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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)

CONNECTED TRANSACTION NEW LEASE AGREEMENT

On 17 November 2020, Bawang Guangzhou and Guangzhou Bawang entered into the New Lease Agreement for the Group's production facilities, office premises and staff dormitory in the same premises with a reduced area for a fixed term of one year commencing from 1 December 2020.

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 of the Company, and 80% by his six brothers and sisters with Mr. Chen Zheng He as the trustee. Therefore the transactions contemplated under the New Lease Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to IFRS16 (Leases), the leased premises under the New Lease Agreement will be recognised by the Group as a right-of-use asset with a book value of approximately RMB12,191,000 as at 1 December 2020, and the transaction contemplated under the New Lease Agreement will be regarded as an acquisition of a right-of-use asset by the Group pursuant to 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 its right to use the underlying leased asset over the lease term and the lease liability represents its obligation to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the lease payments under the New Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset; and (ii) interest expenses amortised from the lease liability over the lease term.

As the highest percentage ratio in respect of the transaction contemplated under the New Lease Agreement, on the basis of the value of the right-of-use asset to be recognised by the Company in connection with the New Lease Agreement exceeds 0.5% but all of them are less than 5.0%, the transactions contemplated under the New Lease Agreement are subject to the reporting, announcement and the annual review requirements but are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On 17 November 2020, Bawang Guangzhou and Guangzhou Bawang entered into the New Lease Agreement for the Group's production facilities, office premises and staff dormitory in the same premises with a reduced area for a fixed term of one year commencing from 1 December 2020.

THE NEW LEASE AGREEMENT

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

Date:	17 November 2020
Lessor:	Guangzhou Bawang
Lessee:	Bawang Guangzhou
Premises:	The premises located at the Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, the PRC.
Gross floor area leased:	49,928.17 square metres
Lease term:	a fixed term of one year commencing from 1 December 2020 to 30 November 2021 (both days inclusive)
Use:	Production facilities, office premises and staff dormitory
Monthly rental:	RMB1,098,420 per month (exclusive of management fee and other outgoings, which are payable to an independent third party management company). The fair market rent of the premises as determined by an independent third party valuer is RMB1,100,000 per month
Historical rental:	The historical amounts that were paid to Guangzhou Bawang for the Group's production facilities, office premises and staff dormitory were approximately RMB8.6 million, RMB8.6 million and RMB7.9 million, respectively for the years ended 31 December 2018 and 2019 and for the eleven months ended 30 November 2020
Other terms and conditions:	The amount of rental is payable monthly Subject to compliance with the Listing Rules, the New Lease Agreement may be renewed for terms to be mutually agreed if Bawang Guangzhou gives one month's notice to Guangzhou Bawang.

Bawang Guangzhou also has a right of first refusal to purchase the aforesaid rented premises. Should Bawang Guangzhou decides to exercise the first right of refusal in the future, it shall comply with all the applicable requirements under the Listing Rules.

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 of the Company, 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 transactions contemplated under the New Lease Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to IFRS 16 (Leases), the leased premises under the New Lease Agreement will be recognised by the Group as a right-of-use asset with a book value of approximately RMB12,191,000 as at 1 December 2020, and the transaction contemplated under the New Lease Agreement will be regarded as an acquisition of a right-of-use asset by the Group pursuant to 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 its right to use the underlying leased asset over the lease term and the lease liability represents its obligation to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the lease payments under the New Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset; and (ii) interest expenses amortised from the lease liability over the lease term.

As the highest percentage ratio in respect of the transaction contemplated under the New Lease Agreement, on the basis of the value of the right-of-use asset to be recognised by the Company in connection with the New Lease Agreement exceed 0.5% but all of them are less than 5.0%, the transactions contemplated under the New Lease Agreement are subject to the reporting, announcement and the annual review requirements but are exempted from circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE NEW LEASE AGREEMENT

The Directors consider that (i) having the Group's production facilities, office premises, and staff dormitory in close proximity will increase the interaction between our Group's management staff and its production staff, which will in turn optimise its operational efficiency; and (ii) it is in the commercial interests of the Company to continue the Group's present usage of its existing production facilities, which have been in use by the Group since August 2013.

Bawang Guangzhou will pay the rent under the Lease Agreement with its internal resources.

The terms of the New Lease Agreement were negotiated on an arm's length basis, with reference to the fair market rent of the premises to be rented from Guangzhou Bawang based on a valuation report prepared by an independent valuer on the market rental of comparable premises that are located in proximity of the Group's current production facilities, office premises and staff dormitory.

The Directors (including the independent non-executive Directors) are of the view that the New Lease Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better, and the terms of the New Lease Agreement are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Mr. Chen Zheng He and Mr. Chen Qiyuan are deemed to have material interests in the New Lease Agreement and had abstained from voting at the Board meeting resolution approving the transactions contemplated under the New Lease Agreement.

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:

“Bawang Guangzhou”	霸王(廣州)有限公司(Bawang (Guangzhou) Co., Ltd.*), a wholly-owned subsidiary of the Company
“Board”	the board of Directors of the Company
“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

“Director(s)”	the director(s) of the Company
“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
“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
“New Lease Agreement”	the lease agreement dated 17 November 2020 entered into between Guangzhou Bawang and Bawang Guangzhou 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 one year commencing from 1 December 2020 to 30 November 2021 (both days inclusive)
“PRC”	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
“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, 17 November 2020

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.*