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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 announcement of the Company dated 7 December 2010 in which it was announced that the 2011 Supply Agreements were entered into between the Group and Weifang Power on 7 December 2010.

In December 2011, it was expected that the cap amount in respect of supply of electricity from Weifang Power to the Shandong Subsidiaries under the 2011 Electricity Supply Agreement would be RMB120 million for the year ending 31 December 2011. It has come to the Company's attention that the aggregate amount in respect of the supply of electricity under the 2011 Electricity Supply Agreement for the eleven months ended 30 November 2011 were approximately RMB108.4 million. Therefore, the Company proposed to revise the cap amount for the financial year ending 31 December 2011 in respect of the supply of electricity from Weifang Power to the Shandong Subsidiaries under the 2011 Electricity Supply Agreement from RMB120 million to RMB125 million.

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 revised cap amount of the supply of electricity under the 2011 Electricity Supply Agreement and cap amount of the supply of heat energy under the 2011 Heat Energy Supply Agreement for the financial year ending 31 December 2011 are all below 5%.

In addition, the 2011 Supply Agreements will expire on 31 December 2011, and in order to renew the above agreements, Hengan Mega Jumbo and Weifang Power entered into the 2012 Supply Agreements on 21 December 2011 pursuant to which Weifang Power will continue to supply electricity and heat energy to the Shandong Subsidiaries for the financial year ending 31 December 2012.

* For identification purposes only

The Board considers that the revision of the annual cap for the financial year ending 31 December 2011 in respect of the 2011 Electricity Supply Agreement and the entering into of the 2012 Supply Agreements are in the interest of the Company and its shareholders as a whole, as the Group can continue to 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.

The applicable percentage ratios with reference to the annual caps in relation to the aggregate value of the Transactions under the 2012 Supply Agreements estimated for the financial year ending 31 December 2012 are below 5%. Consequently, the Transactions are subject to the reporting and announcement requirements but 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 announcement of the Company dated 7 December 2010 in which it was announced that the 2011 Supply Agreements were entered into between the Group and Weifang Power on 7 December 2010. Pursuant to the 2011 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 December 2010, when the cap amounts for the financial year ending 31 December 2011 in respect of the supply of electricity and heat energy from Weifang Power to the Shandong Subsidiaries under the 2011 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 RMB120 million and RMB80 million, respectively, for the year ending 31 December 2011.

It has come to the Company's attention that the aggregate amount in respect of the supply of electricity under the 2011 Electricity Supply Agreement for the eleven months ended 30 November 2011 was approximately RMB108.4 million. As the actual demand for electricity of the Shandong Subsidiaries for the eleven months ended 30 November 2011 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 2011 in respect of the supply of electricity from Weifang Power to the Shandong Subsidiaries under the 2011 Electricity Supply Agreement.

Set out below are the relevant particulars of the 2011 Electricity Supply Agreement:

- Date of the 2011 Electricity Supply Agreement** : 7 December 2011
- Parties** : (1) Hengan Mega Jumbo (as Buyer)
(2) Weifang Power (as Supplier)
- Duration** : From 1 January 2011 to 31 December 2011 (both days inclusive)
- Nature of transaction** : Supply of electricity, in respect of which the Shandong Subsidiaries will enjoy priority over all other customers of Weifang Power
- Charges** : At a rate of RMB0.6278 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 the supply of electricity. The charges will be paid by the Shandong Subsidiaries on a monthly basis from their respective internal resources.
- Annual caps approved** : RMB120 million for the financial year ending 31 December 2011
- Proposed revised annual cap** : RMB125 million for the financial year ending 31 December 2011

Basis of the revised annual cap for the year ending 31 December 2011:

- (a) the aggregate charges paid by the Shandong Subsidiaries in respect of the supply of electricity energy for the eleven months ended 30 November 2011 of approximately RMB108.4 million;
- (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 for the one month ending 31 December 2011;
- (c) the unit price charged for the supply of electricity under the 2011 Electricity Supply Agreement at the rate of RMB0.6278 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 to the Group than that at which independent third parties charge the Group (or more favourable) for the supply of electricity energy; and
- (d) the increase in the market prices of electricity due to the inflation in the PRC.

RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

The 2011 Supply Agreements will expire on 31 December 2011, and in order to renew the above agreements, Hengan Mega Jumbo and Weifang Power entered into the 2012 Supply Agreements on 21 December 2011 pursuant to which Weifang Power will continue to supply electricity and heat energy to the Shandong Subsidiaries for the financial year ending 31 December 2012.

Set out below are the relevant particulars of the 2012 Supply Agreements:

1. 2012 Electricity Supply Agreement

Date	: 21 December 2011
Parties	: (1) Hengan Mega Jumbo (as Buyer) (2) Weifang Power (as Supplier)
Duration	: From 1 January 2012 to 31 December 2012 (both days inclusive)
Nature of transaction	: Supply of electricity, in respect of which the Shandong Subsidiaries will enjoy priority over all other customers of Weifang Power
Charges	: At a rate of RMB0.67 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	: RMB150 million for the financial year ending 31 December 2012

Basis of the annual cap in respect of the charges payable under the 2012 Electricity Supply Agreement:

- (a) the aggregate annual value of the charges paid to Weifang Power for the electricity utilized by the Shandong Subsidiaries for each of the two years ended 31 December 2009 and 2010 and the eleven months ended 30 November 2011, being approximately RMB67.1 million, RMB80.6 million and RMB108.4 million, respectively;
- (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 2012 Electricity Supply Agreement at a rate of RMB0.67 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. 2012 Heat Energy Supply Agreement

Date : 21 December 2011

Parties : (1) Hengan Mega Jumbo (as Buyer)
(2) Weifang Power (as Supplier)

Duration : From 1 January 2012 to 31 December 2012 (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 a rate of RMB231 per ton for operation of the manufacturing facilities, 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 heat energy. The charges will be paid by the Shandong Subsidiaries on a monthly basis from their respective internal resources.

Annual cap : RMB96 million for the financial year ending 31 December 2012

Basis of the annual cap in respect of the charges payable under the 2012 Heat Energy Supply Agreement:

(a) the aggregate annual value of charges paid to Weifang Power for heat energy utilized by the Shandong Subsidiaries for each of the two years ended 31 December 2009 and 2010 and the eleven months ended 30 November 2011, being approximately RMB50.7 million, RMB56.9 million and RMB66.0 million, respectively;

(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 2012 Heat Energy Supply Agreement at the rate of RMB231 per ton for operation of the manufacturing facilities, 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; and
- (d) 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 Ching Lau and Mr. Sze Wong Kim, an executive Director of the Company, as to 61% and 39% respectively;
- (3) Mr. Hui Ching Lau is a son of Mr. Hui Lin Chit and a brother of Mr. Hui Ching Chi, who are respectively the chief executive officer, an executive Director and a substantial Shareholder of the Company, and an executive Director of the Company; and
- (4) Mr. Sze Wong Kim is the son of Mr. Sze Man Bok, the Chairman, an executive Director and a substantial Shareholder of the Company.

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

Mr. Sze Man Bok, Mr. Sze Wong Kim, Mr. Hui Lin Chit and Mr. Hui Ching Chi, having declared their potential conflict of interests in the Transactions, had abstained from voting on the resolutions approving the Transactions.

LISTING RULES IMPLICATIONS

In respect of the revision of the annual cap for the supply of electricity under the 2011 Electricity 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 heat energy under the 2011 Heat Energy Supply Agreement and the revised cap amount of the supply of electricity under the 2011 Electricity Supply Agreement for the financial year ending 31 December 2011 are all below 5%.

The applicable percentage ratios with reference to the annual caps in relation to the aggregate value of the Transactions under the 2012 Supply Agreements estimated for the financial year ending 31 December 2012 are below 5%. Consequently, the Transactions are subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement set out in Chapter 14A of the Listing Rules. The Group has not entered into any prior transaction with each of Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hui Ching Lau, Mr. Sze Wong Kim and Mr. Hui Ching Chi 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 EXISTING CONTINUING CONNECTED TRANSACTIONS 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 2011 in respect of the 2011 Electricity Supply Agreement and the entering into of the 2012 Supply Agreements are in the interest of the Company and its Shareholders as a whole, as the Group can continue to 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 2011 Electricity Supply Agreement including the revised annual cap for the financial year ending 31 December 2011 and the terms of the 2012 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 products, 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

“2011 Electricity Supply Agreement”	the electricity supply agreement dated 7 December 2010 entered into between Hengan Mega Jumbo and Weifang Power, pursuant to which Weifang Power supplies electricity to the Shandong Subsidiaries in accordance with the terms and conditions thereof, with effect from 1 January 2011 to 31 December 2011
“2011 Heat Energy Supply Agreement”	the heat energy supply agreement dated 7 December 2010 entered into between Hengan Mega Jumbo and Weifang Power, pursuant to which Weifang Power supplies heat energy to the Shandong Subsidiaries in accordance with the terms and conditions thereof, with effect from 1 January 2011 to 31 December 2011
“2011 Supply Agreements”	the 2011 Electricity Supply Agreement and the 2011 Heat Energy Supply Agreement
“2012 Electricity Supply Agreement”	the electricity supply agreement dated 21 December 2011 entered into between Hengan Mega Jumbo and Weifang Power
“2012 Heat Energy Supply Agreement”	the heat energy supply agreement dated 21 December 2011 entered into between Hengan Mega Jumbo and Weifang Power
“2012 Supply Agreements”	the 2012 Electricity Supply Agreement and the 2012 Heat Energy Supply Agreement
“Advance Asia”	Advance Asia International Limited, a company incorporated in Samoa, which in turn is held by Mr. Hui Ching Lau and Mr. Sze Wong Kim 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
“Director(s)”	the director(s) of the Company
“Group”	the Company together with its subsidiaries
“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
“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 indirect wholly-owned subsidiaries of the Company and are the Group’s major manufacturing operations in Weifang, Shandong Province of the PRC
“Shareholder(s)”	holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the continuing connected transactions contemplated under each of the 2012 Supply Agreements
“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
“%”	per cent.

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

Hong Kong, 21 December 2011

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 Shui Shen, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Loo Hong Shing Vincent; and our independent non-executive Directors are Mr. Chan Henry, Mr. Wang Ming Fu, and Ms. Ada Ying Kay Wong.