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HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

CONTINUING CONNECTED TRANSACTIONS

TRANSACTIONS WITH BROAD FAR GROUP

On 14 February 2020, Chemactive entered into the Framework Agreement with Broad Far, pursuant to which Chemactive and its subsidiaries shall provide tobacco related raw materials and related services to Broad Far Group on an on-going basis for a period commencing from 1 January 2020 to 31 December 2020 (both days inclusive). Through the sale of the Group's tobacco related raw materials contemplated under the Framework Agreement, it is expected that the Group can expand its customer base and product application outside of PRC and enhance its sales revenue prudently and steadily.

Chemactive is a wholly-owned subsidiary of the Company, while Broad Far is ultimately controlled and beneficially owned by Madam Chu and therefore is an associate of a connected person of the Company under the Listing Rules. The transactions contemplated under the Framework Agreement constitute the continuing connected transactions for the Company, such transactions shall be subject to compliance with the reporting, announcement and annual review requirements and, where applicable, the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

Since one or more of the applicable Percentage Ratio (other than the profits ratio) calculated with reference to the Annual Cap is more than 0.1% but less than 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements, but are exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

On 14 February 2020, Chemactive entered into the Framework Agreement with Broad Far, pursuant to which Chemactive and its subsidiaries shall provide tobacco related raw materials and related services to Broad Far Group.

RELATIONSHIP BETWEEN THE PARTIES

The Group is principally engaged in the research and development, production and sales of flavours and fragrances, tobacco raw materials (comprising the reconstituted tobacco leaves (RTL) and new materials products applicable to tobacco industry), aroma raw materials, condiment products and other segments in the PRC.

Broad Far is a company established in the British Virgin Islands and Broad Far Group is primarily engaging in the production and sales of innovative consumer products in Southeast Asia market.

Broad Far is ultimately controlled and beneficially owned by Madam Chu and therefore is an associate of a connected person of the Company under the Listing Rules. Accordingly, transactions between the Group and Broad Far Group constitute connected transactions of the Company under the Listing Rules.

FRAMEWORK AGREEMENT AND THE ANNUAL CAPS

On 14 February 2020, Chemactive entered into the Framework Agreement with Broad Far, the principal terms of which are set out below:

Date:	14 February 2020
Parties:	(i) Chemactive (ii) Broad Far
Subject Matter:	Provision of tobacco related raw materials and related services by Chemactive and its subsidiaries to Broad Far Group.
Term:	One year from 1 January 2020 to 31 December 2020 (both days inclusive).
Basis of pricing:	(i) Implementation of bidding prices (if applicable); or

- (ii) Implementation of the prevailing market prices, i.e. prices and terms payable to Chemactive and its subsidiaries shall be no less favourable than those terms offered by independent third party customers for provision of similar products and services in its ordinary and usual course of business, having reference to the applicable Incoterms (being mainly the Incoterms in relation to payment time and delivery arrangements such as CIF and DAP) that are consistent with industry practice in general. Enquiry process will be conducted by making reference to other transactions with unrelated third parties for similar products and services to determine if the prices and terms offered by Broad Far Group are on normal commercial terms and are fair and reasonable and comparable to those offered by independent third parties, if applicable.

Payment terms: Payments of the transactions will be settled in arrears by cash transfer, or such other manners as agreed by the parties in accordance with the agreed timing and manners as specified in the separate implementation agreements to be entered into between the parties from time to time.

Annual Caps and the determination basis

The Company will implement internal control over the sales transactions relating to the provision of tobacco related raw materials and related services between Chemactive and its subsidiaries and Broad Far Group. According to the information currently available to the Company, the transaction amount between Chemactive and its subsidiaries and Broad Far Group from 1 January 2020 to the date of this announcement was approximately RMB790,000, which does not exceed 0.1% of the relevant Percentage Ratios (save for the profits ratio).

The Company estimates that the aggregate transaction amount for the continuing connected transactions contemplated under the Framework Agreement for the financial year ending 31 December 2020 will not exceed RMB20 million (the “**Annual Cap**”).

In determining the Annual Cap, the Company has taken into account a number of factors, including the historical transaction amounts, the Group’s estimates of the growth of such tobacco related raw materials and related services, the projected demand for the Group’s tobacco related products and services in accordance with the Group’s operation scale and future business development with reference to the prevailing market conditions.

REASONS FOR AND BENEFIT OF ENTERING INTO THE FRAMEWORK AGREEMENT

In order to achieve reasonable use of the Group's resources, the Group entered into the Framework Agreement with Broad Far, a company controlled and beneficially owned by the controlling shareholder of the Group, for the sale of the Group's tobacco related raw materials to Broad Far Group. Broad Far is a start-up company and Broad Far Group is primarily engaged in the production and sales of innovative consumer products outside PRC. The production and sales of such innovative consumer products are subject to various operational and market competition risks and uncertainties. Through the sale of the Group's tobacco related raw materials contemplated under the Framework Agreement to Board Far Group, it is expected that the Group can further expand its customer base and product application outside of PRC and enhance its sales revenue prudently and steadily.

INTERNAL CONTROL MEASURES

The continuing connected transactions with customers as aforesaid have been and will continue to be conducted on a non-exclusive basis. Payment terms are basically market-driven according to the prevailing market conditions. Nonetheless, the Group will conduct enquiry process by which the Group will make reference to other transactions with unrelated third parties for similar products and services and comparing the pricing terms for the transactions with those with connected persons to ensure that the prices and terms offered by Broad Far Group are on normal commercial terms and are fair and reasonable and comparable to those offered by independent third parties, if applicable.

In addition, the Group will continue to adopt the following internal control measures regarding the continuing connected transactions:

- (i) The Group will conduct regular checks to review and assess whether the transactions are conducted in accordance with the terms of the Framework Agreement.
- (ii) The external auditors of the Company will conduct a year-end audit for each financial year, and will issue their opinion to the Board in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the financial year pursuant to the Listing Rules.
- (iii) The independent non-executive Directors of the Company will conduct an annual review with respect to the continuing connected transactions of the Company and the related internal control procedures throughout the financial year and confirm the transaction amounts and terms of the continuing connected transactions in the annual report of the Company.
- (iv) The Company's internal audit department shall conduct regular internal assessments in order to ensure that the internal control measures in respect of the connected transactions remain complete and effective.

BOARD CONFIRMATION

The Directors (including all the independent non-executive Directors of the Company) are of the opinion that the Framework Agreement was entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms (on arm's length basis) or better or on terms no less favourable than those terms offered by the Group to independent third party for similar products and services in its ordinary and usual course of business; (iii) and that the terms of the Framework Agreement (including the Annual Cap) are fair and reasonable. The Directors (including all the independent non-executive Directors of the Company) are of the view that the continuing connected transactions contemplated under the Framework Agreement are in the interests of the Company and its Shareholders as a whole.

Madam Chu and Mr. Lam Ka Yu (son of Madam Chu), both were regarded as having a material interest in the transactions contemplated under the Framework Agreement, have abstained from voting on the relevant resolution in respect of the Framework Agreement and the transactions contemplated thereunder. Save for Madam Chu and Mr. Lam Ka Yu, none of the other Directors has any material interest in the Framework Agreement to abstain from voting on the Board resolution in relation thereto.

IMPLICATIONS UNDER THE LISTING RULES

Since one or more of the applicable Percentage Ratio (other than the profit ratio) calculated with reference to the Annual Cap is more than 0.1% but less than 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements, but are exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Broad Far”	Broad Far Limited, a company incorporated in the British Virgin Islands with limited liability on 28 April 2011
“Broad Far Group”	Broad Far and its subsidiaries and related companies
“Chemactive”	Chemactive Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 6 April 2006 and a wholly owned subsidiary of the Company

“CIF”	cost, insurance and freight
“Company”	Huabao International Holdings Limited, a company incorporated in Bermuda with limited liability on 11 October 1991, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“DAP”	delivered at place
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries, as appropriate and regardless of whether directly or indirectly owned
“Framework Agreement”	the framework agreement entered into between Chemactive and Broad Far on 14 February 2020 in relation to the provision of tobacco related raw materials and related services by Chemactive and its subsidiaries to Broad Far Group
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Incoterms”	the international commercial terms, a series of pre-defined commercial terms published by the International Chamber of Commerce widely used in international commercial transactions
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Madam Chu”	Ms. CHU Lam Yiu, the Chairlady and CEO of the Company. As at the date of this announcement, Madam Chu, through companies wholly owned by her, indirectly holds an aggregate of 2,293,408,900 Shares of the Company, representing approximately 73.79% of the total issued shares of the Company
“Percentage Ratio(s)”	has the same meaning ascribed thereto under the Listing Rules
“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in the Listing Rules
“%”	Percent

By Order of the Board
Huabao International Holdings Limited
POON Chiu Kwok
Executive Director

Hong Kong, 14 February 2020

As at the date of this announcement, the Board comprises four executive directors, namely Ms. CHU Lam Yiu (Chairlady and CEO), Messrs. XIA Liqun, POON Chiu Kwok and LAM Ka Yu and four independent non-executive directors, namely Mr. LEE Luk Shiu, Ms. MA Yunyan, Mr. WU Chi Keung and Mr. Jonathan Jun YAN.

* *For identification purposes only*