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BaWang International (Group) Holding Limited

霸王國際（集團）控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01338)

DISCLOSEABLE AND CONNECTED TRANSACTION

2021 LEASE AGREEMENT

Discloseable and Connected Transaction - 2021 Lease Agreement

On 23 April 2021, Bawang Guangzhou and Guangzhou Bawang entered into the 2021 Lease Agreement for the Group's production facilities, office premises and staff dormitory in the same premises for a fixed term of five years commencing from 1 July 2021 to 30 June 2026 (both days inclusive).

As at the date of this announcement, Guangzhou Bawang is beneficially owned as to 20% by Mr. Chen Zheng He, the Chief Executive Officer and an executive Director, and 80% by his six brothers and sisters with Mr. Chen Zheng He as the trustee. Guangzhou Bawang is therefore an associate of Mr. Chen Zheng He and a connected person of the Company pursuant to Rule 14A.12 of the Listing Rules, and the 2021 Lease Agreement and the transactions contemplated thereunder constitute a discloseable and connected transaction of the Company under the Listing Rules.

Pursuant to IFRS 16 (Leases), the premises to be leased under the 2021 Lease Agreement will be recognised by the Group as a right-of-use asset with a book value of approximately RMB59,074,000 as at 23 April 2021, and the transaction contemplated under the 2021 Lease Agreement will be regarded as an acquisition of a right-of-use asset by the Group pursuant to the Listing Rules and constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Shareholders should note that the above figure is unaudited and may be subject to adjustment in the future. The right-of-use asset represents a right to use the underlying leased assets over the lease term and the lease liabilities represent an obligation to make lease payments (i.e., the rent). The assets and liabilities arising from the lease are initially measured on present value basis and calculated by discounting the lease payments under the 2021 Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Company, the Company shall recognise (i) depreciation charge over the life of the right-of-use assets; and (ii) interest expenses amortised from the lease liabilities over the lease term.

As the highest applicable percentage ratio in respect of the transactions contemplated under the

2021 Lease Agreement, on the basis of the value of the right-of-use asset to be recognised by the Company in connection with the 2021 Lease Agreement exceeds 5% but all of them are less than 25%, the 2021 Lease Agreement and the transactions contemplated thereunder constitute a discloseable and connected transaction that is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The EGM Circular containing, among other things, (i) further details of the 2021 Lease Agreement; (ii) the letter from the Independent Board Committee to the independent Shareholders; (iii) the letter from HeungKong Capital Limited, the independent financial adviser to the Independent Board Committee and independent Shareholders; and (iv) other information as required under the Listing Rules, together with the notice of the EGM, will be despatched to the Shareholders on or before 29 April 2021 in accordance with the requirements of the Listing Rules.

INTRODUCTION

On 23 April 2021, Bawang Guangzhou and Guangzhou Bawang entered into the 2021 Lease Agreement for the Group's production facilities, office premises and staff dormitory in the existing premises for a fixed term of five years commencing from 1 July 2021 to 30 June 2026 (both days inclusive).

The 2021 Lease Agreement will only become effective upon fulfilment of certain conditions, which include, among others things, compliance with the independent shareholders' approval requirements at the EGM under the Listing Rules.

I. THE 2021 LEASE AGREEMENT

The principal terms of the 2021 Lease Agreement are set out below:

Date:	23 April 2021
Lessor:	Guangzhou Bawang
Lessee:	Bawang Guangzhou
Leased premises:	Certain premises located within the Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, the PRC
Gross floor area leased:	49,928.17 sq.m.
Lease term:	A fixed term of five years commencing from 1 July 2021 to 30 June 2026
Use:	Production facilities, office premises and staff dormitory
Monthly rental:	RMB 1,090,000, for the period from 1 July 2021 to 30 June 2024

RMB 1,240,000, for the period from 1 July 2024 to 30 June 2026

The monthly rental is exclusive of management fees and other outgoings, which are payable to an independent third party management company. The fair market rent of the premises as determined by the Independent Valuer as at 22 April 2021 is RMB1,125,000 per month.

Historical rental: The historical amounts paid to Guangzhou Bawang for the leased premises were approximately RMB8.6 million, RMB8.6 million and RMB8.2 million for the three years ended 31 December 2020.

Other terms and conditions: The 2021 Lease Agreement shall become effective on 1 July 2021 upon the Company having complied with the Listing Rules in the approval of the said agreement (including without limitation approval by the Independent Shareholders)

The Existing Lease Agreement has an original term from 1 December 2020 to 30 November 2021. The 2021 Lease Agreement shall supersede the Existing Lease Agreement upon the 2021 Lease Agreement becoming effective.

The monthly rent payable under the 2021 Lease Agreement was determined after arm's length negotiation between Bawang Guangzhou and Guangzhou Bawang by reference to the rent in the vicinity of the leased premises and the fair rent of the premises as described in the Fair Rent Letter. Bawang Guangzhou shall pay the rent with its internal resources.

The monthly rent payable per sq.m. of floor space rented by Bawang Guangzhou under the Existing Lease Agreement is approximately RMB22.0, and under the 2021 Lease Agreement would be approximately RMB21.8 (for the period from 1 July 2021 to 30 June 2024) and RMB 24.8 (for the period from 1 July 2024 to 30 June 2026).

Listing Rules implications

As at the date of this announcement, Guangzhou Bawang is beneficially owned as to 20% by Mr. Chen Zheng He, the Chief Executive Officer and an executive Director, and 80% by his six brothers and sisters (who are children under 18 of Mr. Chen Qiyuan) with Mr. Chen Zheng He as the trustee. Guangzhou Bawang is therefore an associate of Mr. Chen Zheng He and a connected person of the Company pursuant to Rule 14A.12 of the Listing Rules, and the 2021 Lease Agreement and the transactions contemplated thereunder constitute a discloseable and connected transaction of the Company under the Listing Rules.

Pursuant to IFRS 16 (Leases), the premises to be leased under the 2021 Lease Agreement will be recognised by the Group as a right-of-use asset with a book value of approximately RMB59,074,000 as at 23 April 2021, and the transactions contemplated thereunder will be regarded as an acquisition of a right-of-use asset by the Group and constitute a discloseable transaction under Chapter 14 of the Listing Rules.

Shareholders should note that the above figure is unaudited and may be subject to adjustment in the

future. The right-of-use asset represents a right to use the underlying leased assets over the lease term and the lease liabilities represent an obligation to make lease payments (i.e., the rent). The assets and liabilities arising from the lease are initially measured on present value basis and calculated by discounting the lease payments under the 2021 Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Company, the Company shall recognise (i) depreciation charge over the life of the right-of-use assets; and (ii) interest expenses amortised from the lease liabilities over the lease term.

As the highest applicable percentage ratio in respect of the transactions contemplated under the 2021 Lease Agreement, on the basis of the value of the right-of-use asset to be recognised by the Company in connection with the 2021 Lease Agreement exceeds 5% but all of them are less than 25%, the 2021 Lease Agreement and the transactions contemplated thereunder constitute a discloseable and connected transaction that is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The EGM Circular containing, among other things, (i) further details of the 2021 Lease Agreement; (ii) the letter from the Independent Board Committee to the independent Shareholders; (iii) the letter from HeungKong Capital Limited, the independent financial adviser to the Independent Board Committee and independent Shareholders; and (iv) other information as required under the Listing Rules, together with the notice of the EGM, will be despatched to the Shareholders on or before 29 April 2021 in accordance with the requirements of the Listing Rules.

Reasons and benefits of entering into the 2021 Lease Agreement

The Group's production has been operating within the Bawang Industrial Complex since August 2013. On 1 December 2017, the Group relocated its office premises from its previous location to its current location within the Bawang Industrial Complex, which the Directors believe the co-location of our office premises and our production facilities has been conducive to further improving the operational efficiency of the Group through, among other things, enhancing interaction between the Group's management staff and its production staff.

Bawang Industrial Complex is located in Baiyun District, Guangzhou, which is a commercially developed area with numerous companies engaged in the production of personal care and cosmetic products. Such strategically selected location of the Group's production premises and ancillary facilities is, in the view of the Directors, beneficial to the continuous optimisation of operational efficiency of the Group's business operations.

The Bawang Industrial Complex is also well-equipped with its own utility supply (such as heating furnace), and also has its own waste discharge and processing facilities, which have supported the Group's production operations without the need for the Group to set up its own facilities.

Furthermore, the Group has established presence locally in Baiyun District since August 2013, which has allowed the Group to foster a stable and cooperative relationship with the local governmental authorities over the years, and the Group has been able to enjoy favourable government policies,

incentives and subsidies, including:

- (a) since 2018, the Group has benefited from the implementation of the Interim Measures for Promoting the Accelerating Development of Enterprises Falling within the Four Categories in Baiyun District of Guangzhou Municipality* (《廣州市白雲區促進「四上」企業加快發展暫行辦法》) (the “**Interim Measures**”), issued by the People’s Government of Guangzhou Municipality of PRC in September 2018. The Group, upon being registered as Enterprises Falling within the Four Categories set out in the Interim Measures and registered with the relevant authority, has been enjoying certain subsidies including a one-off subsidy offered to the Group for the recruitment and retention of senior management staff upon fulfilling, among other things, the tax payment and revenue requirements under the Interim Measures and has achieved the Guangzhou Municipal Government’s standard in the eligibility for household registration for talents. Benefiting from the Interim Measures, the Group has been enjoying financial incentives and retains a competitive advantage among peers in the daily chemicals industry in recruiting and maintaining skilled talents and senior management staff;
- (b) since 2018, Guangzhou Bawang Trading Company Limited, a wholly-owned operating subsidiary of the Company, has been enjoying the export tax rebates under the export tax rebate scheme offered by the Ministry of Finance and State Taxation Administration of the PRC; and
- (c) Bawang Guangzhou has been awarded “Key Tax Payer (納稅大戶)” by the People’s Government of Jianggao Town, Baiyun District, Guangzhou in 2013, 2014, 2016, 2017, 2018 and 2019. Being named a Key Tax Payer in Baiyun District gives the Group a competitive advantage among other enterprises in Baiyun District in terms of a higher credit score, which may be commercially beneficial to the Group’s business operation and financing activities in the future.

On the basis of the above, the Board (excluding the members of the Independent Board Committee, whose views will be contained in a letter from the Independent Board Committee in the EGM Circular and the Interested Directors) is of the view that the continued leasing of the existing premises under the 2021 Lease Agreement would be in the interests of the Company and the Shareholders as a whole, because of the following reasons:

- (a) the Bawang Industrial Complex is in close proximity to major highways namely the Guanghua 1st Class Highway (廣花一級公路) and Shenyang–Haikou Expressway (瀋海高速), where the Group has also enjoyed its logistic convenience by situating its entire production base in an area with an abundant supply of transportation, logistics and warehousing services providers, the combined effect of which has reduced warehousing and transportation costs of the Group. In light of the Group’s expansion of e-commerce business in recent years, the availability of a large number of Transportation and logistics providers in Baiyun District has further provided the logistics convenience that the Group had leveraged on, and therefore it is considered beneficial for the Group’s operation premises to remain at its current location;
- (b) if the Group were to relocate from the Bawang Industrial Complex, such relocation would result in additional expenses, including but not limited to, demolition and relocation expenses to be

incurred, renovation of new production facilities, office premises and staff dormitory, necessary time and expenses for the purpose of constructing its own waste processing facilities, and obtaining the required permits and certifications from the relevant PRC authorities prior to commencement of operations, which the Board considered not to be economical after considering its financial performance;

- (c) any relocation would require the Group to bear the risk of either production downtime or production capacity reduction (or both) and might also require the Group to hire and re-train new employees due to staff turnover and to re-apply and obtain all necessary licences and permits that are required for the Group's production, which would adversely affect the production capacity and hence the revenue of the Group until relocation and staff rehiring have been completed, which is commercially undesirable to the Group as a whole;
- (d) the monthly rent payable per sq.m. of floor space rented by Bawang Guangzhou under the Existing Lease Agreement would initially decrease from approximately RMB22.0 to RMB21.8 under the 2021 Lease Agreement, for the same leased premises with the same gross floor area; and
- (e) the 2021 Lease Agreement would be for a term of five years, with only one rent adjustment in July 2024 and the rate of increase has already been agreed upon in the 2021 Lease Agreement. Given the recent trend of rental rate increases in the Baiyun District of Guangzhou and the expected average annual growth rate of 2–3% on the rent as advised by Independent Valuer, having a long term lease agreement with known rent adjustment that is three years from now (i.e. in July 2024) at a relatively moderate CAGR of average annual rental increment of 2.6% is considered fair and reasonable by the Board, and would allow the Group to control the risk of the potential increases in market rent on the Group's operating costs in the short to medium term, which would not be the case if the Group is required to renew the lease on a more frequent basis.

In considering whether the term of the 2021 Lease Agreement, including whether the rental payable and the rent increment stipulated under the 2021 Lease Agreement are fair and reasonable, the Board has also made reference to the Fair Rent Letter, which shows the expected average annual growth rate of approximately 2-3% on the rent, according to current prevailing market practice by making reference to comparable market rent transactions in JLL's assessment. Given that the Group's primary production facilities and office premises together with staff dormitory are located within the Bawang Industrial Complex, and any disruption to the Group's operations caused by relocation would have a material adverse impact on the Group's operations, the Board is of the view that a five-year lease agreement does not deviate from the normal commercial practice for leases of a similar nature. After carefully considering the terms proposed by the Lessor, the Board considered it more commercially beneficial for the Group to enter into a longer term lease agreement with agreed rental rates for the coming five years under the 2021 Lease Agreement.

The Board (excluding the members of the Independent Board Committee, the views of which are contained in "Letter from the Independent Board Committee" in the EGM Circular and the Interested Directors) is of the view that (a) the 2021 Lease Agreement is on normal commercial terms or better

and are fair and reasonable, and that the Fair Rent Letter also supports this view, and (b) the lease of the premises located within the Bawang Industrial Complex as the Group’s production facilities, office premises and staff dormitory have been and will be conducted in the ordinary and usual course of business of the Group, and (c) the 2021 Lease Agreement is in the interests of the Company and the Shareholders as a whole.

The Interested Directors are deemed to have material interests in the 2021 Lease Agreement and had abstained from voting on the relevant resolution at the Board meeting resolution approving the 2021 Lease Agreement and the transactions contemplated thereunder.

About the Company and the Group

The Company is an investment holding company. The Group is principally engaged in the design, manufacture and sale of Chinese herbal shampoo and hair-care products as well as other products such as skincare products, toothpaste, and shower gels.

About Guangzhou Bawang

The principal business activities of Guangzhou Bawang are property investment, property development, property management, real estate agency services and property leasing.

DEFINITIONS

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

“2021 Lease Agreement”	the lease agreement entered into between Bawang Guangzhou and Guangzhou Bawang on 23 April 2021 in respect of the rental of the Bawang Industrial Complex for the Group’s production facilities, office premises and staff dormitory for a fixed term of five years commencing from 1 July 2021 to 30 June 2026 (both days inclusive)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bawang Guangzhou”	霸王(廣州)有限公司(Bawang (Guangzhou) Co., Ltd.*), a wholly-owned subsidiary of the Company
“Bawang Industrial Complex”	the premises located at 468 Guanghua 3 rd Road, Baiyun District, Guangzhou, the PRC
“Board”	the board of Directors of the Company
“CAGR”	compound annual growth rate

“Company”	BaWang International (Group) Holding Limited, a company incorporated under the laws of the Cayman Islands with limited liability on 11 December 2007, the issued shares of which on listed on the Stock Exchange
“connected person”	has the meaning as ascribed to this term under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 3/F, Administration Building, Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, China at 4:45p.m. on Friday, 4 June 2021 or immediately after the conclusion of the annual general meeting of the Company which will be held on the same day at 4:00 p.m. to consider and, if thought fit, to approve the resolutions contained in the notice of the meeting which is set out in the EGM Circular
“EGM Circular”	the circular regarding the EGM
“Existing Lease Agreement”	the lease agreement dated 17 November 2020 entered into between Guangzhou Bawang and Bawang Guangzhou in respect of the rental of certain premises within the Bawang Industrial Complex for the Group’s production facilities, office premises and staff dormitory for a fixed term of one year commencing from 1 December 2020 to 30 November 2021 (both days inclusive)
“Fair Rent Letter”	the fair rent letter prepared by JLL
“Group”	the Company and its subsidiaries
“Guangzhou Bawang”	廣州霸王化妝品有限公司 (Guangzhou Bawang Cosmetics Co., Ltd.*), a company established in the PRC as a wholly foreign owned enterprise on 23 November 2001, which is beneficially owned as to 20% by Mr. Chen Zheng He, the chief executive officer of the Company and an executive Director, and 80% by Mr. Chen Zheng He as trustee for his six brothers and sisters
“Hong Kong”	Hong Kong Special Administrative Regions of the PRC
“IFRS”	International Financial Reporting Standard(s) issued by the International Accounting Standards Board from time to time

“Independent Board Committee”	a committee comprising all of the independent non-executive Directors, being Dr. Ngai Wai Fung, Mr. Cheung Kin Wing and Dr. Wang Qi
“Interested Directors”	Mr. Chen Qiyuan and Mr. Chen Zheng He
“Independent Valuer” or “JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer for the market rent valuation in respect of the 2021 Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chen Qiyuan”	Mr. Chen Qiyuan, co-founder, chairman and an executive Director of the Company, one of the Company’s controlling shareholders and the father of Mr. Chen Zheng He
“Mr. Chen Zheng He”	Mr. Chen Zheng He, the chief executive officer of the Company, an executive Director and the son of Mr. Chen Qiyuan
“PRC” or “China”	the People’s Republic of China, and for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board
BaWang International (Group) Holding Limited
Chen Qiyuan
Chairman

Hong Kong, 23 April 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Qiyuan, Mr. Chen Zheng He and Mr. WONG Sin Yung, and three independent non-executive Directors, namely Dr. NGAI Wai Fung, Mr. CHEUNG Kin Wing, and Dr. WANG Qi.

**For identification purpose only.*