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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 WITH CUSTOMER

TRANSACTIONS WITH GUANGDONG TOBACCO COMPANY

Owada Flavours is an indirect non-wholly owned subsidiary of the Company. The Company indirectly holds approximately 55.375% equity interests in Guangdong Jinke, which is regarded as an indirect non-wholly owned subsidiary of the Company. Guangdong Tobacco holds 17.5% equity interest in Guangdong Jinke. Guangdong Tobacco Company are regarded as connected persons at the subsidiary level of the Company under the Listing Rules. Transactions between the Group and Guangdong Tobacco Company constitute connected transactions of the Company.

In order to continue the transactions for business needs, Owada Flavours (on behalf of Huabao Flavours Company and the Remaining Group) and Guangdong Tobacco entered into the 2020-GD Framework Agreement on 27 February 2020 to govern the sale of the products of the Group, including flavours (tobacco flavours), RTL products, granules, auxiliary materials and related services by the Group to Guangdong Tobacco Company for a term of one year commencing on 1 January 2020 and expiring on 31 December 2020 (both days inclusive).

IMPLICATIONS UNDER THE LISTING RULES

Since the highest of the applicable percentage ratios of the annual cap of the continuing connected transactions contemplated under the 2020-GD Framework Agreement as calculated pursuant to Rule 14.07 of the Listing Rules exceeds 5%, such continuing connected transactions contemplated under the 2020-GD Framework Agreement are subject to the reporting, annual review, announcement and the independent shareholders' approval requirements.

As (i) Guangdong Tobacco Company are regarded as connected persons at the subsidiary level of the Company; (ii) the continuing connected transactions contemplated under the 2020-GD Framework Agreement are on normal commercial terms or better; and (iii) the Board (including all the independent non-executive Directors) has approved the continuing connected transactions and confirmed that the terms of the continuing connected transactions are fair and reasonable and that the continuing connected transactions are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the continuing connected transactions contemplated under the 2020-GD Framework Agreement are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

INTRODUCTION

Reference is made to the following announcements issued by the Company:

- (i) announcement dated 1 March 2017 regarding the entering into of the Previous GD Framework Agreements and the respective transactions contemplated thereunder between the Group and Guangdong Tobacco Company; and
- (ii) announcement dated 15 January 2019 regarding, among others, the alignment of the change of financial year end of the Group and the revision of annual caps for the continuing connected transactions contemplated under the Previous GD Framework Agreements.

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS WITH GUANGDONG TOBACCO COMPANY

Each of HB Flavours Framework Agreement, JY Framework Agreement and JK Framework Agreement was for a term of 3 years from 1 January 2017 to 31 December 2019 (both days inclusive). In order to continue the transactions for business needs, on 27 February 2020, Owada Flavours (on behalf of Huabao Flavours Company and the Remaining Group) entered into the 2020-GD Framework Agreement with Guangdong Tobacco for a term of one year commencing on 1 January 2020 and expiring on 31 December 2020 (both days inclusive). The entering into the 2020-GD Framework Agreement, instead of enter into separate framework agreements by each of Huabao Flavours, Guangdong Jinye and Guangdong Jinke, is to accommodate the contract parties' administrative requirements. Accordingly, the sale of the products of the Group, including the provision of flavours (tobacco flavours), RTL products, granules, auxiliary materials and related services by Huabao Flavours Company and the Remaining Group to Guangdong Tobacco Company for the period from 1 January 2020 to 31 December 2020 (both days inclusive) shall be governed by the 2020-GD Framework Agreement.

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 RTL and new materials products applicable to tobacco industry), aroma raw materials, condiment products and other segments in the PRC.

Guangdong Tobacco is a PRC state-owned tobacco entity, and is primarily engaged in cigarettes production. Guangdong Tobacco Company is one of the largest tobacco manufacturing groups in the PRC and one of the long-term customers of the Group's products.

Owada Flavours is an indirect non-wholly owned subsidiary of the Company. The Company indirectly holds approximately 55.375% equity interests in Guangdong Jinke, which is regarded as an indirect non-wholly owned subsidiary of the Company. Guangdong Tobacco holds 17.5% equity interest in Guangdong Jinke. As at the date of this announcement, the other shareholders, holding an aggregate 27.125% equity interests in Guangdong Jinke, are China National Tobacco Corporation Guangdong Company, China Tobacco Guangxi Tiancheng Investment Management Co., Ltd. and China Tobacco Industry Development Center whom, according to the information available to the Company, are parties independent of, and not connected with, the Company and its connected persons. Guangdong Tobacco Company are regarded as connected persons at the subsidiary level of the Company under the Listing Rules.

Accordingly, transactions between the Group and Guangdong Tobacco Company constitute connected transactions of the Company under the Listing Rules.

2020-GD FRAMEWORK AGREEMENT AND THE PROPOSED CAPS

The principal terms of the 2020-GD Framework Agreement are set out below:

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| Date: | 27 February 2020 |
| Parties: | (i) Guangdong Tobacco (ii) Owada Flavours (on behalf of Huabao Flavours Company and the Remaining Group) |
| Subject Matter: | Provision of the products of the Group, including the provision of flavours (tobacco flavours), RTL products, granules, auxiliary materials and related services by Huabao Flavours Company and the Remaining Group to Guangdong Tobacco Company |
| 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 the Group 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. Enquiry process will be conducted by making reference to at least two other contemporaneous transactions with unrelated third parties for similar products and services to determine if the prices and terms offered by Guangdong Tobacco Company are on normal commercial terms and are fair and reasonable and comparable to those offered by independent third parties

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

The aggregate transaction amounts in respect of the sale of tobacco flavours products and related services under the HB Flavours Framework Agreement by Huabao Flavours Company to Guangdong Tobacco Company for the three months ended 31 March 2017, the financial year ended 31 March 2018, the nine months ended 31 December 2018 and the financial year ended 31 December 2019 were RMB14,900,000 (audited), RMB88,454,000 (audited), RMB85,362,363 (audited) and approximately RMB82,464,000 (unaudited), respectively.

The aggregate transaction amounts in respect of the sale of RTL products and related services under the JY Framework Agreement by Guangdong Jinye Group (except for Huabao Flavours Company) to Guangdong Tobacco Company for the three months ended 31 March 2017, the financial year ended 31 March 2018, the nine months ended 31 December 2018 and the financial year ended 31 December 2019 were RMB5,592,000 (audited), RMB93,884,000 (audited), RMB46,421,701 (audited) and approximately RMB57,634,000 (unaudited), respectively.

The aggregate transaction amounts in respect of the sale of auxiliary materials and related services under the JK Framework Agreement by Guangdong Jinye Group (except for Huabao Flavours Company) to Guangdong Tobacco Company for the three months ended 31 March 2017, the financial year ended 31 March 2018, the nine months ended 31 December 2018 and the financial year ended 31 December 2019 were RMB4,933,000 (audited), RMB22,487,000 (audited), RMB6,264,923 (audited) and approximately RMB18,603,000 (unaudited), respectively.

According to the information currently available to the Company, the transaction amount between the Group and Guangdong Tobacco Company for the period from 1 January 2020 to the date of this announcement does not exceed 1% of the applicable percentage ratios as calculated pursuant to Rule 14.07 of the Listing Rules.

The Company estimates that the aggregate transaction amount for the continuing connected transactions contemplated under the 2020-GD Framework Agreement for the financial year ending 31 December 2020 will not exceed RMB213,000,000 (the “**Proposed 2020-GD Cap**”).

In determining the Proposed 2020-GD Cap, the Company has taken into account a number of factors, including the historical transaction amounts, the Group’s estimates of the growth of tobacco industry in the PRC, the projected demand for the Group’s tobacco related products and services (i.e. the provision of flavours (tobacco flavours), RTL products, granules, auxiliary materials and related services by Huabao Flavours Company and the Remaining Group) in accordance with the Group’s operation scale and future business development with reference to the prevailing market conditions.

The Board considers that continuing the transactions by the Group with Guangdong Tobacco Company is necessary for the Group, and such long term transactions are and will be beneficial for the business operation and expansion of the Group. The estimates of the Proposed 2020-GD Cap is fair and reasonable.

INTERNAL CONTROL MEASURES

The continuing connected transactions with Guangdong Tobacco Company 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 at least two contemporaneous 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 Guangdong Tobacco Company are on normal commercial terms and are fair and reasonable and comparable to those offered by independent third parties.

As mentioned above, the entering into the 2020-GD Framework Agreement, instead of enter into separate framework agreements by each of Huabao Flavours, Guangdong Jinye and Guangdong Jinke, is to accommodate the contract parties’ administrative requirements. However, to preserve transparency and corporate governance, the Group will continue to implement the previous accounting treatment to record separately the transactions relating to the sale of tobacco flavours products and related services between Huabao Flavours Company and Guangdong Tobacco Company, and the sale of the RTL, granules, auxiliary materials and related services between the Remaining Group and Guangdong Tobacco Company.

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 their respective agreements.

- (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 2020-GD 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 agreement as aforesaid (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 agreement as aforesaid are in the interests of the Company and its Shareholders as a whole.

To the best belief and knowledge of the Directors, as at the date of this announcement, Guangdong Tobacco Company does not hold any interest in the shares of the Company. In addition, each Director has confirmed that he/she does not hold any equity interest in Guangdong Tobacco Company. No Directors are required to abstain from voting on the resolutions in respect of the 2020-GD Framework Agreement (and the transactions contemplated thereunder including the Proposed 2020-GD Cap).

IMPLICATIONS UNDER THE LISTING RULES

Since the highest of the applicable percentage ratios of the annual caps of the continuing connected transactions contemplated under the 2020-GD Framework Agreement as calculated pursuant to Rule 14.07 of the Listing Rules exceeds 5%, such continuing connected transactions contemplated under the 2020-GD Framework Agreement are subject to the reporting, annual review, announcement and the independent shareholders' approval requirements.

As (i) Guangdong Tobacco Company are regarded as connected persons at the subsidiary level of the Company; (ii) the continuing connected transactions contemplated under the 2020-GD Framework Agreement are on normal commercial terms or better; and (iii) the Board (including all the independent non-executive Directors) has approved the continuing connected transactions and confirmed that the terms of the continuing connected transactions are fair and reasonable and that the continuing connected transactions are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the continuing connected transactions contemplated under the 2020-GD Framework Agreement are subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

DEFINITIONS

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

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| “2020-GD Framework Agreement” | the framework agreement entered into between Guangdong Tobacco and Owada Flavours (on behalf of Huabao Flavours Company and the Remaining Group) on 27 February 2020 in relation to the provision of the products of the Group, including flavours (tobacco flavours), RTL products, granules, auxiliary materials and related services by the Group to Guangdong Tobacco Company |
| “associate(s)” | has the meaning ascribed to it in the Listing Rules |
| “Board” | the board of Directors of the Company |
| “Company” | Huabao International Holdings Limited, a company incorporated in Bermuda 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 |
| “Director(s)” | director(s) of the Company |
| “Group” | the Company and its subsidiaries, as appropriate and regardless of whether directly or indirectly owned |
| “Guangdong Jinke” | Guangdong Jinke Reconstituted Tobacco Leaves Co., Ltd. |
| “Guangdong Jinye” | Guangdong Golden Leaf Technology Development Co., Ltd. |

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| “Guangdong Jinye Group” | Guangdong Jinye and its subsidiaries and related companies |
| “Guangdong Tobacco” | China Tobacco Guangdong Industrial Co., Ltd. |
| “Guangdong Tobacco Company” | Guangdong Tobacco and its subsidiaries and related companies |
| “HB Flavours Framework Agreement” | the framework agreement entered into between Huabao Flavours and Guangdong Tobacco on 1 March 2017 in relation to the provision of tobacco flavours products and related services by Huabao Flavours Company to Guangdong Tobacco Company |
| “Hong Kong” or “HK” | Hong Kong Special Administrative Region of the PRC |
| “Huabao Flavours” | Huabao Flavours & Fragrances Co., Ltd. |
| “Huabao Flavours Company” | Huabao Flavours and its subsidiaries and related companies |
| “JK Framework Agreement” | the framework agreement entered into between Guangdong Jinke and Guangdong Tobacco on 1 March 2017 in relation to the provision of auxiliary materials and related services by Guangdong Jinye Group (except for Huabao Flavours Company) to Guangdong Tobacco Company |
| “JY Framework Agreement” | the framework agreement entered into between Guangdong Jinye and Guangdong Tobacco on 1 March 2017 in relation to the provision of RTL products and related services by Guangdong Jinye Group (except for Huabao Flavours Company) to Guangdong Tobacco Company |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange |
| “Owada Flavours” | Owada Flavours (Guangzhou) Co., Ltd. |
| “Previous GD Framework Agreements” | collectively, the HB Flavours Framework Agreement, the JY Framework Agreement and the JK Framework Agreement |
| “PRC” or “China” | the People’s Republic of China |

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| “Remaining Group” | the Group, excluding Huabao Flavours Company |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “RTL” | reconstituted tobacco leaves |
| “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, 28 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*