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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)

CONNECTED TRANSACTION REGARDING THE ACQUISITION OF A RAW MATERIALS SUPPLIER

On 20 November 2009, Right Source, a wholly owned subsidiary of the Company, entered into the Acquisition Agreement with Ms. Chu pursuant to which Right Source will conditionally acquire from Ms. Chu 100% equity interest in each of the Target Companies at a total consideration of HK\$29,267,000. The consideration will be funded by the Company's internal resources. The purchase price was determined on arm's length terms. The Group since November 2008 has been purchasing natural extracts from F&G of the Target Companies located in the Republic of Botswana (please refer to the Company's announcement dated 4 November 2008). The Acquisition collaborates with the main future development of Group's business in new tobacco materials and in the exploration of new products mainly made up with natural raw materials. As a result, the Group will be able to capture the promising business opportunities in tobacco industry arising from the development trend of reduction of tar content and reduction of harm.

Ms. Chu is a director and controlling Shareholder of the Company, holding 51.11% issued Shares of the Company and hence a connected person of the Company. The Acquisition constitutes a connected transaction for the Company under the Listing Rules. Since the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in connection with the Acquisition are all less than 2.5%, the Acquisition is only subject to the reporting and announcement requirements as set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements.

INTRODUCTION

As at the date of this announcement, Ms. Chu is the controlling Shareholder of the Company holding 51.11% of the issued Shares of the Company. As Ms. Chu also holds 100% issued share capital of each of the Target Companies, the Acquisition constitutes a connected transaction for the Company under the Listing Rules.

Right Source is a wholly owned subsidiary of the Company incorporated in the BVI. Right Source serves as one of the Company's platforms for sourcing of, and dealing in, raw materials.

ACQUISITION AGREEMENT

The principal terms and conditions of the Acquisition Agreement are as follows:

Date: 20 November 2009

Parties: Ms. Chu (as transferor) and Right Source (as transferee)

Subject of the Acquisition: 100% issued share capital in each of the Target Companies which are wholly beneficially owned by Ms. Chu.

Consideration: The consideration for the Acquisition (“Consideration”) is HK\$29,267,000

Conditions Precedent: Completion of the Acquisition is conditional upon fulfilment of the following:

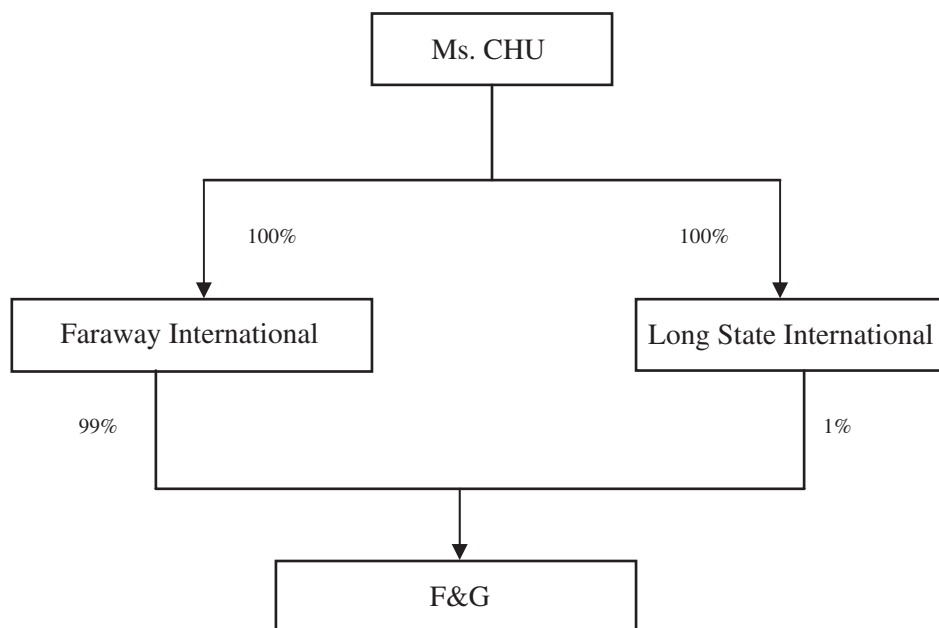
- (i) the warranties provided by Ms. Chu under the Acquisition Agreement were true, accurate and not misleading as at the date of the Acquisition Agreement and will remain so as if repeated up to and immediately prior to Completion;
- (ii) legal opinion on F&G provided by lawyers at the Republic of Botswana, and acceptable to Right Source;
- (iii) the obtaining of all such approvals, exemptions, permits, authorities and permissions from any government or regulatory authority or relevant third party necessary for the execution and performance of the Acquisition Agreement, if any; and
- (iv) completion of legal, business and financial due diligence on the Target Group to the satisfaction of Right Source.

Except for conditions (i) and (ii) as set out above which can be waived by Right Source, neither Ms. Chu nor Right Source could waive any other conditions. If any of the conditions precedent are not fulfilled or, in the case of conditions (i) and/or (ii), waived by Right Source in writing, on or before 31 December 2009, or any such later date as may be agreed between Right Source and Ms. Chu, the Acquisition Agreement shall be terminated and neither party shall have any claim to other parties in respect of any fee, damage, compensation or other matters except in respect of any previous breach of the Acquisition Agreement.

Completion: Completion of the Acquisition shall occur on or after the seventh Business Day upon fulfilment of all conditions set out under the paragraph headed “Conditions Precedent” above and in case of conditions (i) and/or (ii) only, a waiver of such condition by Right Source.

INFORMATION OF TARGET GROUP

Each of the Target Companies is a company incorporated in the BVI and since October 2008 has been and is wholly beneficially owned by Ms. Chu as an entity with no operations other than investment holding. The aggregate investment costs of the Target Companies made by Ms. Chu amounted to approximately HK\$27 million. The Target Companies in aggregate own the entire issued shares of F&G. Set out below is the shareholding structure of the Target Companies and F&G:



F&G was incorporated in the Republic of Botswana in Southern Africa, which is principally engaged in the manufacturing and sale of natural extracts. The Target Group will become one of the Company's platforms for sourcing of, and dealing in, raw materials upon completion of the Acquisition.

CERTAIN SELECTED FINANCIAL INFORMATION ON THE TARGET GROUP

As at 31 October 2009, the net asset value of the Target Group amounted to approximately HK\$29,267,000. Set out below is the financial information of the Target Group as at 31 October 2009 based on the management accounts from their respective date of incorporation to 31 October 2009, including the audited financial statements of F&G for the period from the date of incorporation to 31 December 2008:

Faraway International

Date of incorporation: 21 May 2008

HK\$('000)

Income Statement	For the period from date of incorporation to 31 March 2009 ^(note 1)	For the 7 months ended 31 October 2009
Turnover	NIL	NIL
Net profit/(loss) before taxation	(1)	(274)
Net profit/(loss) after taxation	(1)	(274)

Balance Sheet	As at 31 March 2009	As at 31 October 2009
Net asset value/(Net liabilities)	(1)	26,725 ^(note 2)

Long State International

Date of incorporation: 19 May 2008

HK\$('000)

Income Statement	For the period from date of incorporation to 31 March 2009^(note 1)	For the 7 months ended 31 October 2009
Turnover	NIL	NIL
Net profit/(loss) before taxation	(1)	(5)
Net profit/(loss) after taxation	(1)	(5)

Balance Sheet	As at 31 March 2009	As at 31 October 2009
Net asset value/(Net liabilities)	(1)	(6)

F&G

Date of incorporation: 3 July 2007

HK\$('000)

Income Statement	For the period from date of incorporation to 31 December 2008^(note 3)	For the 10 months ended 31 October 2009
Turnover	7,816	11,407
Net profit/(loss) before taxation	(1,914)	3,883
Net profit/(loss) after taxation	(1,345)	3,336

Balance Sheet	As at 31 December 2008	As at 31 October 2009
Net asset value/(Net liabilities)	(1,178)	2,209

note 1: Based on unaudited management accounts prepared in accordance with Hong Kong Financial Reporting Standards.

note 2: The amount represents the capitalization of shareholder's loan.

note 3: Based on audited accounts prepared in accordance with International Financial Reporting Standards.

BASIS OF DETERMINATION OF CONSIDERATION UNDER THE ACQUISITION AGREEMENT

The Consideration was determined based on the net asset value of the Target Companies after arm's length negotiation. The net asset value of the Target Group amounted to approximately HK\$29,267,000 as at 31 October 2009 (per management accounts), having taken into account the consolidation adjustment. The Target Group has started making profit for the period ended 31 October 2009. The Directors believe that after the Acquisition and the subsequent integration, the Target Group will contribute positively to the raw material costs to the Company.

The Consideration will be funded by the Company's internal resources and satisfied by the Company in cash upon Completion.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The core business of the Group is to produce and supply flavours and fragrances for food (including tobacco) and household related products. As its normal course of business, the Group, through Right Source, is used to outsource different raw material sources from different regions to cope with the Group's production needs. F&G, is located in the Republic of Botswana and is engaged in the production of natural extracts which suits the Group's needs. The Group has been purchasing natural extracts from F&G to tally with the Group's production development and for quality enhancement. The Group has signed a material purchase framework agreement with F&G in November 2008 for purchase of natural extracts from F&G. (please refer to the Company's announcement dated 4 November 2008). The Acquisition collaborates with the main future development of Group's business in new tobacco materials and in the exploration of new products mainly made up with natural raw materials. As a result, the Group will be able to capture the promising business opportunities in tobacco industry arising from the development trend of reduction of tar content and reduction of harm. In addition, following completion of the Acquisition, the aforesaid connected transactions with respect to the purchase of natural extracts from F&G will be terminated.

The Directors (including independent non-executive Directors) are of the view that the Acquisition Agreement was entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and the Acquisition is in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a connected transaction of the Company under the Listing Rules. Since the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in connection with the Acquisition are all less than 2.5%, the Acquisition is only subject to the reporting and announcement requirements as set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements.

DEFINITIONS

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

“Acquisition”	the proposed acquisition by Right Source from Ms. Chu of the entire issued share capital in each of the Target Companies pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement entered into between Ms. Chu, as the transferor, and Right Source, a wholly owned subsidiary of the Company, as the transferee, on 20 November 2009 in respect of the Acquisition
“associate(s)”	as defined in the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	any day, except Saturday, on which no black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted on that day and on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Company”	Huabao International Holdings Limited, a company established in Bermuda on 11 October 1991, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	closing of the Acquisition
“connected person(s)”	as defined in the Listing Rules
“Director(s)”	director(s) of the Company
“Faraway International”	Faraway International Limited, a limited company incorporated in the BVI on 21 May 2008, one of the Target Companies and is wholly and beneficially owned by Ms. Chu
“F&G”	F&G (Botswana) (Proprietary) Limited, a company incorporated in the Republic of Botswana on 3 July 2007, which is indirectly beneficially owned by Ms. Chu
“Group” or “Group Member(s)”	the Company and its subsidiaries, as appropriate and regardless of whether directly or indirectly owned
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC

“HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Long State International”	Long State International Limited, a limited company incorporated in the BVI on 19 May 2008, one of the Target Companies and is wholly and beneficially owned by Ms. Chu
“Ms. Chu”	Ms. CHU Lam Yiu, a director and beneficial owner of 51.11% shareholding interest in the Company as at the date hereof
“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Right Source”	Right Source Enterprises Limited, a company incorporated in the BVI on 30 January 2008 and is wholly and beneficially owned by the Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	each of Faraway International and Long State International
“Target Group”	the Target Companies and their subsidiaries, including F&G

By Order of the Board
Huabao International Holdings Limited
POON Chiu Kwok
Executive Director

Hong Kong, 20 November 2009

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu (Chairman), Messrs. LAU Chi Tak (CEO), POON Chiu Kwok, WANG Guang Yu, XIA Liqun, XIONG Qing, and three independent non-executive directors, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu.

* *For identification purposes only*