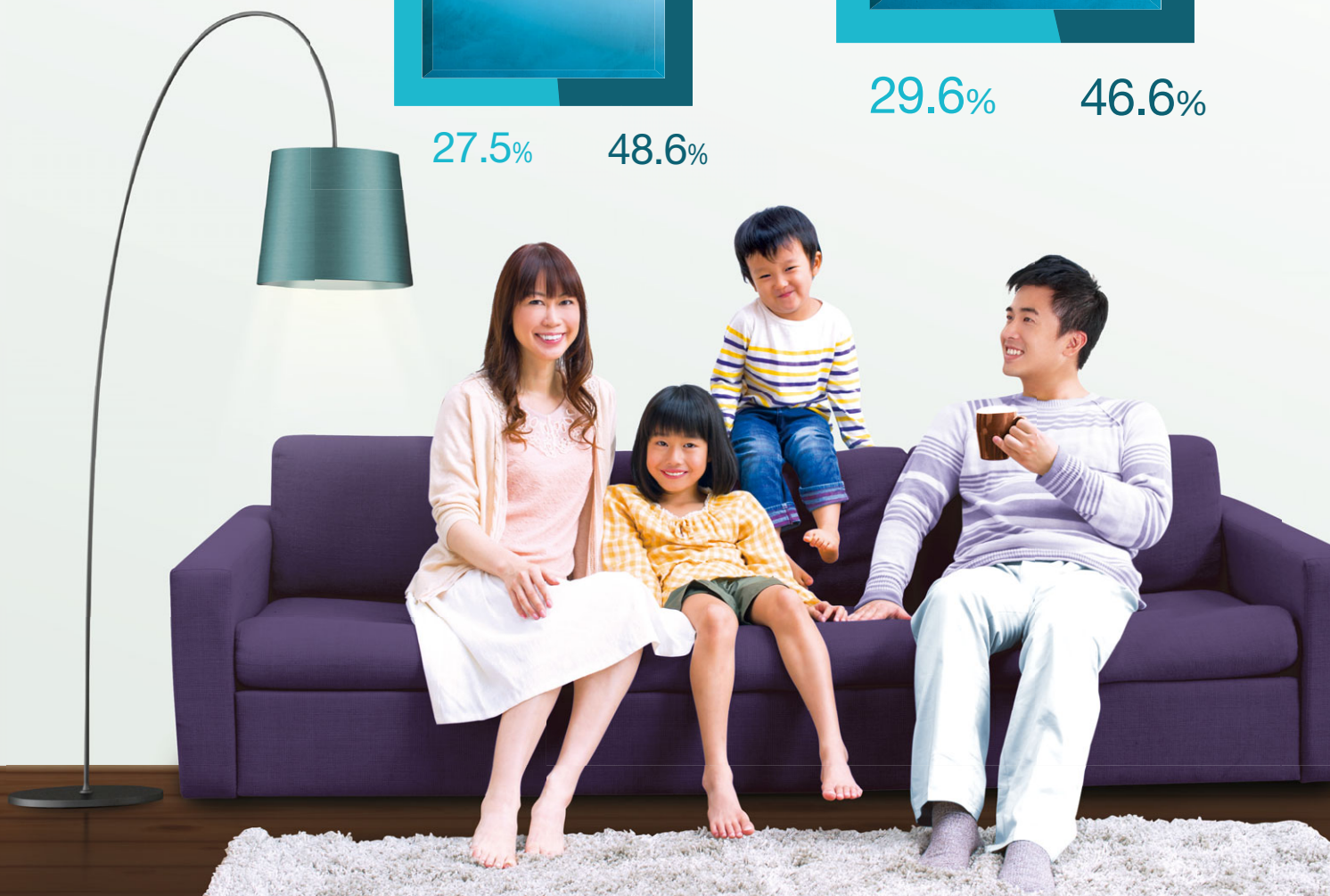
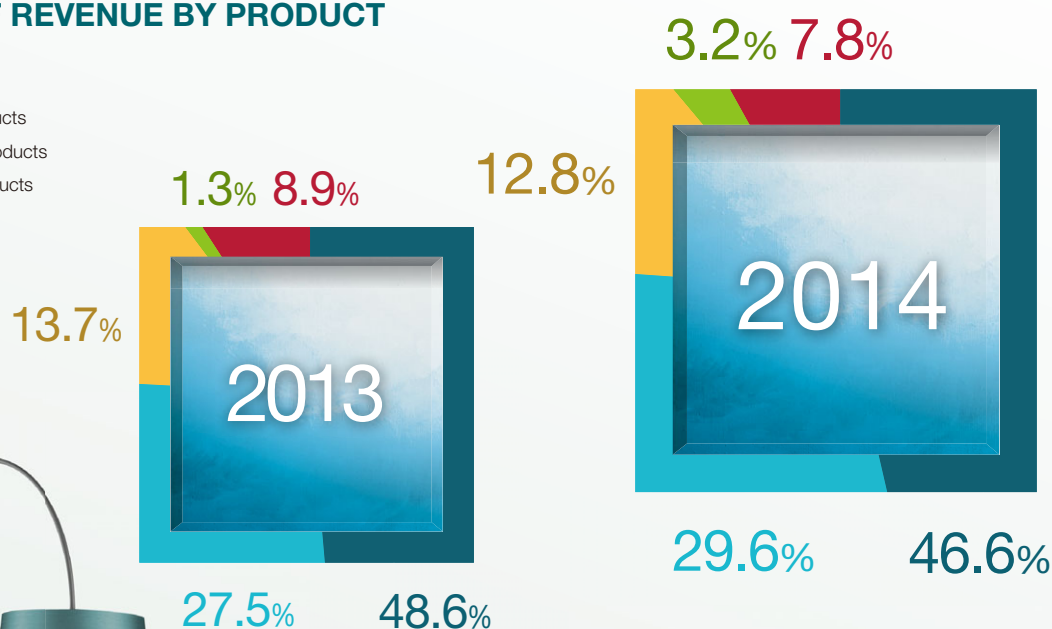
FINANCIAL SUMMARY

Unaudited
Six months ended 30 June

	2014 HK\$'000	2013 HK\$'000	% of change
Revenue	12,098,064	10,414,826	16.2%
Operating profit	2,650,479	2,506,009	5.8%
Profit attributable to shareholders	1,775,303	1,858,854	-4.5%
Gross profit margin	44.9%	45.2%	
Earnings per share			
— Basic	HK\$1.443	HK\$1.511	
— Diluted	HK\$1.441	HK\$1.510	
Finished goods turnover	49 days	46 days	
Trade receivables turnover	34 days	34 days	
Rate of return (annualised)	21.4%	24.1%	

ANALYSIS OF REVENUE BY PRODUCT

- Tissue paper products
- Sanitary napkins products
- Disposable diapers products
- Food and snacks products
- Others



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 interim condensed consolidated statement of income, the unaudited interim condensed consolidated statement of comprehensive income, the unaudited interim condensed consolidated statement of changes in equity and the unaudited interim condensed consolidated statement of cash flow of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2014, 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Revenue	6	12,098,064	10,414,826
Cost of goods sold		(6,664,224)	(5,703,810)
Gross profit		5,433,840	4,711,016
Other income and other gains – net		477,291	305,382
Distribution costs		(2,567,835)	(1,918,172)
Administrative expenses		(692,817)	(592,217)
Operating profit	7	2,650,479	2,506,009
Finance income		60,587	97,679
Finance costs		(361,331)	(136,820)
Finance costs – net		(300,744)	(39,141)
Profit before income tax	8	2,349,735	2,466,868
Income tax expense		(549,079)	(583,931)
Profit for the period		1,800,656	1,882,937
Profit attributable to:			
Shareholders of the Company		1,775,303	1,858,854
Non-controlling interests		25,353	24,083
		1,800,656	1,882,937
Earnings per share for profit attributable to shareholders of the Company			
– Basic	9	HK\$1.443	HK\$1.511
– Diluted	9	HK\$1.441	HK\$1.510
Dividends	10	1,042,779	1,046,677

The notes on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Profit for the period	1,800,656	1,882,937
Other comprehensive income:		
Items that may be reclassified to profit or loss		
— Currency translation differences	(202,777)	326,387
Total comprehensive income for the period	1,597,879	2,209,324
Attributable to:		
Shareholders of the Company	1,576,197	2,179,560
Non-controlling interests	21,682	29,764
Total comprehensive income for the period	1,597,879	2,209,324

The notes on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2014

	<i>Note</i>	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	8,483,596	8,627,200
Construction-in-progress	11	1,519,605	1,204,372
Land use rights	11	1,130,886	1,105,298
Intangible assets	11	609,913	581,150
Prepayments for non-current assets		418,992	379,463
Deferred income tax assets		279,062	157,511
Long-term bank deposits	13	1,045,603	814,042
		13,487,657	12,869,036
Current assets			
Inventories		3,679,777	4,385,909
Trade and bills receivables	12	2,294,547	2,184,484
Other receivables, prepayments and deposits		1,181,807	1,127,031
Restricted bank deposits	13	50,646	60,044
Cash and bank balances	13	22,640,217	19,563,983
		29,846,994	27,321,451
Total assets		43,334,651	40,190,487
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	17	122,680	123,138
Other reserves		4,638,020	4,521,293
Retained earnings			
— Proposed dividend		1,042,779	1,231,385
— Unappropriated retained earnings		10,756,902	10,657,780
		16,560,381	16,533,596
Non-controlling interests		406,752	385,070
Total equity		16,967,133	16,918,666

The notes on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

AS AT 30 JUNE 2014

	<i>Note</i>	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	–	959,643
Convertible bonds	16	5,308,072	5,227,130
Deferred income tax liabilities		184,153	169,146
Deferred income on government grants		460	929
		5,492,685	6,356,848
Current liabilities			
Trade payables	14	1,890,802	2,096,990
Other payables and accrued charges		1,647,586	1,271,912
Derivative financial instruments		21,295	39,727
Current income tax liabilities		239,730	273,430
Borrowings	15	17,075,420	13,232,914
		20,874,833	16,914,973
Total liabilities		26,367,518	23,271,821
Total equity and liabilities		43,334,651	40,190,487
Net current assets		8,972,161	10,406,478
Total assets less current liabilities		22,459,818	23,275,514

The notes on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited					
	Attributable to the Company's shareholders				Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
Balance at 1 January 2013	122,903	3,220,065	10,735,224	14,078,192	330,048	14,408,240
Profit for the period	–	–	1,858,854	1,858,854	24,083	1,882,937
Currency translation differences	–	320,706	–	320,706	5,681	326,387
Total comprehensive income	–	320,706	1,858,854	2,179,560	29,764	2,209,324
Transactions with owners						
2012 final dividends paid	–	–	(1,169,815)	(1,169,815)	(2,328)	(1,172,143)
Share-based compensation						
– Value of employee services	–	40,385	–	40,385	–	40,385
– Proceeds from shares issued	235	102,470	–	102,705	–	102,705
Convertible bonds – equity component	–	176,565	–	176,565	–	176,565
Total of transactions with owners	235	319,420	(1,169,815)	(850,160)	(2,328)	(852,488)
Appropriation to statutory reserves	–	342,876	(342,876)	–	–	–
Balance at 30 June 2013	123,138	4,203,067	11,081,387	15,407,592	357,484	15,765,076
Balance at 1 January 2014	123,138	4,521,293	11,889,165	16,533,596	385,070	16,918,666
Profit for the period	–	–	1,775,303	1,775,303	25,353	1,800,656
Currency translation differences	–	(199,106)	–	(199,106)	(3,671)	(202,777)
Total comprehensive income	–	(199,106)	1,775,303	1,576,197	21,682	1,597,879
Transactions with owners						
2013 final dividends paid	–	–	(1,228,234)	(1,228,234)	–	(1,228,234)
Buy-back of shares	(458)	(133,356)	(227,749)	(361,563)	–	(361,563)
Share-based compensation						
– Value of employee services	–	40,385	–	40,385	–	40,385
Total of transactions with owners	(458)	(92,971)	(1,455,983)	(1,549,412)	–	(1,549,412)
Appropriation to statutory reserves	–	408,804	(408,804)	–	–	–
Balance at 30 June 2014	122,680	4,638,020	11,799,681	16,560,381	406,752	16,967,133

The notes on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Cash flows from operating activities		
Cash generated from operations	3,251,940	3,062,190
Income tax paid	(687,948)	(511,986)
Net cash generated from operating activities	2,563,992	2,550,204
Cash flows from investing activities		
Purchase of property, plant and equipment, including additions of construction-in-progress	(433,024)	(578,389)
Additions of land use rights	(49,615)	(2,441)
Additions of intangible assets	(35,032)	–
Proceeds on disposal of property, plant and equipment and land use rights	13,207	25,050
Increase in prepayments for non-current assets	(43,260)	(55,714)
Decrease/(increase) in restricted bank deposits	8,843	(11)
Decrease/(increase) in long-term and short-term bank deposits	1,053,235	(1,817,698)
Interest received	380,645	201,853
Net cash generated from/(used in) investing activities	894,999	(2,227,350)
Cash flows from financing activities		
Proceeds from borrowings	8,449,123	7,395,004
Repayment of borrowings	(5,509,623)	(4,045,677)
Proceeds from issuance of convertible bonds	–	5,331,080
Interest paid	(145,401)	(145,194)
Dividends paid	(1,228,234)	(1,169,815)
Dividends paid to non-controlling interest	(66,296)	(2,328)
Proceeds from shares issued under the employee share option schemes	–	102,705
Buy-back of shares	(361,563)	–
Net cash generated from financing activities	1,138,006	7,465,775
Net increase in cash and cash equivalents	4,596,997	7,788,629
Cash and cash equivalents at 1 January	10,711,251	6,098,604
Effect of foreign exchange rate changes	(22,434)	43,995
Cash and cash equivalents at 30 June	15,285,814	13,931,228

The notes on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 and food and snack products in the People’s Republic of China (the “PRC”), Hong Kong and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, British West Indies, Cayman Islands.

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

This interim condensed consolidated financial information is presented in units of thousands HK dollars (HK\$’000), unless otherwise stated. This interim condensed consolidated financial information was approved for issue by the Board of Directors on 27 August 2014. This interim condensed consolidated financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual consolidated financial statements of the Group for the year ended 31 December 2013, as described in the annual consolidated financial statements.

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

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2014.

- Amendment to HKAS 32 ‘Financial instruments: Presentation – on assets and liability offsetting’. It clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. It is not expected to have any significant impact on the Group’s financial statements.

3. ACCOUNTING POLICIES *(continued)*

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

- Amendment to HKAS 36, 'Impairment of assets' on recoverable amount disclosures. It addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. It is not expected to have any significant impact on the Group's financial statements.
- HK(IFRIC) 21 'Levies'. It is an interpretation of HKAS 37 'Provisions, contingent liabilities and contingent assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It is not expected to have any significant impact on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group

- Amendment to HKAS 39 'Financial Instruments: Recognition and measurement, on novation of derivatives'.
- HKFRS 10, 12 and HKAS 27 (Amendment) 'Consolidation for investment entities'.

(c) The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

- Amendment to HKAS 19 regarding defined benefit plans, effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2012: HKFRS 2 'Share-based payment', HKFRS 3, 'Business combinations', HKFRS 9, 'Financial instruments', HKAS 37, 'Provisions, contingent liabilities and contingent assets', HKAS 39, 'Financial instruments – Recognition and measurement', HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment', HKAS 38, 'Intangible assets' and HKAS 24, 'Related Party Disclosures', effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2013: HKFRS 3 'Business combinations', HKFRS 13 'Fair value measurement' and HKAS 40, 'Investment property', effective for annual periods beginning on or after 1 July 2014.
- HKFRS 14 'Regulatory Deferral Accounts', effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operation, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.

3. ACCOUNTING POLICIES *(continued)*

(c) The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted *(continued)*

- HKFRS 15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2017.
- HKFRS 9 'Financial Instruments'. The mandatory effective date of HKFRS 9 is not yet determined.

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

4. ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2013.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 3 and 5 years HK\$'000	Total HK\$'000
At 30 June 2014 (unaudited)				
Borrowings	17,075,420	–	–	17,075,420
Convertible bonds	–	–	6,002,396	6,002,396
Interest payables	258,523	–	–	258,523
Net settled derivative financial instruments	21,295	–	–	21,295
Trade and other payables	3,269,211	–	–	3,269,211
	20,624,449	–	6,002,396	26,626,845
At 31 December 2013 (audited)				
Borrowings	13,232,914	959,643	–	14,192,557
Convertible bonds	–	–	6,002,396	6,002,396
Interest payables	162,037	8,087	–	170,124
Net settled derivative financial instruments	39,727	–	–	39,727
Trade and other payables	2,926,386	–	–	2,926,386
	16,361,064	967,730	6,002,396	23,331,190

5.3 Fair value estimation

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

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Fair value estimation *(continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014.

	Unaudited 30 June 2014 Level 2 HK\$'000	Audited 31 December 2013 Level 2 HK\$'000
Financial liabilities at fair value through profit or loss — Derivative financial instruments	(21,295)	(39,727)

During the six months ended 30 June 2014, 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.

5.4 Valuation techniques used to derive Level 2 fair values

Level 2 trading derivatives comprise currency swaps and interest rate swaps. These currency swaps and interest rate swaps are fair valued using market-based rates from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet date:

- Trade and bill receivables
- Other receivables and deposits
- Long-term bank deposits
- Restricted bank deposits
- Cash and bank balances
- Trade payables
- Other payables and accrued charges
- Borrowings
- Convertible bonds

6. SEGMENT INFORMATION

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

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

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the income statement.

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.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with those of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Addition to non-current assets comprise additions to property, plant and equipment, construction-in-progress, land use rights, intangible assets and prepayments 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 2014 is as follows:

	Unaudited					
	Sanitary napkins products HK\$'000	Disposable diapers products HK\$'000	Tissue paper products HK\$'000	Food and snacks products HK\$'000	Others HK\$'000	Group HK\$'000
Consolidated income statement for the six months ended 30 June 2014						
Segment revenue	3,632,572	1,556,486	5,799,257	946,735	683,052	12,618,102
Inter-segment sales	(46,480)	(10,429)	(161,549)	–	(301,580)	(520,038)
Revenue of the Group	3,586,092	1,546,057	5,637,708	946,735	381,472	12,098,064
Segment profit	1,435,969	263,618	463,140	46,153	12,537	2,221,417
Unallocated costs						(48,229)
Other income and other gains – net						477,291
Operating profit						2,650,479
Finance income						60,587
Finance costs						(361,331)
Profit before income tax						2,349,735
Income tax expense						(549,079)
Profit for the period						1,800,656
Non-controlling interests						(25,353)
Profit attributable to shareholders of the Company						1,775,303
Other items for the six months ended 30 June 2014						
Addition to non-current assets	75,766	126,298	417,641	16,604	92,634	728,943
Depreciation charge	54,725	19,009	240,513	25,657	11,145	351,049
Amortisation charge	3,800	896	8,657	5,989	630	19,972
Consolidated balance sheet as at 30 June 2014						
Segment assets	8,606,829	6,719,508	20,901,537	1,278,923	4,897,320	42,404,117
Deferred income tax assets						279,062
Unallocated assets						651,472
Total assets						43,334,651
Segment liabilities	1,384,262	578,984	7,425,487	301,317	325,880	10,015,930
Deferred income tax liabilities						184,153
Current income tax liabilities						239,730
Unallocated liabilities						15,927,705
Total liabilities						26,367,518

6. SEGMENT INFORMATION *(continued)*

The segment information for the six months ended 30 June 2013 is as follows:

	Unaudited					
	Sanitary napkins products HK\$'000	Disposable diapers products HK\$'000	Tissue paper products HK\$'000	Food and snacks products HK\$'000	Others HK\$'000	Group HK\$'000
Consolidated income statement for the six months ended 30 June 2013						
Segment revenue	3,027,508	1,518,052	5,184,934	931,548	155,001	10,817,043
Inter-segment sales	(167,606)	(86,279)	(119,656)	–	(28,676)	(402,217)
Revenue of the Group	2,859,902	1,431,773	5,065,278	931,548	126,325	10,414,826
Segment profit	1,198,659	304,208	674,500	57,039	10,394	2,244,800
Unallocated costs						(44,173)
Other income and other gains – net						305,382
Operating profit						2,506,009
Finance income						97,679
Finance costs						(136,820)
Profit before income tax						2,466,868
Income tax expense						(583,931)
Profit for the period						1,882,937
Non-controlling interests						(24,083)
Profit attributable to shareholders of the Company						1,858,854
Other items for the six months ended 30 June 2013						
Addition to non-current assets	93,188	23,175	244,976	29,418	84,235	474,992
Depreciation charge	29,532	45,068	224,202	25,286	6,361	330,449
Amortisation charge	2,150	676	8,653	5,836	359	17,674
Consolidated balance sheet as at 30 June 2013						
Segment assets	6,921,731	5,232,205	19,084,352	1,212,073	1,310,207	33,760,568
Deferred income tax assets						121,117
Unallocated assets						5,407,848
Total assets						39,289,533
Segment liabilities	1,203,265	504,449	5,599,135	343,943	74,493	7,725,285
Deferred income tax liabilities						138,950
Current income tax liabilities						446,371
Unallocated liabilities						15,213,851
Total liabilities						23,524,457

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Crediting		
Government grant income	249,417	137,027
Interest income from long-term and short-term bank deposits	272,604	150,376
Reversal of provision for decline in value of inventories	–	15,056
Exchange gain from operating activities – net	–	25,269
Net gain on derivative financial instruments	18,432	–
Charging		
Depreciation of property, plant and equipment (<i>Note 11</i>)	351,049	330,449
Amortisation of land use rights (<i>Note 11</i>)	13,818	12,764
Amortisation of intangible assets (<i>Note 11</i>)	6,154	4,910
Employee benefit expense, including directors' emoluments	951,357	871,044
Loss on disposal of property, plant and equipment	14,946	3,518
Operating lease rentals	52,415	46,290
Provision for impairment of trade receivables	426	764
Provision for decline in value of inventories	7,816	–
Exchange loss from operating activities – net	53,806	–
Net loss on derivative financial instruments	–	36,506
Miscellaneous taxes and levies	87,704	82,724

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	63,917	96,673
– PRC income tax	592,203	502,924
Deferred income tax, net	(107,041)	(15,666)
Income tax expense	549,079	583,931

8. INCOME TAX EXPENSE *(continued)*

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits of the Group's companies in Hong Kong for the period.

Taxation on PRC income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%. 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.

The profits of the PRC subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately HK\$81,006,000 (2013: HK\$95,047,000) for the six months ended 30 June 2014 have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future.

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company of HK\$1,775,303,000 (2013: HK\$1,858,854,000) by the weighted average number of 1,230,449,472 (2013: 1,229,884,859) ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2014	2013
Basic		
Profit attributable to shareholders of the Company (HK\$'000)	1,775,303	1,858,854
Weighted average number of ordinary shares in issue (thousands)	1,230,449	1,229,885
Basic earnings per share (HK\$)	HK\$1.443	HK\$1.511

9. EARNINGS PER SHARE *(continued)*

(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 has two categories of dilutive potential ordinary shares: convertible bonds and share options. The Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share as at 30 June 2014. 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 2014) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2014	2013
Diluted		
Profit attributable to shareholders of the Company (HK\$'000)	1,775,303	1,858,854
Weighted average number of ordinary shares in issue (thousands)	1,230,449	1,229,885
Adjusted for:		
— Share options (thousands)	1,762	529
— Convertible bonds (thousands)	—	1,000
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,232,211	1,231,414
Diluted earnings per share (HK\$)	HK\$1.441	HK\$1.510

10. DIVIDENDS

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Proposed interim dividend of HK\$0.85 (2013: HK\$0.85) per share	1,042,779	1,046,677

A final dividend of HK\$1,228,234,000 (2013: HK\$1,169,815,000) related to the period up to 31 December 2013 was paid in May 2014.

An interim dividend of HK\$0.85 (2013: HK\$0.85) per share was proposed by the Board of Directors on 27 August 2014. This interim dividend, amounting to HK\$1,042,779,000 (2013: HK\$1,046,677,000), 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 2014.

11. CAPITAL EXPENDITURE – NET BOOK VALUE

	Unaudited			
	Property, plant and equipment HK\$'000	Construction- in-progress HK\$'000	Land use rights HK\$'000	Intangible assets HK\$'000
At 1 January 2013	7,815,553	1,301,331	1,032,792	590,822
Additions	123,902	348,649	2,441	–
Transfer from construction-in-progress	428,636	(428,636)	–	–
Disposals	(28,102)	–	(466)	–
Depreciation/amortisation	(330,449)	–	(12,764)	(4,910)
Currency translation differences	139,831	21,626	17,405	74
At 30 June 2013	8,149,371	1,242,970	1,039,408	585,986
At 1 January 2014	8,627,200	1,204,372	1,105,298	581,150
Additions	80,200	598,825	49,615	303
Transfer from construction- in-progress	237,205	(271,934)	–	34,729
Disposals	(28,153)	–	–	–
Depreciation/amortisation	(351,049)	–	(13,818)	(6,154)
Currency translation differences	(81,807)	(11,658)	(10,209)	(115)
At 30 June 2014	8,483,596	1,519,605	1,130,886	609,913

12. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Trade receivables	2,276,253	2,187,373
Bills receivables	24,699	3,590
	2,300,952	2,190,963
Less: provision for impairment	(6,405)	(6,479)
Trade and bills receivables, net	2,294,547	2,184,484

12. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Within 30 days	964,010	1,026,891
31 to 180 days	1,249,487	1,064,054
181 to 365 days	54,654	78,450
Over 365 days	32,801	21,568
	2,300,952	2,190,963

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximate their fair values as at the balance sheet date.

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

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Long-term bank deposits		
Term deposits with initial term over one year	1,045,603	814,042
Restricted bank deposits	50,646	60,044
Cash and bank balances		
— Term deposits with initial term over three months and within one year	7,354,403	8,852,732
— Cash and cash equivalents	15,285,814	10,711,251
	22,640,217	19,563,983
Total cash and bank balances	23,736,466	20,438,069

As at 30 June 2014, approximately HK\$50,646,000 (31 December 2013: HK\$60,044,000) of the bank balances were restricted until certain letters of credit issued by the Group are settled.

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

14. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Within 30 days	1,216,273	1,527,717
31 to 180 days	643,239	544,042
181 to 365 days	16,413	9,112
Over 365 days	14,877	16,119
	1,890,802	2,096,990

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

15. BORROWINGS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Non-current		
Long-term bank loans – unsecured	–	959,643
Current		
Trust receipt bank loans	1,124,857	963,996
Current portion of long-term bank loans – unsecured	1,924,321	2,456,386
Short-term bank loans – unsecured	14,026,242	9,812,532
	17,075,420	13,232,914
Total borrowings	17,075,420	14,192,557

As at 30 June 2014, the effective interest rate of the Group's borrowings was approximately 1.96% (31 December 2013: 1.92%) per annum.

15. BORROWINGS *(continued)*

Movements in borrowings are analysed as follows:

	Unaudited HK\$'000
At 1 January 2013	11,227,796
New borrowings	7,395,004
Repayments of borrowings	(4,045,677)
Currency translation differences	72,686
	<hr/>
At 30 June 2013	14,649,809
	<hr/>
At 1 January 2014	14,192,557
New borrowings	8,449,123
Repayments of borrowings	(5,509,623)
Currency translation differences	(56,637)
	<hr/>
At 30 June 2014	17,075,420

16. CONVERTIBLE BONDS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Fair value of convertible bonds issued on 27 June 2013	5,434,000	5,434,000
Issuing expenses	(110,013)	(110,013)
Equity component	(176,565)	(176,565)
	<hr/>	<hr/>
Liability component on initial recognition on 27 June 2013	5,147,422	5,147,422
Accumulated finance costs	160,650	79,708
	<hr/>	<hr/>
Liability component	5,308,072	5,227,130

On 27 June 2013, the Company issued zero-coupon convertible bonds which will be due on 27 June 2018 (the "maturity date"), in the aggregate principal amount of HK\$5,434 million with an initial conversion price of HK\$120.0825 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 110.46 per cent of their principal amount on the maturity date.

16. CONVERTIBLE BONDS *(continued)*

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate of 2.7% for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

The fair value of the convertible bonds approximated its carrying amounts as at 30 June 2014.

From 27 June 2013 to 30 June 2014, no bond holders have converted their bonds into ordinary shares of the Company.

17. SHARE CAPITAL

	Authorised share capital Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1 January 2013 to 30 June 2014	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 2013	1,229,027,721	122,903
Share-based compensation — Proceeds from shares issued	2,357,000	235
At 30 June 2013	1,231,384,721	123,138
At 1 January 2014	1,231,384,721	123,138
Buy-back of shares <i>(Note)</i>	(4,585,500)	(458)
At 30 June 2014	1,226,799,221	122,680

Note:

The Group acquired 4,585,500 its own shares through purchases on The Stock Exchange of Hong Kong Limited during the period ended 30 June 2014. The Shares had been cancelled after buy-back. The total amount paid to acquire the shares was approximately HK\$361,563,000 and has been deducted from shareholders' equity.

18. CAPITAL COMMITMENTS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Contracted but not provided for in respect of:		
Machinery and equipment	914,490	1,046,496
Leasehold land and buildings	298,335	493,556
	1,212,825	1,540,052
Authorised but not contracted in respect of:		
Leasehold land and buildings	212,970	215,029
Total capital commitment	1,425,795	1,755,081

19. CONTINGENT LIABILITIES

At 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one 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.

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

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	68,583	80,047
— heat energy	43,961	54,456
	112,544	134,503

20. SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

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

Pursuant to agreements between a wholly-owned subsidiary of the Company and Weifang Power, an electricity company, the Group purchased electricity energy and heat energy from Weifang Power at prices not less favorable than the prevailing market prices. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company. The latter is also an elder brother of Mr. Hui Ching Chi, an executive director of the Company.

- (b) For the six months ended 30 June 2014, the key management compensation amounted to approximately HK\$8,740,000 (2013: HK\$8,586,000).

21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the interim dividend proposal are described in Note 10.

BUSINESS REVIEW

The world sustained its economic recovery in the first half of 2014. Although the global economy remained complicated at a time when the United States Federal Reserve is trimming stimulus and the European Central Bank is fighting inflation, China still maintained its steady economic growth as the Chinese government continued its efforts to restructure its economy. According to the data from the National Bureau of Statistics of China, the country's gross domestic product accelerated from 7.4% in the first quarter to 7.5% in the second quarter, ending the first half with 7.4% growth year-on-year to RMB26,904.4 billion.

As a leading enterprise in the personal hygiene product industry in mainland China, the Group increased efforts to enhancing its competitive strengths in order to seize market opportunities arising from the booming market, which was driven by economic development and increasing awareness of health and hygiene.

For the six months ended 30 June 2014, the Group's revenue increased by about 16.2% to approximately HK\$12,098,064,000 (2013 first half: HK\$10,414,826,000). Operating profit increased by about 5.8% to around HK\$2,650,479,000 (2013 first half: HK\$2,506,009,000). There was an exchange loss of about HK\$177,456,000 booked, as a result of the depreciation of renminbi against major currencies during the period while a foreign exchange gain of around HK\$88,102,000 was recorded for the same period last year. Profit attributable to shareholders dropped by about 4.5% to approximately HK\$1,775,303,000 (2013 first half: HK\$1,858,854,000). The Board of Directors declared an interim dividend of HK\$0.85 (2013 first half: HK\$0.85) per share.

Slight increase in raw material prices and negative impact of intensified market competition were partially offset by optimized product portfolio, effective cost control measures and enhanced economies of scale. As a result, gross profit margin contracted slightly to approximately 44.9% (2013 first half: 45.2%), which remained fairly stable as compared with that of the previous year. Distribution costs and administrative expenses increased and accounted for approximately 27.0% (2013 first half: 24.1%) of the Group's total revenue due to the increase in expenses for marketing and brand promotion, development of new specialty sales channels as well as research and development during the period.

Tissue Paper

China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential, despite prolonged market expansion. However, the increase in new production capacity in the tissue paper market amid a general economic slowdown have led to intense competition in the short term. As such, the Group continued to strengthen marketing and brand promotion to cope with the intense competition. The Group's tissue paper sales increased by approximately 11.3% to approximately HK\$5,637,708,000, accounting for approximately 46.6% (2013 first half: 48.6%) of the Group's total revenue.

Gross profit margin dropped to approximately 33.2% (2013 first half: 34.9%) due to the slight increase in price of major raw material tissue wood pulp, and enhanced efforts in marketing and brand promotion amid intense competition. As the tissue wood pulp price began to decline from May 2014, the management expects that the upward pressure of raw material costs could be eased in the second half of 2014.

For the period under review, the Group did not add any new production line, and the annualised production capacity remained at approximately 900,000 tons. In view of the ample supply of new production capacity in the market, the Group decided to adjust the capacity investment plan. According to the revised schedule, the annual production capacity is expected to increase by around 120,000 tons in the second half of 2014, by 240,000 tons in 2015 and by 120,000 tons in 2016, and will bring the Group's total annualised production capacity to about 1,380,000 tons by the end of 2016. As new additional production capacity is gradually going on stream, the management is now considering overseas market expansion in the fourth quarter of 2014 while consolidating its presence in mainland China in order to increase sales revenue.

Sanitary Napkin

Accelerating urbanization and rising living standard continue to raise the market penetration of sanitary napkins and support consumption upgrades, thus driving the growth in the sanitary napkin market. The sanitary napkin industry landscape remains competitive, triggering market consolidation which is in the Group's favour. During the period, the Group continued to improve product mix and invest in new product development, and launched "Ultra Thin" products under the "Space 7" brand "Young Lady" series. Sanitary napkin sales increased by about 25.4% approximately HK\$3,586,092,000, accounting for around 29.6% (2013 first half: 27.5%) of the Group's total revenue.

Benefited from optimizing product portfolio, the gross profit margin of sanitary napkin business increased to approximately 66.9% (2013 first half: 65.1%). Looking ahead, the Group will continue to focus on product innovation, optimize the product mix, improve product quality and increase the sales of mid-to-high-end products in order to satisfy rising market demand.

Disposable Diapers

The market penetration of disposable diaper products in China is still low. In addition, the steady economic growth, accelerating urbanization, and people's increasing awareness of personal hygiene in mainland China continue to drive market demand, implying potential for growth. However, short-term market outlook remains challenging as a lot of players have entered into this market which intensified the competition in the market and affected the sales growth of the Group. As such, the Group has stepped up marketing campaign in various specialty sales channels during the period.

During the period, the Group continued to focus on marketing and promoting mid-end and mid-to-high-end diaper products, and launched the new mid-to-high-end ultra-thin series of products. Sales of mid-end and mid-to-high-end disposable diapers increased by approximately 16.1% while sales of low-end diapers decreased by approximately 12.3%, due to persistent market competition. Overall, revenue growth for the six months ended 30 June 2014 increased by approximately 8.0% to approximately HK\$1,546,057,000, accounting for approximately 12.8% (2013 first half: 13.7%) of the Group's total revenue.

The effect of an enhanced product mix offset the slight increase in raw material prices during the period. Gross profit margin increased slightly to approximately 44.2% (2013 first half: 43.5%).

In the second half of 2014, the Group will continue to enhance brand and products promotions, expand its presence in maternity stores and e-commerce sales network in order to bring better long term growth in sales.

Food and Snacks Products

As the snack products of the Group are not daily necessities, sales are affected by the economic slowdown. During the period, food and snacks product grew by about 1.6% in sales to approximately HK\$946,735,000, accounting for approximately 7.8% (2013 first half: 8.9%) of Group's total revenue. Gross profit margin increased to approximately 43.6% (2013 first half: 42.6%) due to a decline in the costs of major raw materials, such as sugar and palm oil.

As quality of living in China improves, the Group believes that the snack business will keep booming in the long term. In the second half of 2014, the Group will continue to commit resources to enriching its product portfolio so that it will be able to cater to the different tastes of consumers, and boost the revenue growth of the business.

First Aid Products

First-aid product sales, under the "Banitore" and "Bandi" brands, amounted to approximately HK\$20,429,000 (2013 first half: HK\$20,999,000). The business only accounted for approximately 0.2% (2013 first half: 0.2%) of the Group's total revenue, and did not have any significant impact on the Group's overall results.

Appointment of Professional Consultants

To further optimize the operation process of its supply chain, logistics networks, inventory management and information technology planning, the Group engaged IBM (China) Co., Ltd. in March 2014 to provide professional recommendations in regard to the above aspects.

In addition, the Group also appointed Yonyou Software Co., Ltd. to update and improve Hengan's computers and information systems, including system upgrades, enhancement of information systems management for sales networks and production process, as well as construction of electronic warehouse system, in order to support the evolving business in the future.

The above projects are still in progress.

Product Research and Development

As the first enterprise in the mainland's tissue paper industry to have been awarded the title of the Enterprise Technology Centre with State Accreditation, during the period, the Group continued to allocate more resources to product research and development with an aim of enhancing efficiency and of developing more value-added products to meet consumers' higher requirements. The move will also strengthen the Group's leading position in the personal hygiene product industry.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 30 June 2014, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK\$23,736,466,000 in total (31 December 2013: HK\$20,438,069,000); convertible bonds liability portion amounted to approximately HK\$5,308,072,000 (31 December 2013: HK\$5,227,130,000), and borrowings amounted to approximately HK\$17,075,420,000 (31 December 2013: HK\$14,192,557,000).

The net proceed of approximately HK\$5,331 million raised from the issuance of convertible bonds in June 2013 has been used for repayment of bank borrowings of about HK\$3,355 million, investing in subsidiaries of about HK\$442 million, repurchase of the Company's shares of about HK\$249 million, payment of dividend of about HK\$210 million, placing time deposits of about HK\$851 million and as general working capital of about HK\$224 million.

The convertible bonds were subject to a fixed interest rate of 2.7% while the borrowings were subject to floating annual interest rates ranging from approximately 1.1% to 5.2% (2013 first half: 1.0% to 4.8%). As at 30 June 2014, apart from the cash of about HK\$50,646,000 (31 December 2013: HK\$60,044,000) deposited in banks as restricted bank deposits for issuing letters of credit, there were no other charges on the Group's assets for its bank loans.

As at 30 June 2014, the Group's gross gearing ratio was approximately 135.2% (2013: 117.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including minority interests), was approximately negative 7.9% (2013: negative 5.8%) as the Group was in a net cash position.

During the first half of 2014, the Group's capital expenditure amounted to approximately HK\$728,943,000. As at 30 June 2014, the Group had no material contingent liabilities.

Human Resources and Management

As at 30 June 2014, the Group employed approximately 34,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

Latest award

In August 2014, the Group was named by Forbes Magazine as one of the World's Most Innovative Companies.

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 dollars. The Group has never had any difficulties in obtaining 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 2014, apart from certain exchange 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 ahead to the second half of the year, modest recovery of the global economy and steady expansion of the Chinese economy is expected to continue. China's rising per capita income and accelerating urbanization will provide a solid foundation for the development of its market for personal hygiene products. Although new production capacity in the tissue paper market goes on stream at the time of a softening market has intensified competition in the short term across the business segment, the people's rising awareness of personal hygiene will support the growth in the market for high-quality hygiene products in the long run.

The Group will continue to strengthen product promotion and tap markets with potential for growth. In addition, the Group will also improve product quality and management efficiency in order to increase its brand influence, market share and overall competitiveness. The Group will continue to monitor closely the price trends of raw materials and optimize its product mix based on the changes in the market with a view to improving its gross profit margin.

With its solid business, brand equity and nationwide distribution network, the Group is confident of maintaining its leading position in mainland China's personal hygiene product market. It will strive for consistent growth in its business and greater shareholder value.

ENVIRONMENT PROTECTION AND SOCIAL RESPONSIBILITIES

Hengan dedicates to clean production and its several major tissue production bases use clean energy natural gas.

Through recycling and treatment of production wastage water generated during production process with advanced equipment and technologies, the Group has realized the recycling of water resource and reduced the use of fresh water. The water consumption per ton of raw paper is estimated to be about one-third lower than the domestic average standard in the same industry. The tissue production bases are open for visit by primary and secondary schools as environment protection bases.

On gas emission, overseas advanced equipment has been employed in various production procedures to recover part of the wastage particulates generated during production process and minimize the emission to the fullest extent. The emission of wastage gas per ton of product is estimated to be lower than the domestic average standard in the same industry.

With regards to power consumption, the Group dedicates to improving equipment efficiency and quality management. The use of electricity power per ton of product is estimated to be lower than the domestic average standard in the same industry.

The Group actively participates in social public commonweal work. Hengan has established many companies in Central and Western China since 1990s, which provided employment opportunities to over ten thousand people. Moreover, during the past two decades, the Group and its major shareholders had donated a total of over RMB600 million to all kinds of commonweal works and charities. The Company set up a youth volunteer service team in 2011, which has 136 volunteers so far, and develops voluntary activities for long term.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of HK\$0.85 (2013: HK\$0.85) per share for the six months ended 30 June 2014 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 26 September 2014. Dividend warrants will be despatched to shareholders on or about 14 October 2014.

The Register of Members of the Company will be closed from 23 September 2014 to 26 September 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on 22 September 2014.

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

At 30 June 2014, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

Name of Directors	Capacity/Nature of Interest		Number of unlisted share (Note 1)	Total	Approximate percentage of shareholding
	Personal interests/Beneficiary	Family Interest	Personal interests/Beneficiary		
Mr. Sze Man Bok (Note 2)	228,804,599	–	20,000	228,824,599	18.65%
Mr. Hui Lin Chit (Note 3)	224,669,751	–	148,000	224,817,751	18.33%
Mr. Hung Ching Shan (Note 4)	7,000,000	–	20,000	7,020,000	0.57%
Mr. Xu Shui Shen	–	33,030	180,000	213,030	0.02%
Mr. Xu Da Zuo (Note 5)	19,777,321	–	108,000	19,885,321	1.62%
Mr. Xu Chun Man (Note 6)	14,915,621	–	20,000	14,935,621	1.22%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%
Mr. Loo Hong Shing Vincent	125,000	–	140,000	265,000	0.02%

Notes:

- (1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 34 to 35.
- (2) Out of the 228,804,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") holds 228,228,999 ordinary shares while Mr. Sze Man Bok has personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust.
- (3) An Ping Holdings Limited holds 224,669,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust.

- (4) Wan Li Company Limited holds 7,000,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust.
- (5) Out of the 19,777,321 ordinary shares, Skyful Holdings Limited holds 17,270,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. The remaining 2,507,321 shares are held by Hengan International Investments Limited ("HILL"), a nominee company holding shares of the Company on behalf of certain directors and senior management of the Group and their family members.
- (6) Out of the 14,915,621 ordinary shares, Zhong Shen Investment Holdings Limited holds 11,700,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Holdings Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. The remaining 3,215,621 shares are held by HILL.
- (7) Interests in shares and share options were long position.

Apart from the above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 30 June 2014, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Substantial Shareholders	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Ting Lee Investments Limited	(1)	Beneficial owner	228,228,999 (L)	18.60%
Ting Wing Holdings Limited	(1)	Interests of controlled corporation	228,228,999 (L)	18.60%
An Ping Holdings Limited	(2)	Beneficial owner	224,669,751 (L)	18.31%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,669,751 (L)	18.31%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.71%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.71%
Credit Suisse Trust Limited	(3)	Trustee	487,168,750 (L)	39.71%

(L) denotes long position

(S) denotes short position

Notes:

- (1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of the Sze's Family Trust.
- (2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of the Hui Family Trust.
- (3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust, the Wan Li Trust and others and is deemed to be interested in the shares held by these trusts.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2014, the Company repurchased a total of 4,585,500 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK\$361,563,000 (excluding expenses) for enhancing its per share net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid	Lowest price paid
28 March 2014	500,000	79.95	78.35
31 March 2014	280,000	79.95	78.65
7 May 2014	100,000	79.95	79.60
8 May 2014	171,000	79.75	78.30
9 May 2014	2,100,000	79.50	78.05
16 June 2014	200,000	79.00	78.95
17 June 2014	500,000	78.95	78.70
18 June 2014	485,500	78.70	78.00
19 June 2014	200,000	78.95	78.80
23 June 2014	49,000	78.75	78.70
	<u>4,585,500</u>		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2014.

SHARE OPTION SCHEME

The Company has adopted share option scheme (the “Scheme”) on 26 May 2011 and shall be valid and effective for a period of 10 years commencing on the respective dates of adoption of the Scheme. The table below sets out movements in the share options granted under the Scheme during the six months ended 30 June 2014:

Eligible person	Number of share options					Balance as at 01/06/2014	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2014	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Directors									
Mr. Sze Man Bok	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Hui Lin Chit	74,000	-	-	-	-	74,000	72.75	27/07/2012	28/07/2015-27/07/2022
	37,000	-	-	-	-	37,000	72.75	27/07/2012	28/07/2016-27/07/2022
	37,000	-	-	-	-	37,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Xu Shui Shen	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
	80,000	-	-	-	-	80,000	72.75	27/07/2012	28/07/2015-27/07/2022
	40,000	-	-	-	-	40,000	72.75	27/07/2012	28/07/2016-27/07/2022
	40,000	-	-	-	-	40,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Hung Ching Shan	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Xu Da Zuo	54,000	-	-	-	-	54,000	72.75	27/07/2012	28/07/2015-27/07/2022
	27,000	-	-	-	-	27,000	72.75	27/07/2012	28/07/2016-27/07/2022
	27,000	-	-	-	-	27,000	72.75	27/07/2012	28/07/2017-27/07/2022

Eligible person	Number of share options					Balance as at 01/06/2014	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2014	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Mr. Xu Chun Man	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Sze Wong Kim	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
Mr. Hui Ching Chi	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
Mr. Loo Hong Shing Vincent	70,000	-	-	-	-	70,000	72.75	27/07/2012	28/07/2015-27/07/2022
	35,000	-	-	-	-	35,000	72.75	27/07/2012	28/07/2016-27/07/2022
	35,000	-	-	-	-	35,000	72.75	27/07/2012	28/07/2017-27/07/2022
Participants	1,262,000	-	-	-	(24,000)	1,238,000	68.30	28/07/2011	28/07/2014-27/07/2021
	631,000	-	-	-	(12,000)	619,000	68.30	28/07/2011	28/07/2015-27/07/2021
	631,000	-	-	-	(12,000)	619,000	68.30	28/07/2011	28/07/2016-27/07/2021
	5,571,000	-	-	-	-	5,571,000	72.75	27/07/2012	28/07/2015-27/07/2022
	2,785,500	-	-	-	-	2,785,500	72.75	27/07/2012	28/07/2016-27/07/2022
	2,785,500	-	-	-	-	2,785,500	72.75	27/07/2012	28/07/2017-27/07/2022
	<u>14,342,000</u>	-	-	-	(48,000)	<u>14,294,000</u>			

According to the Binomial Model, the fair value of the option granted, which had been charged to the consolidated income statement for the six months ended 30 June 2014, amounted to HK\$40,385,000 and the remaining unamortised fair value of approximately HK\$120,463,000 will be charged to the consolidated income statement in future years.

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

AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises five 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 2014.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2014, the Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2014, 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 all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules of the Stock Exchange during the period, except the followings:

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, independent non-executive director of the Company, were unable to attend the annual general meeting of the Company held on 22 May 2014 due to other engagements at that time.

ACKNOWLEDGEMENT

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

By Order of the Board

Hengan International Group Company Limited

Sze Man Bok

Chairman

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

Hong Kong, 27 August 2014