
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, a stock broker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **BaWang International (Group) Holding Limited**, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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
AND
NOTICE OF EXTRAORDINARY
GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and The Independent Shareholders**



A notice convening the EGM of BaWang International (Group) Holding Limited to be held on 3/F, Administration Building, Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, China at 4:45 p.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., is set out on pages 33 to 34 of this circular.

Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or its adjourned meeting should you so wish.

* For identification purpose only

CONTENTS

	<i>Pages</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	14
LETTER FROM HEUNGKONG CAPITAL	16
APPENDIX — GENERAL INFORMATION	28
NOTICE OF EGM	33

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall 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 certain premises within 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 3rd Road, Baiyun District, Guangzhou, the PRC
“Board”	the board of Directors
“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 whose shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 4:45 p.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 on pages 33 to 34 of this circular

DEFINITIONS

“Existing Lease Agreement”	the existing 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
“Fortune Station”	Fortune Station Ltd., a company incorporated in the British Virgin Islands which its issued share capital held as to approximately 50.43% by Mr. CHEN Qiyuan, and approximately 49.57% by Heroic Hour Limited, a company incorporated in the British Virgin Islands which its entire issued share capital is in turn held by Mr. CHEN Zheng He as trustee for himself and on behalf of his six brothers and sisters
“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, an executive Director and the chief executive officer of the Company, and 80% by Mr. CHEN Zheng He as trustee for his six brothers and sisters
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standard(s) issued by the International Accounting Standards Board from time to time
“Independent Board Committee”	the independent committee of the Company, the members of which consist of all the independent non-executive Directors, formed to advise the Independent Shareholders with respect to the 2021 Lease Agreement
“Independent Financial Adviser” or “HeungKong Capital”	HeungKong Capital Limited (香江資本有限公司), a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2021 Lease Agreement

DEFINITIONS

“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
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM
“Interested Directors”	Mr. CHEN Qiyuan and Mr. CHEN Zheng He
“Latest Practicable Date”	22 April 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. CHEN Qiyuan”	Mr. CHEN Qiyuan, co-founder, chairman and an executive Director, 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, one of the Company’s controlling shareholders and the son of Mr. CHEN Qiyuan
“PRC” or “China”	the People’s Republic of China but excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) in the share capital of the Company with nominal value of HK\$0.10 each
“Shareholder(s)”	shareholder(s) of the Company
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

* For identification purpose only

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. CHEN Qiyuan (*Chairman*)
Mr. CHEN Zheng He (*Chief Executive Officer*)
Mr. WONG Sin Yung

Independent non-executive Directors:

Dr. NGAI Wai Fung
Mr. CHEUNG Kin Wing
Dr. WANG Qi

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of business in the PRC:

Bawang Industrial Complex
468 Guanghua 3rd Road
Baiyun District, Guangzhou
510450
PRC

Principal Place of business in Hong Kong:

Suite B, 16/F
Ritz Plaza
122 Austin Road
Tsimshatsui
Kowloon
Hong Kong

29 April 2021

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
2021 LEASE AGREEMENT
AND
NOTICE OF EXTRAORDINARY
GENERAL MEETING**

I. INTRODUCTION

The purpose of this circular is to provide the Shareholders with information on the resolution to be proposed at the EGM for the approval of the 2021 Lease Agreement in relation to the renting of production facilities, office premises and staff dormitory.

* For identification purpose only

LETTER FROM THE BOARD

II. DISCLOSEABLE AND CONNECTED TRANSACTION

1. The 2021 Lease Agreement

The principal terms of the 2021 Lease Agreement are set forth 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:	RMB1,090,000, for the period from 1 July 2021 to 30 June 2024 RMB1,240,000, 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

LETTER FROM THE BOARD

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 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).

2. Fair rent and right-of-use assets

Pursuant to IFRS 16 (Leases), the premises to be leased under the 2021 Lease Agreement will be recognised by the Group as right-of-use assets 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 right-of-use assets 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 assets represent 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 profit or loss and other 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.

LETTER FROM THE BOARD

Certain details of the Fair Rent Letter are set out below:

1. *Method and standard of valuation*

The Independent Valuer adopted the comparison approach in its valuation by making reference to comparable market rent transactions in its market rent assessment. This approach rests on the wide acceptance of the market rent transactions as the best indicator and pre-supposes that evidence of relevant rent transactions in the marketplace can be extrapolated to similar properties, subject to allowances for variable factors. In the course of performing the valuation, the Independent Valuer had complied with all the requirements of the Global Standards published by the Royal Institution of Chartered Surveyors, the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

2. *Key assumptions*

The Independent Valuer's valuation of the fair rent has been made on the assumption that the lessor leases the properties in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the rental of the properties to be leased under the 2021 Lease Agreement.

3. *Key inputs*

The Independent Valuer has identified and analysed various relevant lease evidences in the locality which have similar characteristics as the subject property such as nature, use, size, layout and accessibility. The selected comparables include Sanda Industrial Park (三大工業園), Donghua Industrial Park (東華工業園) and Shenshan Industrial Park (神山工業園), and their monthly market rental levels range from RMB22 to RMB24 per sq.m.

4. *Key adjustments*

Adjustments and analysis that are applied by the Independent Valuer included differences in location, size and condition between the comparable properties and the subject property to arrive at the fair market rent for the property. The adjustment range applied is between -2% to 4%.

3. 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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

- (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 are contained in a letter from the Independent Board Committee in this 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 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;

LETTER FROM THE BOARD

- (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 this 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 approving the 2021 Lease Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

4. Listing Rules implications

As at the date of this circular, 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 2021 Lease Agreement and the transactions contemplated thereunder constitute a discloseable and connected transaction of the Company under the Listing Rules.

5. 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.

6. About Guangzhou Bawang

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

7. Independent Board Committee

The Independent Board Committee has been formed by the Company to consider, and to advise the Independent Shareholders on, the terms of the 2021 Lease Agreement. The Company has appointed HeungKong Capital to make recommendations to the Independent Board Committee and the Independent Shareholders of the Company on the terms of the 2021 Lease Agreement. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 14 to 15 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the 2021 Lease Agreement.

8. Independent Financial Adviser

The Company has appointed HeungKong Capital as the Independent Financial Adviser for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of the 2021 Lease Agreement are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole. A letter from HeungKong Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 27 of this circular. The letter from HeungKong Capital to the Independent Board Committee and the Independent Shareholders contains factors they have considered and their recommendations on the 2021 Lease Agreement.

LETTER FROM THE BOARD

III. EGM

To comply with the requirement under Rule 14A.36 of the Listing Rules, the Company will convene the EGM to seek the Independent Shareholders' approval for the 2021 Lease Agreement and the transactions contemplated thereunder. Any Shareholder with a material interest in the 2021 Lease Agreement and the transactions contemplated thereunder and his/her/its associates shall abstain from voting on the ordinary resolution approval them.

The notice convening the EGM is set out on pages 33 to 34 of this circular. At the EGM, ordinary resolutions will be proposed to approve, among other things, the entering into of the 2021 Lease Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or its adjourned meeting should you so wish.

To the best knowledge, belief and information of the Directors, having made all reasonable enquiries, Fortune Station, which held approximately 60.12% of the entire issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the EGM on the ordinary resolutions relating to the 2021 Lease Agreement. As at the Latest Practicable Date, Fortune Station was controlled as to approximately 50.43% by Mr. CHEN Qiyuan and approximately 49.57% by Heroic Hour Limited, which in turn is held by Mr. CHEN Zheng He as trustee for himself and for his six brothers and sisters. Apart from Fortune Station, to the best knowledge, belief and information of the Directors, having made all reasonable enquiries, none of the other Shareholders as at the Latest Practicable Date has a material interest in the 2021 Lease Agreement and the transaction contemplated thereunder and would be required to abstain from voting on the proposed ordinary resolutions approving them.

In order to determine the list of Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Saturday, 29 May 2021 to Friday, 4 June 2021 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders of the Company on Friday, 4 June 2021 will be entitled to attend and vote (unless they are materially interested) at the EGM. All share transfers accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 May 2021.

LETTER FROM THE BOARD

IV. RECOMMENDATION

The Directors (including the independent non-executive Directors whose recommendation is contained in the Letter from the Independent Board Committee of this circular) are of the view that the 2021 Lease Agreement is within the ordinary and usual course of business of the Company, and the terms of the 2021 Lease Agreement are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that all Independent Shareholders vote in favour of the ordinary resolution on the 2021 Lease Agreement and the transactions contemplated thereunder to be proposed at the EGM.

V. OTHER INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 14 and 15 of this circular which contains its recommendation to the Independent Shareholders on the 2021 Lease Agreement; and (ii) the letter from the Independent Financial Adviser set out on pages 16 to 27 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2021 Lease Agreement and the principal factors and reasons considered by HeungKong Capital in arriving at its advice.

Your attention is also drawn to the other information set out in the appendices to this circular.

Yours faithfully,

By and on behalf of the Board

BaWang International (Group) Holding Limited

CHEN QIYUAN

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the 2021 Lease Agreement and the transactions contemplated thereunder:

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)

29 April 2021

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO 2021 LEASE AGREEMENT

We refer to the circular of the Company (the “**Circular**”) dated 29 April 2021 of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the 2021 Lease Agreement and to give recommendation to the Independent Shareholders as to whether, in our opinion, the terms of the 2021 Lease Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and whether the 2021 Lease Agreement is in the interests of the Company and its Shareholders as a whole. HeungKong Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021 Lease Agreement.

We wish to draw your attention to the letter from the Board set out in the section of Letter from the Board in the Circular which contains, among other things, information about the 2021 Lease Agreement, and the letter of advice from HeungKong Capital set out in the section headed “Letter from HeungKong Capital” in the Circular, which contains its advice in respect of the terms of the 2021 Lease Agreement.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the historical rental rates that are being charged for the Group's production facilities, office premises and staff dormitory and having taken into account the advice from HeungKong Capital and the Fair Rent Letter, we consider that the terms of the 2021 Lease Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Company so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the terms of the 2021 Lease Agreement.

Yours faithfully,

The Independent Board Committee

NGAI Wai Fung

*Independent non-executive
Director*

CHEUNG Kin Wing

*Independent non-executive
Director*

WANG Qi

*Independent non-executive
Director*

LETTER FROM HEUNGKONG CAPITAL

The following is the full text of a letter of advice from HeungKong Capital to the Independent Board Committee and the Independent Shareholders in relation to the 2021 Lease Agreement and the transactions contemplated thereunder prepared for the purpose of inclusion in this circular.



Suite 622, Ocean Centre
Harbour City
Kowloon
Hong Kong

29 April 2021

*To the Independent Board Committee and the Independent Shareholders of
BaWang International (Group) Holding Limited*

Dear Sirs,

DISCLOSURE AND CONNECTED TRANSACTION 2021 LEASE AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021 Lease Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 29 April 2021 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter of advice shall have the same meaning as defined in the Circular.

Reference are made to (i) the Announcement; and (ii) the Circular. On 23 April 2021, Bawang Guangzhou entered into the 2021 Lease Agreement with Guangzhou Bawang, pursuant to which Bawang Guangzhou conditionally agreed to rent the premises from Guangzhou Bawang for a term of five years. The premises are currently leased out to Bawang Guangzhou under the Existing Lease Agreement. Guangzhou Bawang will terminate the Existing Lease Agreement with the Bawang Guangzhou and under the 2021 Lease Agreement, lease the premises to Bawang Guangzhou under the new terms and conditions as disclosed the 2021 Lease Agreement.

As at the Latest Practicable Date, 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. Pursuant to the International Financial Reporting Standard 16 Leases (“IFRS 16”), the entering into of the 2021

LETTER FROM HEUNGKONG CAPITAL

Lease Agreement will require the Group to recognise the right-of-use assets in its financial statements, this will be regarded as deemed acquisition of assets by the Group. As certain applicable percentage ratios under Chapter 14 of the Listing Rules are more than 5% but all of them are less than 25%, the 2021 Lease Agreement and the transactions contemplated thereunder constitute disclosable and connected transactions for the Company, and are subject to the notification, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the 2021 Lease Agreement and the transactions contemplated thereunder by way of a poll at the EGM. In view of the interest above, any Shareholder with a material interest in the 2021 Lease Agreement and the transactions contemplated thereunder and his/her/its associates shall abstain from voting on the ordinary resolution approving the 2021 Lease Agreement and the transactions contemplated thereunder at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. NGAI Wai Fung, Mr. CHEUNG Kin Wing and Dr. WANG Qi, has been formed to advise the Independent Shareholders on whether (i) the 2021 Lease Agreement is entered into in the ordinary and usual course of the business of the Group; (ii) the terms of the 2021 Lease Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable; and (iii) the 2021 Lease Agreement is in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, HeungKong Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard and on how to vote at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or Guangzhou Bawang that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company and Guangzhou Bawang. Accordingly, we are qualified to give independent advice in respect of the 2021 Lease Agreement and the transactions contemplated thereunder.

LETTER FROM HEUNGKONG CAPITAL

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Announcement and the Circular; (ii) the information supplied by the Group; (iii) the opinion expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation, intention, reasonably made after due enquiry and careful consideration made by the management of the Company in the Circular. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or this Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group and Guangzhou Bawang, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the 2021 Lease Agreement. Our opinion is necessarily based on the market, financial, economics and other conditions in effect and the information made available to us as at the Latest Practicable Date. Any subsequent developments may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the date of its letter or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the 2021 Lease Agreement and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

1. Background and reasons for and benefits of entering into the 2021 Lease Agreement

(i) *The Group*

With reference to the Letter from the Board, the Group is principally engaged in the design, manufacture and sales of Chinese herbal shampoo and hair-care products as well as other products such as skincare products, toothpaste, and shower gels. As stated in the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”), the consolidated revenue of the Group increased from RMB258.2 million for the year ended 31 December 2019 to RMB276.0 million for the year ended 31 December 2020. Furthermore, as extracted from the 2020 Annual Report, the depreciation expense of right of use asset decreased from RMB7.7 million for the year 31 December 2019 to RMB7.0 million for the year ended 31 December 2020.

The Shares are listed on the Stock Exchange and the Company had a market capitalisation of approximately RMB379.5 million as at the Latest Practicable Date.

(ii) *The Leased Premises*

The Leased Premises are located within the Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, the PRC.

Bawang Industrial Complex is a commercially developed area with numerous companies engaged in the production of personal care and cosmetic products. It 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). Furthermore, it is also well equipped with its own utility (such as heating furnace) supply, and also has its own waste discharge and processing facilities.

The Leased Premises comprise portions of 8 buildings occupied for production, dormitory and ancillary facility purposes.

(iii) *Reason for and benefits of entering into the 2021 Lease Agreement*

As disclosed in the Letter from the Board, the Group’s production has been operating within the Bawang Industrial Complex since August 2013. On 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 the Group’s office premises and the Group’s 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. As the Bawang Industrial

LETTER FROM HEUNGKONG CAPITAL

Complex is in closely 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 benefitted from logistic convenience by situating its production base in an area with an abundant supply of transportation, logistics and warehousing services, the combined effect of which has reduced warehousing and transportation costs for the Group. Furthermore, the Group has been expanding in 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. Therefore, in our view, it is beneficial for the Group to keep its operation premises at the current location.

Furthermore, the Group's has established presence locally in Baiyun Distract 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.

In considering that if the Group decides to relocate their production facilities, office premises and staff dormitory, it will incur additional expenses (including but not limited to, re-application of new permit fee for the relevant PRC authorities, demolition, relocation expenses, renovation expense for production facilities, office premises and staff dormitory. Moreover, it would bear a business risk which the production downtime and/or production capacity reduction and the staff turnover rate.

With reference to the announcement dated 17 November 2020, of which the monthly rent was approximately RMB1.1 million under the Existing Lease Agreement. The monthly rent payable per sq.m. of floor space rented by Bawang Guangzhou under the Existing Lease Agreement would decrease from approximately RMB22.0 to RMB21.8 under the 2021 Lease Agreement, for the same leased premises with the same gross floor area.

The 2021 Lease Agreement has 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 that the recent market trend of increase in rental rate in the Baiyun District in Guangzhou, having a long term lease agreement would allow the Group to reduce the risk of the potential increase in the market rent resulting to maintain the Group's operating costs in the short to medium term. 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 Group believe that a five-year lease agreement does not deviate from the normal commercial practice for leases of a similar nature.

Based on the above, we concur with the Directors that the entering into the 2021 Lease Agreement is in the ordinary and usual course of business of the Company and is in the interests of the Shareholders as a whole.

LETTER FROM HEUNGKONG CAPITAL

2. 2021 Lease Agreement

Set out below is a summary of the principal terms of the 2021 Lease Agreement. Independent Shareholders are advised to read further details of the 2021 Lease Agreement as disclosed in the Letter from the Board:

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

Monthly rental: RMB1,090,000 for the period from 1 July 2021 to 30 June 2024

RMB1,240,000 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 independent third party management company. The fair market rent of the premises as determined by Jones Lang LaSalle Limited as at 22 April 2021, the Independent Valuer, 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 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.

LETTER FROM HEUNGKONG CAPITAL

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).

(i) *Basis of the rentals of the Leased Premises*

As set out in the Letter from the Board, the rentals for the Leased Premises as set out above were determined after arm's length negotiations between the parties with reference to the prevailing rents of similar properties in the surrounding area. We have discussed with the management of the Group the principal terms of the 2021 Lease Agreement, as set out in the table above, which the Directors consider to be on normal commercial terms or better.

(ii) *Assessment of the principal terms of the 2021 Lease Agreement*

(a) *The Valuer's view*

The Company has appointed the Valuer to form an independent value on the monthly market rent of the Leased Premises.

As set out in the fair rent letter (the "**Fair Rent Letter**") dated 22 April 2021 issued by the Valuer, after taking into account the monthly market rent of the Leased Premises, it is of the view that the monthly rentals and the average annual growth rate of 2% to 3% on the rent can be expected according to the prevailing market practices.

According to the Fair Rent Letter, in assessing the fairness and reasonableness of the monthly market rent of the Leased Premises, the Valuer has adopted the comparison approach by making reference to the comparable market rent transactions in their assessment of the market rent of a property. This approach rests on the wide acceptance of the market rent transactions as the best indicator and pre-supposes that evidence of relevant rent transactions in the marketplace can be extrapolated to similar properties, subject to allowances for variable factors.

In the course of Valuer's valuation, the Valuer had complied with all the requirements of the Global Standards published by the Royal Institution of Chartered Surveyors, the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council. The Valuer's valuation of the Fair Rent Letter has been made on the assumption that the lessor leases the properties in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the rental of the properties.

(b) *Our due diligence*

Assessment of the Valuer's view

We have conducted an interview with the Valuer to enquire its qualification and experience in assessing the terms of lease agreements in the PRC. The Valuer confirmed that it is a third party independent of the Company and its connected persons. We have also reviewed the terms of engagement of the Valuer, in particular its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the view of the monthly market rent of the Leased Premises given by the Valuer in the Fair Rent Letter. We have performed the work as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work as regards of the monthly market rent and the expected average amount growth rate of market rent of the Leased Premises.

We have also discussed with the Valuer the work it has performed and the methodology, bases and assumptions adopted in arriving at its conclusion in the Fair Rent Letter as to the monthly market rent and the expected average amount growth rate of market rent of the Leased Premises, including desktop search of the comparable properties, review of the asking rentals of comparable properties and discussion with the Valuer the adjustments made.

In light of the above, we consider that the methodology, basis and assumptions adopted by the Valuer in assessing the monthly market rent and the expected average amount growth rate of market rent of the Leased Premises are fair and reasonable.

Assessment of the 2021 Lease Agreement's average annual rental increment

We consider the 2021 Lease Agreement's average annual rental increment to be fair and reasonable after taking into account the following factors:

- (1) we calculated that the compound annual growth rate of the 2021 Lease Agreement's average annual rental increment is 2.6%, which is in the range of the market levels according to the Fair Rent Letter; and
- (2) according to the World Economic Outlook (October 2020) published by the International Monetary Fund (IMF), the PRC inflation rates during the period from 2021 to 2025 are estimated to be in the range of 2.5% to 2.7%.

LETTER FROM HEUNGKONG CAPITAL

Assessment of the duration of the 2021 Lease Agreement

In respect of the duration, the Existing Lease Agreement has a term of one year and the 2021 Lease Agreement has a term of five years. In assessing the reasonableness as regards the duration of the 2021 Lease Agreement, we have considered the following factors:

- (1) the entering into of the 2021 Lease Agreement for a longer term for the sizeable companies like our Group are consistent with the Group's long-term strategy of achieving a sustainable growth through leveraging on the experience of its management team in the manufacturing industry as well as the resources and networks of its management team in the PRC;
- (2) Guangzhou Bawang will terminate the Existing Lease Agreement and under the 2021 Lease Agreement, lease the Premise to Bawang Guangzhou under the similar terms and conditions as the Existing Lease Agreement. The 2021 Lease Agreement will expire on 30 June 2026. The long-term duration of the 2021 Lease Agreement will allow the Group to maintain the operating cost arising from the 2021 Lease Agreement for periods at least up to the expiry dates of the 2021 Lease Agreement;
- (3) the durations of the 2021 Lease Agreement are longer than that of the Existing Lease Agreement, we consider that a longer duration of the 2021 Lease Agreement will allow the Group able to control the budgeting of the operating cost in the short to medium term; and
- (4) we have also discussed with the Valuer on the duration of the 2021 Lease Agreement. As advised by the Valuer, it is not uncommon for companies that operate manufacturing business to seek for a relatively longer lease duration to secure the business operation. Also, as advised by the Valuer, it is a normal practice that the lease term for manufacturing companies are about 3–5 years. We concur that the short to medium lease duration is in line with the industry norm of the manufacturing industry.

Based on the above, we are of the view that the term of five years under the 2021 Lease Agreement is a normal commercial term for a transaction of this nature and it is normal business practice for contracts of this type to be of such duration.

Assessment of the market comparable in relation of the rent and the lease term

We have performed desktop search on the nearby premises of the Leased Premises (the “**Nearby Premises**”) to compare the rent and the duration of the lease between the Leased Premises and the Nearby Premises. The monthly rent of the Nearby Premises are ranging from RMB1,100,000 to RMB1,200,000 with

LETTER FROM HEUNGKONG CAPITAL

similar leased floor area of the Leased Premises. Furthermore, we have noted that the Nearby Premises normally provide ranging from 3–5 years lease term to the lessee. Accordingly, we are of the view that the monthly rental and the duration of the lease are on normal commercial terms, fair and reasonable.

Assessment of the normal business practice for short to medium duration of lease term in manufacturing industry

In order to assess the terms of the 2021 Lease Agreement is fair and reasonable on normal commercial terms, in particular, the duration of the lease term in manufacturing industry, we have, to the best of our knowledge and as far as we are aware, identified eight comparable companies (the “**Comparable Companies**”) based on the criteria that the companies(i) listed on the Stock Exchange; (ii) operated its business in manufacturing industry; (iii) principal place of business located in the PRC; and (iv) acted as lessee in the lease agreement in relation to either the production facilities, office premise or staff dormitory in the past year from 24 March 2020 up to the date of the 2021 Lease Agreement. We considered the below analysis to be (i) exhaustive for comparison purpose based on our research and selection criteria on a best-effort basis, or any omissions beyond our awareness shall not result in material change in the conclusion; and (ii) appropriate to reflect recent market statistics on comparable transactions.

Details of our analysis are set out in the table below:

Date of announcement	Company name (stock code)	Role of listed company or its subsidiary	Nature of respective lease	Term of respective lease (approximate year)
31 March 2020	Best Pacific International Holdings Limited (2111)	Lessee	For production plant, offices and staff dormitory	3
28 May 2020	JNBY Design Limited (3306)	Lessee	For office, warehouse and dormitory	3
8 July 2020	Morris Holdings Limited (1575)	Lessee	For factory, direct sale store and office use	6
30 September 2020	China Partytime Culture Holdings Limited (1532)	Lessee	For manufacturing, packaging, daily necessities and textile	4
24 December 2020	UN-BIO Science Group Limited (690)	Lessee	For production workshop, storage and office use	2

LETTER FROM HEUNGKONG CAPITAL

Date of announcement	Company name (stock code)	Role of listed company or its subsidiary	Nature of respective lease	Term of respective lease (approximate year)
30 December 2020	Veson Holdings Limited (1399)	Lessee	Factory, office and warehouse	1
5 January 2021	Gold Peak Industries (Holdings) Limited (40)	Lessee	For manufacturing and sales of alkaline batteries	10
8 January 2021	China Electronics Optics Valley Union Holding Company Limited (798)	Lessee	For office premise or production facilities	4

According to the table above, the term of the lease ranges from 1 to 10 years, with an average of 4.1 years. Given that the length of duration of the 2021 Lease Agreement is within the middle of range, we consider that the duration term of five years is fair and reasonable on normal commercial terms.

(c) *Our view*

On the basis of the above, in particular the Valuer's view on the monthly market rent of the Leased Premises, the 2021 Lease Agreement's average annual rental increment on an annualized basis, the duration of the 2021 Lease Agreement, the market comparable in relation of the rent, the lease term and the assessment of the normal business practice for short to medium duration of lease term in manufacturing industry, we are of the view that the entering into of the 2021 Lease Agreement is in the ordinary and usual course of business of the Group, the terms of the 2021 Lease Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, as discussed above.

3. Financial effect on the Group

(i) *Right-of-use asset and lease liability*

The 2021 Lease Agreement are short to medium term leases for a term of five years. Pursuant to the new IFRS 16, the entering into of the 2021 Lease Agreement as a lessee will require the Group to recognise the right-of-use assets in its financial statements. Please refer to the Letter from the Board for details of the accounting treatment of the 2021 Lease Agreement.

LETTER FROM HEUNGKONG CAPITAL

(ii) *Cash flow*

As advised by the Directors, the Group currently intends to finance the future rent payments under the Group's internal resources. As at 31 December 2020, the Group had cash and bank balances of approximately RMB122.3 million. The Directors have confirmed that, taking into account the financial resources available to the Group, including internally generated funds and available credit facilities of the Group, the Group will have sufficient working capital for its requirements for at least 12 months from the date of publication of the Circular.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that the 2021 Lease Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the term of the 2021 Lease Agreement and the five years lease term, and the rent increase during the term of the 2021 Lease Agreement are on normal commercial terms, and on the above bases, we are of the view that the entering into of the 2021 Lease Agreement is in the ordinary and usual course of business of the Group, the terms of the 2021 Lease Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2021 Lease Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
HeungKong Capital Limited
Billy Wong
Managing Director

Mr. Billy Wong is a responsible officer under the Securities and Future Ordinance to carry on Type 6 (advising on corporate finance) regulated activities and has over 10 years' experience in participation and advising in various initial public offerings and transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they had taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register that was required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”), were as follows:

Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures of the Company

Name of Director/chief executive	Long/short position in ordinary shares	Nature of interest	Number of ordinary shares/ underlying ordinary shares of the Company held	Approximate percentage of issued share capital of the Company
CHEN Qiyuan (<i>Note 1</i>)	Long	Interest in controlled corporation	1,900,840,000	60.12%
CHEN Zheng He (<i>Note 2</i>)	Long	Interest in controlled corporation	1,900,840,000	60.12%
WONG Sin Yung	Long	Beneficial owner	2,100,000	0.07%

Notes:

- CHEN Qiyuan was deemed to be interested in the 1,900,840,000 Shares held by Fortune Station by virtue of CHEN Qiyuan holding 50.43% of the issued share capital of Fortune Station. The remaining 49.57% of the issued share capital of Fortune Station was held by Heroic Hour Limited (“Heroic Hour”). Heroic Hour’s entire issued share capital was held by CHEN Zheng He as trustee for himself and on behalf of his six brothers and sisters. The beneficial interests of CHEN Qiyuan’s six children under the age of 18, namely

CHEN Cynthia Yuping, CHEN Li Zi, CHEN Zheng Sheng, CHEN Zheng Yan, CHEN Ya Shan and CHEN Bo Ling in Heroic Hour, representing 78.00% of the issued share capital of Heroic Hour, were also attributable to CHEN Qiyuan.

- CHEN Zheng He was deemed to be interested in the shares of Fortune Station held by Heroic Hour by virtue of him holding the entire issued share capital of Heroic Hour (as trustee for himself and his six brothers and sisters). Therefore CHEN Zheng He was deemed to be interested in the 1,900,840,000 Shares held by Fortune Station.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of associated corporations

Name of Director/chief executive	Name of associate corporation	Nature of interest	Long/short position	Number of ordinary shares held	Approximate percentage interest in associated corporation
CHEN Qiyuan (Note 3)	Fortune Station	Beneficial Owner	Long	20,000	50.43%
		Interest of children under the age of 18	Long	15,330	38.66%
		Other	Long	4,327	10.91%
CHEN Zheng He (Note 4)	Fortune Station	Interest in controlled corporation	Long	19,657	49.57%

Notes:

- CHEN Qiyuan was the beneficial owner of approximately 50.43% of the issued share capital of Fortune Station. The beneficial interests of CHEN Qiyuan's six children under the age of 18 in Heroic Hour, representing 78.00% of the issued share capital of Heroic Hour, were also attributable to CHEN Qiyuan. Heroic Hour held approximately 49.57% of the issued share capital of Fortune Station.
- CHEN Zheng He was deemed to be interested in the interests of Fortune Station held by Heroic Hour by virtue of him holding the entire issued share capital of Heroic Hour (as trustee for himself and his six brothers and sisters).

Other than as disclosed above, as at the Latest Practicable Date, so far as known to any Director or chief executive of the Company, neither the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they had taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into in the register that was required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up).

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP

Pursuant to the Existing Lease Agreement, Bawang Guangzhou and Guangzhou Bawang have in place the Existing Lease Agreement, pursuant to which Bawang Guangzhou has been leasing from Guangzhou Bawang 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 that commenced from 1 December 2020, with a gross floor area of 49,928.17 sq.m. at a monthly rental of RMB1,098,420 per month (exclusive of management fee and other outgoings, which are payable to an independent third party management company).

As at the Latest Practicable Date, save for the lease under the Existing Lease Agreement and the lease contemplated under the 2021 Lease Agreement, none of the Directors had any direct or indirect interest in any asset which had been since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save for the Existing Lease Agreement and the 2021 Lease Agreement, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

8. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
HeungKong Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer

As at the Latest Practicable Date, none of the experts named above had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of HeungKong Capital or JLL had any direct or indirect interest in any assets which had been since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

Each of HeungKong Capital and JLL has given and has not withdrawn their respective written consent to the issue of this circular, with the inclusion therein of its letter(s), report(s), opinion and/ or the references to their names in the form and context in which they appear in this circular.

9. GENERAL

In case of any discrepancy, the English text of this circular and the form of proxy shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Suite B, 16/F, Ritz Plaza, 122 Austin Road, Tsimshatsui, Kowloon, Hong Kong during normal business hours on any weekday (except Saturdays and public holidays) from the date of this circular up to and including the date of the EGM:

- (a) the Existing Lease Agreement;
- (b) the 2021 Lease Agreement;
- (c) the letter from the Board, the text of which is set out on pages 4 to 13 of this circular;
- (d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 14 to 15 of this circular;
- (e) the letter from HeungKong Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 27 of this circular;
- (f) the Fair Rent Letter on the fair rental of the premises proposed to be leased by the Group under the 2021 Lease Agreement;
- (g) the written consent of HeungKong Capital Limited referred in the paragraph headed “Experts and Consents” in this Appendix;
- (h) the written consent of Jones Lang LaSalle Corporate Appraisal and Advisory Limited referred in the paragraph headed “Experts and Consents” in this Appendix; and
- (i) this circular.

NOTICE OF EGM

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “**EGM**”) of BaWang International (Group) Holding Limited (the “**Company**”) will be held at 3/F, Administration Building, Bawang Industrial Complex, 468 Guanghua 3rd Road, Baiyun District, Guangzhou, China on Friday, 4 June 2021 at 4:45 p.m. 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. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 29 April 2021 (the “**Circular**”):

ORDINARY RESOLUTION

1. “**THAT**

- (a) the execution of the 2021 Lease Agreement (as defined and described in the Circular) and the transactions contemplated thereunder be and is hereby approved, ratified and confirmed; and
- (b) any one or more directors of the Company be and are hereby authorised to do all such acts and things as they consider necessary and to sign and execute all such documents (including under the seal of the Company), and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the 2021 Lease Agreement and completing the transactions contemplated thereunder.”

By order of the Board

BaWang International (Group) Holding Limited

CHEN Qiyuan

Chairman

Hong Kong, 29 April 2021

Notes:

- 1. All resolutions at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

* *For identification purpose only*

NOTICE OF EGM

2. Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint more than one proxy to attend and on a poll, vote instead of him/her. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy. Every shareholder present in person or by proxy shall be entitled to one vote for each share held by him/her.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not less than 48 hours before the time appointed for the above meeting (i.e. not later than 4:45 p.m. on Wednesday, 2 June 2021) or the adjourned meeting (as the case may be). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining the entitlement to attend and vote at the above meeting, the Register of Members of the Company will be closed from Saturday, 29 May 2021 to Friday, 4 June 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 May 2021.
5. Details of the abovementioned resolutions to be considered and approved at the EGM are set out in the circular of the Company in respect of the EGM dated 29 April 2021.
6. References to time and dates in this notice are to Hong Kong time and dates.