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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**

### **AMENDMENT TO THE 2021 LEASE AGREEMENT**

#### **Amendment to the 2021 Lease Agreement**

On 1 September 2022, Bawang Guangzhou entered into the 2022 Supplemental Lease Agreement, amending the the terms of the 2021 Lease Agreement through (1) reducing the gross floor area of the premises leased by Bawang Guangzhou within the Bawang Industrial Complex as the Group's production facilities, office premises and staff dormitory from 49,928.17 sq.m. to 37,997.70 sq.m., and (2) correspondingly reducing the monthly rental to RMB829,542 and RMB943,699 for the period from 1 September 2022 to 30 June 2024 and the period from 1 July 2024 to 30 June 2026, respectively.

As a result of the amendment, which takes effect on 1 September 2022, the value of the right-of-use asset under IFRS16 recognised by the Group under the 2021 Lease Agreement (as amended by the 2022 Supplemental Lease Agreement) is expected to be reduced by approximately RMB10.4 million.

#### **Listing Rules Implications**

This announcement is published by the Company pursuant to Rule 14.36 and note to Rule 14A.35 of the Listing Rules as the amendments of the 2021 Lease Agreement constitute a variation to the terms of a previous discloseable and connected transaction.

As the 2022 Supplemental Lease Agreement is entered into on normal commercial terms, and the applicable percentage ratio for the change in the book value of the right-of-use asset is less than 5% but exceeds 0.1%, the 2022 Supplemental Lease Agreement is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **1. INTRODUCTION**

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

contemplated thereunder were approved by the Shareholders in the EGM held on 4 June 2021.

As part of the Group's business objective to reduce its operating costs in response to the difficult and challenging operating environment, on 1 September 2022, Bawang Guangzhou and Guangzhou Bawang entered into the 2022 Supplemental Lease Agreement to reduce the area leased by Bawang Guangzhou in the Bawang Industrial Complex with a corresponding reduction in rent.

## **2. THE 2022 SUPPLEMENTAL LEASE AGREEMENT**

The principal terms of the 2022 Supplemental Lease Agreement are set out below:

Date:	1 September 2022
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:	Reduced from 49,928.17 sq.m. to 37,997.70 sq.m.
Effective period:	Effective from 1 September 2022 up to 30 June 2026
Use:	Production facilities, office premises and staff dormitory
Monthly rental:	RMB829,542, for the period from 1 September 2022 to 30 June 2024 RMB943,699, 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 independent third party management company.
Other terms:	Save for the above terms, the other terms of the 2021 Lease Agreement remain and conditions unchanged.

The historical amounts paid to Guangzhou Bawang for the leased premises since the commencement of the 2021 Lease Agreement (1 July 2021) to 30 June 2022 was RMB13,080,000, and from 1 July 2022 to 30 August 2022 was RMB2,180,000.

The monthly rent payable under the 2022 Supplemental Lease Agreement (amending the 2021 Lease Agreement) was determined after arm's length negotiation between Bawang Guangzhou and Guangzhou Bawang by reference to (1) the rent payable per sq.m. of floor space under the 2021 Lease Agreement, which is RMB21.8 and RMB24.8, both before and after the effective date of the 2022 Supplemental Lease Agreement, for the period from 1 July 2021 to 30 June 2024 and the period from

1 July 2024 to 30 June 2026, respectively, and (2) the corresponding reduction of floor space by 11,930.47 sq.m. that Bawang Guangzhou rents from Guangzhou Bawang.

No fees or penalties will be payable by Bawang Guangzhou to Guangzhou Bawang for amending the 2021 Lease Agreement. Bawang Guangzhou shall continue to pay the rent with its internal resources.

### 3. LISTING RULES IMPLICATIONS

This announcement is published by the Company pursuant to Rule 14.36 and note to Rule 14A.35 of the Listing Rules as the amendments of the 2021 Lease Agreement constitute a variation to the terms of a previous discloseable and connected transaction. As the 2022 Supplemental Agreement is entered into on normal commercial terms, and the applicable percentage ratio for the change in the book value of the right-of-use asset is less than 5% but exceeds 0.1%, the 2022 Supplemental Agreement is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to IFRS 16 (Leases), the amendments to the 2021 Lease Agreement will constitute a decrease in the Group's lease liability and the Group's right-of-use asset. The table below shows the expected financial implications upon the 2022 Supplemental Agreement becoming effective on 1 September 2022, which are subject to confirmation by the Company's auditors:

	<b>Lease liability</b>	<b>RoU asset</b>	<b>Gain on lease modification</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
<b>Pre-modification</b>	46,432,022	44,212,232	-
<b>Difference</b>	(10,926,506)	(10,396,081)	530,425
<b>Post-modification</b>	35,505,516	33,816,151	-

The Interested Directors are deemed to have material interests in the 2022 Supplemental Lease Agreement and had abstained from voting on the relevant Board resolution approving it.

### 4. REASONS FOR AND BENEFITS OF THE 2022 SUPPLEMENTAL 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. Please also refer to the EGM Circular for the reasons for the Group renting the premises in the Bawang Industrial Complex.

The purpose of the 2022 Supplemental Agreement is part of the Company's business objective to

reduce the Group's operating costs in response to the difficult and challenging operating environment. The Board (including the independent non-executive directors) is of the view that (1) the terms of the 2022 Supplemental Lease Agreement are on normal commercial terms and are fair and reasonable, and (2) entering into the 2022 Supplemental Lease Agreement is in the interests of the Company and its shareholders as a whole.

## 5. OTHER INFORMATION

### 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). Please refer to the Company's announcement of 23 April 2021 for the details of the 2021 Lease Agreement
“2022 Supplemental Lease Agreement”	the supplemental lease agreement entered into between Bawang Guangzhou and Guangzhou Bawang on 1 September 2022 in respect of the amendment to the 2021 Lease Agreement
“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 3rd Road, Baiyun District, Guangzhou, the PRC
“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
“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 held on 4 June 2021 approving the 2021 Lease Agreement
“EGM Circular”	the circular dated 29 April 2021 regarding the EGM
“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
“Interested Directors”	Mr. Chen Qiyuan and Mr. Chen Zheng He
“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, 1 September 2022

*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 Mr. CHEUNG Kin Wing, Dr. WANG Qi and Dr. Liu Jing.*

*\*For identification purpose only.*