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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>

**REVISION OF ANNUAL CAP IN RESPECT OF
EXISTING CONTINUING CONNECTED TRANSACTIONS
AND
RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcements of the Company dated 12 July 2006 and 18 November 2008 in which it was announced that the 2006 Supply Agreements were entered into between the Group and Weifang Power on 12 July 2006 and were amended and renewed on 18 November 2008.

In November 2008, it was expected that the cap amount in respect of supply of heat energy from Weifang Power to the Shandong Subsidiaries under the 2006 Heat Energy Supply Agreement would be RMB44 million for the year ending 31 December 2009. It has come to the Company's attention that the aggregate amount in respect of the supply of heat energy under the 2006 Heat Energy Supply Agreement for the nine months ended 30 September 2009 was approximately RMB38.21 million. Therefore, the Company proposed to revise the cap amount for the financial year ending 31 December 2009 in respect of the supply of heat energy from Weifang Power to the Shandong Subsidiaries under the 2006 Heat Energy Supply Agreement.

Accordingly, the Company shall comply with the reporting and announcement requirements in accordance with Rule 14A.36 of the Listing Rules since the applicable percentage ratios in relation to the aggregate of the cap amount of the supply of electricity under the 2006 Electricity Supply Agreement and the revised cap amount of the supply of heat energy under the 2006 Heat Energy Supply Agreement for the financial year ending 31 December 2009 are all below 2.5%.

In addition, the 2006 Supply Agreements will expire on 31 December 2009, and in order to renew the above agreements, Hengan Mega Jumbo and Weifang Power entered into the 2010 Supply Agreements on 4 November 2009 pursuant to which Weifang Power will continue to supply electricity and heat energy to the Shandong Subsidiaries for the financial year ending 31 December 2010.

* For identification purpose

The Board considers that the revision of the annual cap for the financial year ending 31 December 2009 in respect of the 2006 Heat Energy Supply Agreement and the entering into of the 2010 Supply Agreements are in the interest of the Company and its shareholders as a whole, as the Group can continue to have secured steady electricity and heat energy supply from Weifang Power for the Group's major manufacturing operations in Weifang, Shandong Province of the PRC at the rates which are below the prevailing market rates or at the rates no less favourable (or more favourable) than that charged by independent third parties and therefore maintain the market competitiveness of the Group.

As it is expected that the applicable percentage ratios in relation to the aggregate value of the Transactions under the 2010 Supply Agreements for each of the financial year ending 31 December 2010 are all below 2.5%, the Transactions are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement set out in Chapter 14A of the Listing Rules.

BACKGROUND OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 12 July 2006 and 18 November 2008 in which it was announced that the 2006 Supply Agreements were entered into between the Group and Weifang Power on 12 July 2006 and were amended and renewed on 18 November 2008. Pursuant to the 2006 Supply Agreements, Weifang Power has been supplying electricity and heat energy to the Shandong Subsidiaries.

REVISION OF ANNUAL CAP IN RESPECT OF EXISTING CONTINUING CONNECTED TRANSACTIONS

In November 2008, when the cap amounts for the financial year ending 31 December 2009 in respect of the supply of electricity and heat energy from Weifang Power to the Shandong Subsidiaries under the 2006 Supply Agreements were considered, they were based on, among other things, the then anticipated demand for electricity and heat energy as a result of the then predicted amount of products being manufactured by the Shandong Subsidiaries, and it was expected that the cap amounts therefor would be RMB76 million and RMB44 million, respectively, for the year ending 31 December 2009.

It has come to the Company's attention that the aggregate amount in respect of the supply of heat energy under the 2006 Heat Energy Supply Agreement for the nine months ended 30 September 2009 was approximately RMB38.21 million. As the actual demand for heat energy of the Shandong Subsidiaries for the nine months ended 30 September 2009 is higher than the anticipated demand due to the unexpected increase in the actual production of the Shandong Subsidiaries, the Company proposed to revise the cap amount for the financial year ending 31 December 2009 in respect of the supply of heat energy from Weifang Power to the Shandong Subsidiaries under the 2006 Heat Energy Supply Agreement.

Set out below are the relevant particulars of the 2006 Heat Energy Supply Agreement:

Date of the 2006 Heat Energy Supply Agreement	:	12 July 2006 (renewed on 18 November 2008)
Parties	:	(1) Hengan Mega Jumbo (novated by Hengan China as assignor with effect from October 2007) (as Buyer) (2) Weifang Power (as Supplier)
Duration	:	Originally for a term of three years after 12 July 2006 and renewed to expire on 31 December 2009
Nature of transaction	:	Supply of heat energy, in respect of which the Shandong Subsidiaries will enjoy priority over all other customers of Weifang Power
Charges	:	At adjusted rates of RMB190 per ton for operation of the manufacturing facilities and RMB16.33 per square metre for use in staff quarters respectively, which are subject to adjustment based on market conditions and to be mutually agreed by Hengan Mega Jumbo and Weifang Power provided that the adjusted unit prices shall in any event be lower than the prevailing market prices or at a rate no less favourable (or more favourable) to the Group than that at which independent third parties charge the Group for the supply of heat energy. The charges will be paid by the Shandong Subsidiaries on a quarterly basis from their respective internal resources.

Annual caps:

For the year ended 31 December 2006		For the year ending 31 December 2009	
	2007	2008	
RMB11.44 million	RMB19.24 million	RMB20 million <i>(Original)</i>	RMB44 million
		RMB28 million <i>(Revised)</i>	RMB54 million <i>(Revised)</i>

Basis of the revised annual cap for the year ending 31 December 2009:

- (a) the aggregate charges paid by the Shandong Subsidiaries in respect of the supply of heat energy for the nine months ended 30 September 2009 of approximately RMB38.21 million;
- (b) the existing scale and operations of the business of the Shandong Subsidiaries and the anticipated demand for heat energy as a result of predicted amount of products being manufactured by the Shandong Subsidiaries for the three months ending 31 December 2009;

- (c) the unit price charged for the supply of heat energy under the 2006 Heat Energy Supply Agreement at the rates of RMB190 per ton for operation of the manufacturing facilities and RMB16.33 per square metre for use in staff quarters respectively, which is subject to adjustment based on market conditions and to be mutually agreed by Hengan Mega Jumbo and Weifang Power provided that the adjusted unit price shall in any event be lower than the prevailing market price or at a rate no less favourable to the Group than that at which independent third parties charge the Group (or more favourable) for the supply of heat energy;
- (d) the price for the supply of heat energy for use in staff quarters has been prescribed by the PRC Government; and
- (e) the increase in the market prices of the heat energy due to the inflation in the PRC.

RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

The 2006 Supply Agreements will expire on 31 December 2009, and in order to renew the above agreements, Hengan Mega Jumbo and Weifang Power entered into the 2010 Supply Agreements on 4 November 2009 pursuant to which Weifang Power will continue to supply electricity and heat energy to the Shandong Subsidiaries for the financial year ending 31 December 2010.

Set out below are the relevant particulars of the 2010 Supply Agreements:

1. 2010 Electricity Supply Agreement

Date	:	4 November 2009
Parties	:	(1) Hengan Mega Jumbo (as Buyer) (2) Weifang Power (as Supplier)
Duration	:	From 1 January 2010 to 31 December 2010 (both days inclusive)
Nature of transaction	:	Supply of electricity, in respect of which Shandong Subsidiaries will enjoy priority over all other customers of Weifang Power
Charges	:	At a rate of RMB0.595 per kilowatt-hour, which is subject to adjustment based on market conditions and to be mutually agreed by Hengan Mega Jumbo and Weifang Power provided that the adjusted unit price shall in any event be lower than the prevailing market price or at a rate no less favourable (or more favourable) to the Group than that at which independent third parties charge the Group for supply of electricity. The charges will be paid by the Shandong Subsidiaries on a monthly basis from their respective internal resources.

Annual cap in respect of the charges payable under the 2010 Electricity Supply Agreement:

**For the financial year
ending 31 December
2010**

RMB110 million

Basis of the annual cap in respect of the charges payable under the 2010 Electricity Supply Agreement:

- (a) the aggregate annual value of the charges paid under the 2006 Electricity Supply Agreement for the electricity utilized by the Shandong Subsidiaries for each of the two years ended 31 December 2007 and 2008 and the nine months ended 30 September 2009, being approximately RMB43.05 million, RMB67.3 million and RMB48.38 million, respectively, which have not exceeded the respective existing annual caps;
- (b) the existing scale and operations of the business of the Shandong Subsidiaries and the anticipated demand for electricity as a result of predicted amount of products being manufactured by the Shandong Subsidiaries;
- (c) the unit price to be charged for the supply of electricity under the 2010 Electricity Supply Agreement at a rate of RMB0.595 per kilowatt-hour, which is subject to adjustment based on market conditions and to be mutually agreed by Hengan Mega Jumbo and Weifang Power provided that the adjusted unit price shall in any event be lower than the prevailing market price or at a rate no less favourable (or more favourable) to the Group than that at which independent third parties charge the Group for supply of electricity; and
- (d) increase in the market prices of the electricity due to the inflation in the PRC.

2. 2010 Heat Energy Supply Agreement

Date	:	4 November 2009
Parties	:	(1) Hengan Mega Jumbo (as Buyer) (2) Weifang Power (as Supplier)
Duration	:	From 1 January 2010 to 31 December 2010 (both days inclusive)
Nature of transaction	:	Supply of heat energy, in respect of which the Shandong Subsidiaries will enjoy priority over all other customers of Weifang Power

Charges : At rates of RMB190 per ton for operation of the manufacturing facilities and RMB16.33 per square metre for use in staff quarters respectively, which are subject to adjustment based on market conditions and to be mutually agreed by Hengan Mega Jumbo and Weifang Power provided that the adjusted unit prices shall in any event be lower than the prevailing market prices or at a rate no less favourable (or more favourable) to the Group than that at which independent third parties charge the Group for supply of heat energy. The charges will be paid by the Shandong Subsidiaries on a quarterly basis from their respective internal resources.

Annual cap in respect of the charges payable under the 2010 Heat Energy Supply Agreement:

For the financial year ending 31 December 2010

RMB65 million

Basis of the annual cap in respect of the charges payable under the 2010 Heat Energy Supply Agreement:

- (a) the aggregate annual value of charges paid under the 2006 Heat Energy Supply Agreement for heat energy utilized by the Shandong Subsidiaries for each of the two years ended 31 December 2007 and 2008 and the nine months ended 30 September 2009, being approximately RMB18.08 million, RMB27.9 million and RMB38.21 million, respectively, which have not exceeded the respective existing annual caps;
- (b) the existing scale and operations of the business of the Shandong Subsidiaries and the anticipated demand for heat energy as a result of predicted amount of products being manufactured by the Shandong Subsidiaries;
- (c) the unit price to be charged for the supply of heat energy under the 2010 Heat Energy Supply Agreement at the rates of RMB190 per ton for operation of the manufacturing facilities and RMB16.33 per square metre for use in staff quarters respectively, which is subject to adjustment based on market conditions and to be mutually agreed by Hengan Mega Jumbo and Weifang Power provided that the adjusted unit price shall in any event be lower than the prevailing market price or at a rate no less favourable to the Group than that at which independent third parties charge the Group (or more favourable) for supply of heat energy;
- (d) the price for the supply of heat energy for use in staff quarters has been prescribed by the PRC Government; and
- (e) increase in the market prices of the heat energy due to the inflation in the PRC.

RELATIONSHIP BETWEEN THE PARTIES TO THE TRANSACTIONS

Weifang Power is a connected person of the Company for the purposes of the Listing Rules since:

- (1) Weifang Power is owned by Advance Asia and Weifang Investment as to 95% and 5% respectively;
- (2) Advance Asia is owned by Mr. Hui and Mr. Sze as to 61% and 39% respectively; and
- (3) Mr. Hui and Mr. Sze are the sons of Mr. Hui Lin Chit and Mr. Sze Man Bok respectively, both are executive directors and substantial shareholders of the Company.

Accordingly, the Transactions are continuing connected transactions of the Company for the purposes of the Listing Rules.

LISTING RULES IMPLICATIONS

In respect of the revision of the annual cap for the supply of heat energy under the 2006 Heat Energy Supply Agreement, the Company shall comply with the reporting and announcement requirements in accordance with Rule 14A.36 of the Listing Rules since the applicable percentage ratios in relation to the aggregate of the cap amount of the supply of electricity under the 2006 Electricity Supply Agreement and the revised cap amount of the supply of heat energy under the 2006 Heat Energy Supply Agreement for the financial year ending 31 December 2009 are all below 2.5% but above 0.1%.

In addition, as it is expected that the applicable percentage ratios in relation to the aggregate value of the Transactions for the financial year ending 31 December 2010 are all below 2.5% but above 0.1%, the Transactions are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement set out in Chapter 14A of the Listing Rules. Save the 2006 Supply Agreements, the Group has not entered into any prior transaction with each of Mr. Hui, Mr. Sze, Mr. Hui Lin Chit and Mr. Sze Man Bok and/or their respective connected persons which is required to be aggregated with the Transactions under Rule 14A.25 of the Listing Rules.

REASONS FOR AND BENEFITS OF REVISION OF ANNUAL CAPS IN RESPECT OF AND THE RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

The Board considers that the revision of the annual cap for the financial year ending 31 December 2009 in respect of the 2006 Heat Energy Supply Agreement and the entering into of the 2010 Supply Agreements are in the interest of the Company and its shareholders as a whole, as the Group can continue to have secure steady electricity and heat energy supply from Weifang Power for the Group's major manufacturing operations in Weifang, Shandong Province of the PRC at the rates which are below the prevailing market rates or at the rates no less favourable (or more favourable) than that charged by independent third parties and therefore maintain the market competitiveness of the Group.

VIEW OF THE DIRECTORS

The Directors (including the independent non-executive Directors) consider that the terms of the 2006 Heat Energy Supply Agreement including the revised annual cap for the financial year ending 31 December 2009 and the terms of the 2010 Supply Agreements are on normal commercial terms (or better to the Group) which are arrived at after arm's length negotiations between the parties and are fair and reasonable and in the interests of the Company and its shareholders as a whole and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group.

INFORMATION IN RESPECT OF THE GROUP AND WEIFANG POWER

The Group is principally engaged in the manufacturing, distribution and sale of personal hygiene products, food and snack, and skincare products mainly in the PRC.

Weifang Power is a sino-foreign equity joint venture incorporated in the PRC with a registered capital of US\$12,000,000, which is held by Advance Asia and Weifang Investment as to 95% and 5% respectively. Weifang Power is principally engaged in the supply of heat energy and electricity in the PRC.

DEFINITIONS

“2006 Electricity Supply Agreement”	the electricity supply agreement dated 12 July 2006 (as amended and renewed on 18 November 2008) made between Hengan China and Weifang Power, pursuant to which Weifang Power supplies electricity to the Shandong Subsidiaries in accordance with the terms and conditions thereof, which was novated by Hengan China as assignor to Hengan Mega Jumbo as assignee, both of which are wholly-owned subsidiaries of the Company, with effect from October 2007 whereby Hengan Mega Jumbo replaced Hengan China as buyer of electricity from Weifang Power for the Shandong Subsidiaries
“2006 Heat Energy Supply Agreement”	the heat energy supply agreement dated 12 July 2006 (as amended and renewed on 18 November 2008) made between Hengan China and Weifang Power, pursuant to which Weifang Power supplies heat energy to the Shandong Subsidiaries in accordance with the terms and conditions thereof, which was novated by Hengan China as assignor to Hengan Mega Jumbo as assignee, both of which are wholly-owned subsidiary of the Company, with effect from October 2007 whereby Hengan Mega Jumbo replaced Hengan China as buyer of heat energy from Weifang Power for the Shandong Subsidiaries
“2006 Supply Agreements”	the 2006 Electricity Supply Agreement and the 2006 Heat Energy Supply Agreement

“2010 Electricity Supply Agreement”	the electricity supply agreement dated 4 November 2009 entered into between Hengan Mega Jumbo and Weifang Power
“2010 Heat Energy Supply Agreement”	the heat energy agreement dated 4 November 2009 entered into between Hengan Mega Jumbo and Weifang Power
“2010 Supply Agreements”	the 2010 Electricity Supply Agreement and the 2010 Heat Energy Supply Agreement
“Advance Asia”	Advance Asia International Limited, a company incorporated in Samoa, which in turn is held by Mr. Hui and Mr. Sze as to 61% and 39% respectively
“Board”	board of Directors
“Company”	Hengan International Group Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company together with its subsidiaries
“Hengan China”	Hengan China Investment Limited, a company incorporated in the British Virgin Islands with limited liability and is indirectly wholly owned by the Company
“Hengan Mega Jumbo”	Hengan Mega Jumbo Investments Limited, a company incorporated in Hong Kong with limited liability and is directly wholly owned by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Hui”	Mr. Hui Ching Lau, a son of Mr. Hui Lin Chit, who in turn is an executive director and substantial shareholder of the Company
“Mr. Sze”	Mr. Sze Wong Kim, a son of Mr. Sze Man Bok, who in turn is an executive director and substantial shareholder of the Company

“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, The Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Subsidiaries”	members of the Group in Weifang, Shandong Province of the PRC, including but not limited to Shandong Hengan Tissue Co., Ltd. (山東恒安紙業有限公司) and Shandong Hengan Paper Products Co., Ltd. (山東恒安心相印紙製品有限公司), both of which are indirectly wholly-owned subsidiaries of the Company and are the Group’s major manufacturing operations in Weifang, Shandong Province of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the continuing connected transactions contemplated under each of the 2010 Supply Agreements
“US\$”	United States dollars, the lawful currency of the United States of America
“Weifang Investment”	濰坊市子區投資公司, a State-owned enterprise established in the PRC
“Weifang Power”	濰坊恒安熱電有限公司 (Weifang Hengan Thermal Power Co., Ltd.), a sino-foreign equity joint venture incorporated in the PRC with a registered capital of US\$12,000,000 which is held by Advance Asia and Weifang Investment as to 95% and 5% respectively

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

Hong Kong, 4 November 2009

As at the date of this announcement, our Executive Directors are Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Da Zuo, Mr. Xu Chun Man and Mr. Loo Hong Shing Vincent; and our Independent Non-Executive Directors are Mr. Chan Henry, Mr. Chu Cheng Chung and Ms. Ada Ying Kay Wong.