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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

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

This announcement is made by Hengan International Group Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**").

Reference is made to the announcement of the Company dated 12 December 2018 in relation to suspension of trading of shares and a report issued by Bonitas Research LLC ("**Bonitas**") on or about 11 December 2018 (the "**Report**") which contains allegations against the Company, and this announcement is published by the Company to refute and/or clarify the major allegations made in the Report.

The Company denies all of the allegations against the Company in the Report. The Report comprises statements which are misleading, biased, selective, inaccurate and incomplete as well as groundless allegations and irresponsible speculations.

The Company has no information on the identity of Bonitas. The Company believes that Bonitas's ultimate aims are to drive down the price of the shares of the Company, undermine the Company's reputation and take advantage of any fluctuation in the share price of the Company. The Company is consulting its legal advisers and will, among other things, consider taking legal actions against Bonitas.

CLARIFICATIONS

The Company has grouped and summarised the major allegations in the Report as follows to which clarifications by the Company are also made.

* *For identification purposes only*

1. Fabrication of return on sanitary napkin assets and sanitary napkin profitability

Bonitas's Allegation:

"…we believe Hengan has fabricated RMB11 billion of net income since 2005 which has manifested itself as fake cash on its balance sheet."

"In a very saturated and commoditized industry, Hengan claimed to generate 51% operating margins for its sanitary napkin segment in 1H'18, while its competitors are striving to generate 15% operating margins. Hengan's reported historical return on assets for its sanitary napkin segment are equally questionable, claiming to achieve a remarkable peak return on sanitary napkin assets of 72% in 2016!"

"We suspect that Hengan started fabricating its sanitary napkin segment profits in 2005, when, in the face of heavy competition, Hengan's sanitary napkin segment profitability inexplicably spiked along with reported borrowings. We calculate that Hengan has fabricated RMB9.4 billion of cumulative profits from its sanitary napkin segment since 2005."

"We believe the scheme was orchestrated using a web of inter-company related transactions to artificially inflate profits and conceal fake cash balances."

"Characteristically with frauds, insiders create sham transactions with related parties to create illusory transaction volume, revenues, or profits depending on the fraudster's desired outcome. Often these sham transactions are only on paper, and the fabricated buying and selling activity appears on the balance sheets of the counterparties as receivables and/or payables. We suspect this is how Hengan insiders have historically concealed dubious activity from auditors."

The Company's response:

This allegation is completely speculative and baseless. The Company refutes this allegation and makes the following statements in relation to this allegation.

The Company has been operating in the business of sanitary napkin since 1985 when sanitary napkins had a low market penetration rate. Throughout the years, the Company benefited from its early entry to and history of operating in the sanitary napkin segment which enables the Company to gradually build its consumer base and distribution channels. Further, the Company also benefits from its wide range of sanitary napkin products from basic (the "Anle" brand) to premium (the "Space 7" brand) quality to capture various market spectrums which allows a higher market penetration rate. The Company has regularly obtained market research reports from an industry expert of repute to verify its market share and penetration rate and the Company drew comfort from such reports that it remained number one in terms of its sales for sanitary napkins in the PRC which accounted for approximately 27% of the relevant market share (and is approximately 8% higher than the second in place) for 2017 and the first half of 2018. The broad customer base generated from mid to high end to premium products and distribution channels developed by the Company throughout the years have helped increase sources of income of the Company. At the same time, the longstanding history of the Company's business in sanitary napkin and other relevant products has provided the Company with better bargaining power when negotiating prices with suppliers and the Company is able to maintain a stable supply of raw materials from reliable suppliers. The Company also benefits from economies of scale in production. Broad customer base and effective cost control measures contribute to the reported profit margin.

The Report refers to the financial performance of certain manufacturers of branded sanitary napkins in the PRC. Given the leading position, the scale of operations of the Group and the differences in management skills and cost controls measures of companies, the Company does not consider those manufacturers as meaningful comparables for analysis of the Group's market and financial positions.

2. Inexplicable difference in segment profitability between Hengan China and Hengan

Bonitas's Allegation:

"We have reviewed Hengan China's Bond Prospectuses and believe that Hengan China's reported performance supports our opinion that Hengan has significantly fabricated its reported sanitary napkin operating profit margins in its HKEx filings. In its prospectuses, Hengan China disclosed that it generated an average ~31% operating profit margins for its sanitary napkin segment, 1,215 to 1,477 basis points lower than what Hengan reported in its HKEx filings from 2015 to 2017."

The Company's response:

This allegation is malicious and baseless. The Company refutes this allegation and makes the following statements in relation to this allegation.

Whilst Hengan (China) Investment Co., Ltd.* ("**Hengan China**", together with its subsidiaries the "**Hengan China Group**") is a major subsidiary of the Company, two of the Company's subsidiaries that are principally engaged in the sanitary napkin business, Fujian Hengan Holding Co., Ltd. and Fujian Hengan Homecare Products Co., Ltd., (the "**Additional Subsidiaries**") are not part of the Hengan China Group. The Additional Subsidiaries run the "Space 7" branded sanitary napkin and operate in the high-end market in which the profit margins are significantly higher than other brands. Since the compositions of the Group and the Hengan China Group are different, it is understandable that a different profit margin exists in respect of the the Group and the Hengan China Group. This also explains the differentials between information published by the Company on the Stock Exchange and Hengan China's bond prospectuses.

3. Sham transactions

Bonitas's Allegation:

"We believe the scheme was orchestrated using a web of inter-company related transactions to artificially inflate profits and conceal fake cash balances."

"Characteristically with frauds, insiders create sham transactions with related parties to create illusory transaction volume, revenues, or profits depending on the fraudster's desired outcome. Often these sham transactions are only on paper, and the fabricated buying and selling activity appears on the balance sheets of the counterparties as receivables and/or payables. We suspect this is how Hengan insiders have historically concealed dubious activity from auditors."

"We rarely come across any operating businesses with negative receivable and negative payable balances. However, considering Hengan Holding's only counterparty is Hengan China, we surmise that Hengan Holding's odd balances are a byproduct of its inter-company sham transactions with Hengan China."

The Company's response:

This allegation is malicious and baseless. The Company refutes this allegation and makes the following statements in relation to this allegation.

Subsidiaries of the Company in Hong Kong, Macau and the PRC, which are not subsidiaries of Hengan China are used for purchasing raw materials and for production and such subsidiaries would inevitably transact with other subsidiaries of the Group, including subsidiaries of Hengan China, hence creating intra-group trades between them which are genuine transactions. These intra-company trades and the related balance sheet items such as trade receivables and trade payables are eliminated on consolidation of the Group and do not distort or inflate the overall financial positions of the Group.

4. Laden with debt and fabricated bank balances

Bonitas's Allegation:

"Laden with debt, we assert that Hengan's equity is ultimately worthless."

"Despite boasting cash and bank balances of RMB19.8 billion and a working capital balance of RMB7.6 billion as of June 30, 2018, Hengan has been aggressively raising debt to support its operations. In the five months from August to December 2018, Hengan issued six separate tranches of debt to investors raising a total of RMB7.5 billion with a majority of the proceeds earmarked for working capital!"

"…from August to December 2018 Hengan China issued six separate tranches of debt to investors raising a total of RMB7.5 billion …! We believe the real reason Hengan has recently increased its borrowings is because Hengan's reported cash balance is fabricated. We suspect that nearly all of Hengan's short-term bank time deposits are fabricated. We calculate that since 2009, Hengan has fabricated an additional RMB1.6 billion in interest income from fabricated short-term bank time deposits, bringing our calculation of total fabricated profits to RMB11 billion."

The Company's response:

This allegation is factually incorrect and misinformed. The Company refutes this allegation and makes the following statements in relation to this allegation.

The Company obtained the approval of the National Association of Financial Market Institutional Investors in April 2017 to issue super short-term commercial papers ("**SCP**") in the size of a total of RMB5.0 billion. In August 2018, the Company issued the first tranche of the SCP. Up to 6 December 2018, the Company has issued five separate tranches of the SCP in total. All tranches of the SCPs are short-term loan notes with maturity period of not longer than 270 days. In addition, the Company obtained the approval of the China Securities Regulatory Commission in the PRC to issue domestic corporate bonds (the "Domestic Bonds") in the size of a total of RMB5.75 billion in August 2016. In July 2018, the Company issued the second tranche of the Domestic Bonds in the size of RMB3.0 billion with maturity period of 3 years.

The Company noticed that starting from 2018, there is a general downward trend for borrowing costs in the PRC in respect of debt financing and therefore the Company considered it appropriate to capture such opportunity to finance its working capital needs. The downward trend for borrowing costs of debt financing is evident from the fact that coupon rates of most tranches of SCP issued were lower than those of the previous tranches and the coupon rate of the second tranche of the Domestic Bonds is lower than the PRC national 3-year base rate. On the other hand, the Company would seek legitimate investment opportunities and invest its surplus cash as it considers appropriate to earn investment income for better return and hence fixed deposits are made by the Group with licensed or registered financial institutions from time to time in accordance with the Group's internal control policies. The Company consider all these as proper and efficient treasury management which are in the interest of the Company and the Shareholders as a whole.

The Company has documentary support for all its bank balances including time deposit and considers the allegation for fabricated bank balances completely incorrect.

In addition, the Company has been distributing cash dividends of approximately 60% or above of the consolidated net profit of the year annually since its listing on the Stock Exchange. The Company considers such consistent practice on dividend payment of significant percentage provides a stable and satisfactory return to its shareholders and is an indirect proof of the strong cash position and liquidity of the Company.

5. Undisclosed related party transactions and disposal of a revenue stream of the Company to insider

Bonitas's Allegation:

"We believe that Hengan lied to investors about the purchaser of a Hengan China subsidiary being independent, and that Hengan failed to disclose that the private family business of Hengan's CEO was involved in the design, construction and operation of a property in Fujian, China. Specifically, Hengan insiders used Hengan's cash investments in Fujian Xiamen Hengan International Plaza ("Xiamen Hengan Plaza") to benefit the private family business of Hengan's CEO without disclosing the relationship to insiders. Undisclosed benefits include cash from expenses and an illicit gain from the undisclosed related party purchase of a Hengan subsidiary receiving property management income for the bargain basement price of 0.7x 2016 net income."

The Company's response:

The allegations are factually incorrect. The Company refutes this allegation and makes the following statements in relation to this allegation.

As at 31 December 2017, a total of approximately RMB700 million has been spent on the development of Xiamen Hengan Plaza, which consisted of the amounts spent for the purchase of the land acquired directly from the PRC government in accordance with applicable laws and regulations. To the best of the Company's knowledge, the contractors employed for the development were independent third parties. Meanwhile, the developed properties are still owned by the Group.

Whilst the Group has disposed of a property management subsidiary at a consideration of approximately RMB1.2 million, the purchaser is, to the best of our knowledge, an independent third party. The disposal was made as the business of such subsidiary does not fall within the scope of principal business of the Group. Considering the size of the disposal, the Company was under no obligation under the Listing Rules to disclose the disposal. It is noted that the disposal was disclosed by Hengan China as such disclosure is required under the rules and accounting standards applicable to Hengan China as a company incorporated in the PRC.

To the best of the Company's and its Directors' knowledge, the Company has not violated any applicable Listing Rules or legal requirements with respect to the alleged transactions.

GENERAL

The Company has been listed on the Stock Exchange since 1998 and this year marks the 20th anniversary of the listing of the Company. The Company strives to adhere to all relevant Listing Rules and legal requirements and to manage and operate its business to maximise value to its shareholders.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted with effect from 10:47 a.m. on Wednesday, 12 December 2018 pending release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on Thursday, 13 December 2018.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 13 December 2018

As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Li Wai Leung 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.