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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)

INSIDE INFORMATION ANNOUNCEMENT IN RELATION TO PROGRESS ON ARBITRATION OF SUBSIDIARY

This announcement is made by Huabao International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the Company’s announcements dated 8 March 2022, 9 August 2023 and 11 March 2024 (collectively, the “**Announcements**”) respectively. Unless the context requires otherwise, capitalised terms used in this announcement shall have the same meanings ascribed thereto in the Announcements.

On 8 March 2022, Huabao Flavours & Fragrances Co., Ltd. (“**Huabao Flavours**”) (a non-wholly owned subsidiary of the Company and the shares of which are listed on the ChiNext Market of Shenzhen Stock Exchange (Stock Code: 300741)), Shanghai Keli Enterprise Management and Consulting Company Limited (上海克瀝企業管理諮詢有限公司) (“**Keli Enterprise**”), QIAN RONG (錢戎) (“**Qian Rong**”) and Wong Kam Wing (黃錦榮) (the beneficial controllers of Keli Enterprise) and other related parties entered into the share transfer agreement (the “**Share Transfer Agreement**”) in relation to the further acquisition of 27% equity interest in Shanghai Yifang Rural Technology Holdings Co. Ltd. (上海弈方農業科技股份有限公司) (“**Shanghai Yifang**” or the “**Target Company**”) at total cash consideration of RMB121,500,000, while Qian Rong and Wong Kam Wing provided a performance undertaking (the “**Performance Undertaking**”) and agreed to assume compensation obligations to Huabao Flavours. Upon the completion of transaction on 8 March 2022, Huabao Flavours held 67% interest in Shanghai Yifang. Hence, Shanghai Yifang has become the controlling subsidiary of Huabao Flavours and included into the scope of the consolidated statements of Huabao Flavours.

Qian Rong and Wong Kam Wing were previously failed to fulfill the obligations on paying the second instalment of the capital increase amounted to RMB7,095,700 and seriously breached the undertakings of the Share Transfer Agreement. At the same time, considering that Shanghai Yifang has sustained a loss during the Performance Undertaking Period, Huabao Flavours (the “**Applicant**”) applied to the Shanghai International Arbitration Center (the “**Arbitration Center**”) with Qian Rong and Wong Kam Wing as respondents (the “**Respondents**”) for arbitration (the “**Arbitration**”) and applied to the Shanghai International Arbitration Center for preservation of assets.

RESULT OF ARBITRATION

Recently, Huabao Flavours has received the arbitration award (the “**Arbitration Award**”) issued by the Arbitration Center dated 27 September 2024 concerning arbitration case in issue (namely, SHIAC (2023) No. 2913). The Applicant requested the Respondents to compensate the Applicant for liquidated damages arising from their failure to fulfill their capital increase obligations. The Arbitration Tribunal determined that the Respondents were in material breach, the circumstances for applying the aforementioned agreed liquidated damages have not been fulfilled. Hence, the Arbitration Tribunal rejected the Applicant’s application. In view of such a breach by the Respondents, the Applicant may, in accordance with the relevant provisions of the Civil Code of the People’s Republic of China (the “**Civil Code**”) initiates separate claim(s) for breach against the Respondents.

In response to the Applicant’s request that the Respondents shall compensate the Applicant’s loss of expected benefit in relation to the Performance Undertaking, the Arbitration Tribunal determined to reject the Applicant’s request for the reasons that the Share Transfer Agreement disputed in this case and the legal structure as established thereunder have neither been terminated nor dissolved, the three-year Performance Undertaking Period for the Target Company has not yet expired, the Target Company has not finalized its settlement and liquidation, and the Applicant’s losses have not been ascertained. The Applicant has the right to separately claim for performance compensation against the Respondents after the expiration of the Performance Undertaking Period as agreed in the Share Transfer Agreement if Shanghai Yifang fails to meet its performance target.

The Applicant requested the Respondents to bear legal fees and arbitration costs for the case, the Arbitration Tribunal exercised its discretion to support the request after considering the default situation of the Respondents.

Based on the foregoing, the Arbitration Tribunal has made the following rulings: the Respondents should pay part of the legal fees for the Applicant and bear part of the arbitration costs of the case, while the other arbitration requests were rejected. This decision is final and effective as of the date it is made.

EFFECTS ON THE GROUP

According to the financial information of Shanghai Yifang, Shanghai Yifang remained in net loss situation. For details, please refer to “Disclosure of Non-Fulfillment of Profit Guarantee under Rule 14.36B of the Listing Rules” on pages 112 to 113 in the 2023 Annual Report of the Company.

According to the Company’s announcement dated 9 August 2023, Huabao Flavours requested the Respondents to compensate Huabao Flavours for liquidated damages, loss of expected benefits, and legal fees totaling RMB332.03 million (the “**Claimed Amount**”). The Group has not accrued any receivables in respect on the Claimed Amount so far.

Regarding the accounting treatments in accordance with the terms of Performance Undertaking and the non-controlling shareholders of Shanghai Yifang shall have the right to require Huabao Flavours to further purchase the non-controlling shareholders’ equity interest in Shanghai Yifang upon fulfillment of certain conditions under the Share Transfer Agreement by the Group, since the Arbitration did not affect the existing accounting treatments of the Group, the Arbitration’s results would not affect the Group’s 2023 audited consolidated financial statements. For details, please refer to Note 17 and 23 to consolidated financial statement in the 2023 Annual Report of the Company.

The aforementioned arbitration result does not have any material adverse effect on both the normal operations and financial results of the Group and Huabao Flavours, and the final accounting treatments and effect on the Company’s profit or loss are subject to confirmation for the 2024 annual audit by the auditors of the Company. If the operation of Shanghai Yifang ultimately does not meet the expected target and the Respondents’ assets are not sufficient to fulfill the compensation obligations, there would be risk that the compensation for Performance Undertaking may not be enforced.

Commentaries were received by the Group from the PRC lawyers of Huabao Flavours on 7 October 2024. As at the date of this announcement, the Group is in the process of communicating with its PRC legal advisers to assess the situation and study further options. Should there be any further information regarding the Arbitration, the Company will make further announcement(s) to inform the shareholders and the public as and when appropriate in accordance with relevant requirements.

Meanwhile, in compliance with the relevant regulations of the Shenzhen Stock Exchange, on 8 October 2024, Huabao Flavours has published the “Announcement in relation to the progress on acquisition of partial equity interests of Shanghai Yifang” on <http://www.cninfo.com.cn>, the information disclosure website (巨潮資訊網) of the ChiNext Market of the Shenzhen Stock Exchange.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 8 October 2024

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu, Messrs. LAM Ka Yu, XIA Liqun, POON Chiu Kwok, Ms. LAM Ka Yan, and Ms. CHOY Man Har and three independent non-executive directors, namely Messrs. LEE Luk Shiu, Jonathan Jun YAN and HOU Haitao.

* *For identification purposes only*