
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in Huabao International Holdings Limited, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Forms of Acceptance, the contents of which form part of the terms and conditions of the Offers contained herein.

The Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Forms of Acceptance, make no representation as to their 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 Composite Document and the accompanying Forms of Acceptance.

Raise Sino Investments Limited
(Incorporated in the British Virgin Islands with
limited liability)

Resourceful Link International Limited
(Incorporated in the British Virgin Islands with
limited liability)



HUABAO INTERNATIONAL HOLDINGS LIMITED
華寶國際控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 00336)

COMPOSITE OFFER AND RESPONSE DOCUMENT

VOLUNTARY CONDITIONAL CASH OFFER BY BNP PARIBAS SECURITIES (ASIA) LIMITED ON BEHALF OF THE JOINT OFFERORS TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF HUABAO INTERNATIONAL HOLDINGS LIMITED (OTHER THAN THOSE ALREADY HELD BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM) AND TO CANCEL ALL THE OUTSTANDING OPTIONS OF HUABAO INTERNATIONAL HOLDINGS LIMITED

Financial Adviser to the Joint Offerors



BNP PARIBAS

Independent Financial Adviser to the Independent Board Committee



Shareholders and Optionholders should inform themselves of and observe any applicable legal or regulatory requirements. See "Important Notices" beginning on page iv of this Composite Document and "9. General matters relating to the Offers – (a) Availability of the Offers" of the "Letter from BNPP Securities" beginning on page 7 of this Composite Document.

Capitalised terms used in this cover page have the same meaning as those defined in the section headed "Definitions" in this Composite Document. A "Letter from BNPP Securities" containing, among other things, the details of the terms and conditions of the Offers is set out on pages 7 to 17 of this Composite Document. A "Letter from the Board" is set out on pages 18 to 23 of this Composite Document. A "Letter from the Independent Board Committee" containing its recommendation to the Shareholders and Optionholders in respect of the Offers is set out on pages 24 to 25 of this Composite Document. A "Letter from VMS" containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 26 to 47 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptance of the Share Offer contained herein should be received by the Registrar, and acceptance of the Option Offer should be received by the company secretary of the Company by no later than 4:00 p.m. on Thursday, 12 January 2017, or such later time and/or date as the Joint Offerors may determine and announce, with the consent of the Executive and in accordance with the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the Forms of Acceptance to any jurisdiction outside of Hong Kong, should read the details in this regard which are contained in the section headed "9. General matters relating to the Offers – (a) Availability of the Offers" of the "Letter from BNPP Securities" in this Composite Document before taking any action. It is the responsibility of each overseas Shareholder and overseas Optionholder wishing to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Shareholders and overseas Optionholders are advised to seek professional advice on deciding whether to accept the relevant Offers.

* for identification purposes only

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EXPECTED TIMETABLE

The timetable set out below is indicative only and may be subject to changes. Further announcement will be made in the event that there is any change to the timetable.

Date of despatch of this Composite Document and accompanying Forms of Acceptance	Thursday, 22 December 2016
Opening date of the Offers	Thursday, 22 December 2016
First Closing Date (<i>Note 1</i>)	Thursday, 12 January 2017
Latest time for acceptance of the Offers on the first Closing Date (<i>Note 2</i>)	4:00 p.m., Thursday, 12 January 2017
Announcement of results of the Offers as at the first Closing Date on the website of the Stock Exchange	at or before 7:00 p.m. on Thursday, 12 January 2017
Latest date for posting of remittances for the amounts due in respect of valid acceptances received by the first Closing Date, assuming that the Offers become, or are declared, unconditional on the first Closing Date (<i>Note 3</i>)	Monday, 23 January 2017
Latest time and date by which the Share Offer can become or be declared unconditional as to acceptances (<i>Note 4</i>)	at or before 7:00 p.m. on Monday, 20 February 2017

Notes:

1. The Offers will close for acceptances at 4:00 p.m. on Thursday, 12 January 2017 unless the Joint Offerors revise or extend the Offers in accordance with the Takeovers Code. The Joint Offerors have the right under the Takeovers Code to extend the Offers until such date as it may determine subject to compliance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Joint Offerors will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, a statement that the Offers will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the relevant Offers. If, in the course of the Offers, the Joint Offerors revise the terms of the Offers, all Shareholders and Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.
2. Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed "6. Right of withdrawal" in Appendix I to this Composite Document.

EXPECTED TIMETABLE

3. Remittances in respect of the consideration for the Offer Shares and Options tendered under the Offers will be posted by ordinary post to the Shareholders and Optionholders accepting the relevant Offers at their own risk as soon as possible, but in any event within seven (7) Business Days following the later of the date on which the Offers become, or are declared, unconditional in all respects, and the date of receipt by the Registrar or the company secretary of the Company (as applicable) of all the relevant documents in respect of each such acceptance under the relevant Offers to render such acceptance complete and valid in accordance with the Takeovers Code, this Composite Document and the relevant accompanying Forms of Acceptance.
4. In accordance with the Takeovers Code, when the Offers become or are declared unconditional in all respects, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the relevant Offers. In accordance with the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day this Composite Document is posted. Accordingly, unless the Share Offer has previously become unconditional as to acceptances, the Offers will lapse at 7:00 p.m. on Monday, 20 February 2017, unless extended with the consent of the Executive. If the Share Offer becomes or is declared unconditional as to acceptances, the Joint Offerors may declare the Offers open for acceptances (i) up to the date that is four (4) months from the day this Composite Document was posted or (ii) if the Joint Offerors have by that time become entitled to exercise compulsory acquisition rights, until any such later date as the Joint Offerors may choose to close the Offers in accordance with the Takeovers Code.
5. If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning in force in Hong Kong:
 - (a) at any time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offers and/or the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances (as the case may be), the latest time for acceptance of the Offers will remain at 4:00 p.m. on the same Business Day and/or the posting of remittance will remain on the same Business Day; or
 - (b) at local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and/or the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances (as the case may be), the latest time for acceptance of the Offers will be rescheduled to 4:00 p.m. on the following Business Day and/or the posting of remittances will be rescheduled to the following Business Day.

All time and date references contained in this Composite Document and accompanying Form(s) of Acceptance are to Hong Kong times and dates.

IMPORTANT NOTICES

NOTICE TO HOLDERS OUTSIDE OF HONG KONG

The respective Offers made to the Shareholders and the Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such persons are located. Such persons should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Shareholders and Optionholders wishing to accept the Share Offer and the Option Offer (as applicable) to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

Please refer to the section headed “9. General matters relating to the Offers – (a) Availability of the Offers” of the “Letter from BNPP Securities” in this Composite Document for further information.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise:–

“acting in concert”	has the meaning ascribed to it under the Takeovers Code;
“associates”	has the meaning ascribed to it under the Takeovers Code;
“BNPP Securities”	means BNP Paribas Securities (Asia) Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Joint Offerors in respect of the Offers;
“Board”	the board of Directors
“Business Day”	means any day on which the Stock Exchange is opened for the transaction of business;
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC;
“Closing Date”	means the date stated in this Composite Document as the first closing date of the Share Offer or any subsequent closing date as may be announced by the Joint Offerors in compliance with the Takeovers Code or with the approval of the Executive;
“Companies Act”	means the Companies Act 1981 of Bermuda;
“Company”	means Huabao International Holdings Limited (stock code: 00336), a company incorporated in Bermuda with limited liability and whose Shares are listed on the Stock Exchange;
“Composite Document”	means this composite offer and response document jointly issued by the Joint Offerors and the Company to all holders of Shares and/or Options in accordance with the Takeovers Code containing, inter alia, details of the Offers and the terms and conditions of the Offers;

DEFINITIONS

“Concert Party(ies)”	means Mogul Enterprises, Jumbo Elite, Real Elite, Power Nation and any other parties acting in concert with the Joint Offerors and/or Ms. CHU, as determined in accordance with the Takeovers Code (other than those members of the group of companies of BNPP Securities that are conducting exempt principal trader activities or exempt fund manager activities);
“Condition(s)”	means the condition(s) to the Offers as set forth under the section headed “2.7 Condition to the Offers” of the “Letter from BNPP Securities” in this Composite Document;
“Directors”	means the directors of the Company;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC and any of his delegates;
“Form of Option Offer Acceptance”	means the BLUE form of acceptance and cancellation in respect of the Option Offer accompanying this Composite Document;
“Form of Share Offer Acceptance”	means the WHITE form of acceptance and transfer in respect of the Share Offer accompanying this Composite Document;
“Forms of Acceptance”	means collectively, the Form of Share Offer Acceptance and the Form of Option Offer Acceptance, and “Form of Acceptance” shall mean any one of them;
“Group”	means the Company and its subsidiaries;
“HK\$”	means Hong Kong Dollars, the lawful currency of Hong Kong;
“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“HKSCC Nominees”	means HKSCC Nominees Limited;
“Hong Kong”	means The Hong Kong Special Administrative Region of the People’s Republic of China;

DEFINITIONS

“Independent Board Committee”	means an independent board committee of the Board comprising all four of the independent non-executive Directors, namely Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung;
“Independent Financial Adviser” or “VMS”	means VMS Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, who has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Offers;
“Independent Shareholder(s)”	means the Shareholder(s) other than the Joint Offerors and the Concert Parties;
“Joint Announcement”	means the joint announcement dated 23 November 2016 issued by the Joint Offerors and the Company in relation to the Offers;
“Joint Offerors”	means Raise Sino and Resourceful Link;
“Joint Offerors Group”	means the Joint Offerors and their subsidiaries;
“Jumbo Elite”	means Jumbo Elite Limited, one of the Concert Parties and a company incorporated in the British Virgin Islands and wholly-owned by Ms. CHU. Ms. CHU is the sole director of Jumbo Elite;
“Last Trading Date”	means 18 November 2016, being the last full trading day in the Shares immediately before the suspension of trading in the Shares pending publication of the Joint Announcement;
“Latest Practicable Date”	means 19 December 2016, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information for inclusion in this Composite Document;
“Letters of Credit”	means the two irrevocable standby letters of credit dated 18 November 2016 issued by the Shanghai branch of Minsheng Bank in favour of BNPP Securities;

DEFINITIONS

“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange;
“Minsheng Bank”	means China Minsheng Banking Corp., Ltd;
“Mogul Enterprises”	means Mogul Enterprises Limited, one of the Concert Parties and a company incorporated in the British Virgin Islands and wholly-owned by Ms. CHU. Ms. CHU is the sole director of Mogul Enterprises;
“Ms. CHU”	means Ms. CHU Lam Yiu, an executive Director, Chairwoman and Chief Executive Officer of the Company, a director of each of the Joint Offerors and the sole shareholder of each of the Joint Offerors, and the sole director and sole shareholder of each of Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation respectively;
“Offer Period”	has the meaning ascribed to it under the Takeovers Code;
“Offer Share(s)”	means any and all of the Shares, other than those already held by the Joint Offerors and the Concert Parties;
“Offers”	means, collectively, the Share Offer and the Option Offer;
“Option Offer”	means the proposal made by the Joint Offerors in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in accordance with the terms and conditions set forth in this Composite Document;
“Optionholder(s)”	means the registered holder(s) of the Options;
“Options”	means the outstanding options granted by the Company pursuant to the Share Option Scheme;
“Power Nation”	means Power Nation International Limited, one of the Concert Parties and a company incorporated in the British Virgin Islands and wholly-owned by Ms. CHU. Ms. CHU is the sole director of Power Nation;
“PRC”	means The People’s Republic of China (excluding for this purpose Hong Kong, the Macau Special Administrative Region and Taiwan);

DEFINITIONS

“Raise Sino”	means Raise Sino Investments Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Ms. CHU;
“Real Elite”	means Real Elite Investments Limited, one of the Concert Parties and a company incorporated in the British Virgin Islands and wholly-owned by Ms. CHU. Ms. CHU is the sole director of Real Elite;
“Registrar”	means Tricor Tengis Limited which is situated at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, the Hong Kong branch share registrar of the Shares;
“Relevant Period”	means the period from 23 May 2016, being the date falling six (6) months before the date of the Joint Announcement, up to and including the Latest Practicable Date;
“Resourceful Link”	means Resourceful Link International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Ms. CHU;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share Offer”	means the voluntary conditional cash offer made by BNPP Securities on behalf of the Joint Offerors to acquire all the Offer Shares for a consideration of HK\$3.30 in cash per Offer Share in accordance with the terms and conditions set forth in this Composite Document;
“Share Offer Price”	means HK\$3.30 for each Offer Share;
“Share Option Scheme”	means the share option scheme adopted by the Company on 22 September 2006, as amended from time to time, which is valid and effective for a period of 10 years from 22 September 2006;
“Shareholder(s)”	means the holder(s) of the Shares;

DEFINITIONS

“Shares”	means the ordinary shares of HK\$0.10 each in the issued share capital of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it under the Listing Rules;
“Takeovers Code”	means the Code on Takeovers and Mergers published by the SFC;
“%”	per cent. or percentage.

Certain amounts and percentage figures in this Composite Document have been subject to rounding adjustments.

Certain English translations of Chinese names or words or Chinese translations of English names or words in this Composite Document are included for information and identification purposes only and should not be regarded as the official English translation of such Chinese names or words or Chinese translation of such English names or words, respectively.



BNP PARIBAS

BNP PARIBAS SECURITIES (ASIA) LIMITED

**59/F-63/F, Two International Finance Centre,
8 Finance Street, Central, Hong Kong**

22 December 2016

To the Shareholders and Optionholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER
BY BNP PARIBAS SECURITIES (ASIA) LIMITED
ON BEHALF OF THE JOINT OFFERORS
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF
HUABAO INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY HELD BY THE JOINT OFFERORS AND
PARTIES ACTING IN CONCERT WITH ANY OF THEM) AND
TO CANCEL ALL THE OUTSTANDING OPTIONS OF
HUABAO INTERNATIONAL HOLDINGS LIMITED**

1. INTRODUCTION

On 23 November 2016, the Joint Offerors and the Company jointly announced that BNPP Securities, on behalf of the Joint Offerors, would make a voluntary conditional cash offer to acquire all of the issued shares in the share capital of the Company (other than those already held by the Joint Offerors and the Concert Parties) and, pursuant to Rule 13 of the Takeovers Code, would extend appropriate offers to cancel all outstanding Options.

This letter forms part of this Composite Document and sets out, among other things, certain background information of the Joint Offerors, the details of the Offers, the reasons for making the Offers and the intentions of the Joint Offerors in relation to the Group. Further details of the terms of the Offers are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance.

Your attention is further drawn to the “Letter from the Board” on pages 18 to 23, the “Letter from the Independent Board Committee” on pages 24 to 25 and the “Letter from VMS” on pages 26 to 47 in this Composite Document.

LETTER FROM BNPP SECURITIES

2. THE OFFERS

2.1 Principal terms of the Offers

Share Offer:

For each Offer Share HK\$3.30 in cash

As at the Latest Practicable Date, there are 3,107,962,876 Shares in issue, of which 1,279,262,415 Shares (representing approximately 41.16% of the issued Share capital of the Company as at the Latest Practicable Date) are held by the Joint Offerors and their respective Concert Parties.

Option Offer:

**For outstanding Options with an
exercise price of HK\$6.65 each**

For cancellation of each Option HK\$0.0001 in cash

As at the Latest Practicable Date, there are 6,450,000 outstanding Options granted under the Share Option Scheme, entitling the Optionholders to subscribe for an aggregate of 6,450,000 Shares at an exercise price of HK\$6.65 per Share.

The exercise period in which the Options are exercisable are as follows:

Number of Options	Exercise Price	Exercise period
6,450,000	HK\$6.65	17 April 2008 to 16 October 2017

As the exercise price for the Options with an exercise price of HK\$6.65 each is above the Share Offer Price so that all such Options are out-of-money, the Option Offer will be a nominal cash offer for the cancellation of such outstanding Options (whether such Options are exercisable or not).

The Option Offer will be extended to all Optionholders in accordance with the Takeovers Code.

LETTER FROM BNPP SECURITIES

2.2 Comparison of Value

The Share Offer Price of HK\$3.30 represents:

- (a) a premium of approximately 0.30% over the closing price of HK\$3.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 9.27% over the closing price of HK\$3.020 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (c) a premium of approximately 12.59% over the average closing price of approximately HK\$2.931 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;
- (d) a premium of approximately 11.64% over the average closing price of approximately HK\$2.956 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;
- (e) a premium of approximately 11.90% over the average closing price of approximately HK\$2.949 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Date;
- (f) a premium of approximately 12.44% over the average closing price of approximately HK\$2.935 per Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Date;
- (g) a premium of approximately 0.61% to the Company's audited consolidated net asset value attributable to the Shareholders of approximately HK\$3.28 per Share, calculated based on the Company's audited consolidated net asset value attributable to the Shareholders of approximately HK\$10,187.24 million as at 31 March 2016 as shown in the audited consolidated financial statements of the Company as at 31 March 2016 and 3,107,962,876 Shares in issue as at the Latest Practicable Date; and
- (h) a discount of approximately 4.35% to the Company's unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$3.45 per Share, calculated based on the Company's unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$10,737.17 million as at 30 September 2016 as shown in the unaudited consolidated financial statements of the Company as at 30 September 2016 and 3,107,962,876 Shares in issue as at the Latest Practicable Date.

2.3 Highest and lowest Share prices

During the six-month period preceding and including the Latest Practicable Date, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.30 on 25 November 2016, 28 November 2016 and 16 December 2016 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$2.71 on 24 June 2016.

LETTER FROM BNPP SECURITIES

2.4 Total consideration

As at the Latest Practicable Date, there were 3,107,962,876 Shares in issue and 6,450,000 outstanding Options with an exercise price of HK\$6.65 each in respect of 6,450,000 Shares. On the basis of the Share Offer Price of HK\$3.30 per Offer Share under the Share Offer, the entire issued share capital of the Company as at the Latest Practicable Date is valued at approximately HK\$10,256,277,490.80.

On the assumption that:

- (i) the Share Offer is accepted in full by the holders of the Offer Shares and on the basis that there will be 1,828,700,461 Offer Shares; and
- (ii) no Option is exercised prior to the close of the Offers,

the value of the Share Offer is approximately HK\$6,034,711,521.30 and the total amounts required to satisfy the cancellation of all the outstanding Options are approximately HK\$645.00. In aggregate, the Offers are valued at approximately HK\$6,034,712,166.30.

If all of the outstanding Options are exercised in full by the Optionholders prior to the close of the Offers, the Company will have to issue 6,450,000 new Shares, representing approximately 0.21% of the enlarged total issued Shares as at the Latest Practicable Date. On the assumption that the Share Offer is accepted in full by the holders of the Offer Shares and on the basis that there will be 1,835,150,461 Offer Shares (including all Shares allotted and issued as a result of the exercise of the Options), the value of the Share Offer is approximately HK\$6,055,996,521.30. In this case, no amount will be payable by the Joint Offerors under the Option Offer.

2.5 Settlement of consideration

Settlement of the consideration payable by the Joint Offerors in respect of acceptances of each of the Offers will be made as soon as possible but in any event within seven (7) Business Days of the later of (i) the date of receipt of a completed and valid acceptance in respect of the Share Offer or Option Offer (as applicable) or (ii) the date on which the Share Offer becomes or is declared unconditional in all respects.

No fraction of a cent will be payable and the amount of cash consideration payable to a Shareholder or Optionholder (as the case may be) who accepts the Share Offer or Option Offer (as applicable) will be rounded up to the nearest cent.

2.6 Confirmation of financial resources

Each of the Joint Offerors will acquire the Offer Shares tendered for acceptance by the Independent Shareholders pursuant to and in accordance with the terms of the Share Offer and will pay for the Offer Shares tendered under the Share Offer.

The Joint Offerors will finance the cash required for the Offers from a combination of (i) debt financing to be provided by the Hong Kong branch of Minsheng Bank to Mogul Enterprises, Jumbo Elite, Real Elite, Power Nation and the Joint Offerors; and (ii) internal cash resources of the Joint Offerors.

LETTER FROM BNPP SECURITIES

As part of the security package for the respective financing arrangements with Minsheng Bank, each of Mogul Enterprises, Jumbo Elite, Real Elite, Power Nation and the Joint Offerors has granted a share mortgage over all the Shares it held in favour of Minsheng Bank. In addition, Minsheng Bank has required that any Offer Shares purchased with its financing be charged to it for securing the obligations of the Joint Offerors under the respective loan facilities.

To ensure that the Joint Offerors will be able to satisfy their cash payment obligations under the Offers, the Joint Offerors have placed the said internal cash resources with BNP Paribas, Hong Kong Branch in the form of cash deposit and have also arranged for the Shanghai branch of Minsheng Bank to issue and the Shanghai branch of Minsheng Bank has issued irrevocable standby Letters of Credit in favour of BNPP Securities.

BNPP Securities, being the financial adviser to the Joint Offerors in respect of the Offers, is satisfied that sufficient financial resources are, and will remain, available to the Joint Offerors to satisfy full acceptance of the Offers. The Joint Offerors do not intend that payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company.

2.7 Condition to the Offers

The Share Offer is conditional upon valid acceptances of the Share Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Joint Offerors may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Joint Offerors holding at least 50% of the voting rights of the Company. The Condition is not waivable.

The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offers will be made in compliance with the Takeovers Code, which is administered by the Executive.

3. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there are 3,107,962,876 Shares and 6,450,000 outstanding Options with an exercise price of HK\$6.65 each in respect of 6,450,000 Shares.

LETTER FROM BNPP SECURITIES

The table below sets out the shareholding structure of the Company (based on the information received by the Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) (a) as at the Latest Practicable Date; and (b) immediately after the completion of the Offers, assuming that (i) holders of at least 90% of the disinterested shares (as referred to under Rule 2.11 of the Takeovers Code) tender their acceptances for the Share Offer and that the Joint Offerors have exercised their rights of compulsory acquisition; (ii) no additional securities will be issued or repurchased by the Company and there is no other change in shareholding from the Latest Practicable Date up to and including the date of close of the Offers; and (iii) none of the outstanding Options is exercised prior to the completion of the Offers:

Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Offers	
	No. of Shares held	Approx. % of issued Shares	No. of Shares held	Approx. % of issued Shares
Raise Sino	32,134,000	1.03	946,484,231	30.45
Resourceful Link	627,180,526	20.18	1,541,530,756	49.60
Mogul Enterprises (Note 1)	131,367,889	4.23	131,367,889	4.23
Jumbo Elite (Note 1)	149,000,000	4.79	149,000,000	4.79
Real Elite (Note 1)	149,000,000	4.79	149,000,000	4.79
Power Nation (Note 1)	190,580,000	6.14	190,580,000	6.14
Aggregate number of Shares held by Joint Offerors and Concert Parties	1,279,262,415	41.16	3,107,962,876	100
<i>Shares held subject to the Share Offer:</i>				
XIA Li Qun (Note 2)	5,250,000	0.17	–	–
POON Chiu Kwok (Note 2)	3,000,000	0.10	–	–
LEE Luk Shiu (Note 3)	100,000	0.00	–	–
Lazard Asset Management LLC	270,538,341	8.70	–	–
Other Independent Shareholders	1,549,812,120	49.87	–	–
Aggregate number of Shares held by Independent Shareholders	1,828,700,461	58.84	–	–
Total:	3,107,962,876	100.00	3,107,962,876	100.00

Notes:

- Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation are solely owned by Ms. CHU, the sole shareholder of each of the Joint Offerors, and therefore are deemed Concert Parties.
- Mr. XIA Li Qun and Mr. POON Chiu Kwok are executive Directors.
- Mr. LEE Luk Shiu is an independent non-executive Director.

LETTER FROM BNPP SECURITIES

The Joint Offerors and the Concert Parties hold 1,279,262,415 Shares in aggregate (representing approximately 41.16% of the issued share capital of the Company), as at the Latest Practicable Date. Save as disclosed above, as at the Latest Practicable Date, the Joint Offerors and the Concert Parties do not hold or control any other Shares or convertible securities, warrants, options or derivatives in respect of the Shares.

Save as disclosed above, there are no outstanding convertible securities, warrants, options or derivatives in respect of the Shares or other relevant securities (as defined in Note 4 of Rule 22 of the Takeovers Code) which have been entered into by the Joint Offerors or the Concert Parties as at the Latest Practicable Date. The Joint Offerors or the Concert Parties have not dealt in any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.

As at the Latest Practicable Date and save as disclosed above, the Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares, has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

As at the Latest Practicable Date:

- (i) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of the Joint Offerors and which might be material to the Offers;
- (ii) there are no agreements or arrangements to which the Joint Offerors are parties which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers;
- (iii) none of the Joint Offerors nor any of the Concert Parties has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and
- (iv) no irrevocable commitment to accept the Share Offer or the Option Offer has been received by the Joint Offerors or any of the Concert Parties.

4. INFORMATION ON THE JOINT OFFERORS

Raise Sino is a company incorporated in the British Virgin Islands with limited liability on 8 October 2003. Its principal activity is investment holding. Raise Sino is wholly-owned by Ms. CHU.

Resourceful Link is a company incorporated in the British Virgin Islands with limited liability on 27 April 2006. Its principal activity is investment holding. Resourceful Link is wholly-owned by Ms. CHU.

LETTER FROM BNPP SECURITIES

5. INFORMATION OF THE GROUP

The Company is incorporated in Bermuda with limited liability and whose Shares are listed on the Main Board of the Stock Exchange. It is an investment holding company. The Group is principally engaged in the research and development, production and sale of flavours and fragrances, tobacco raw materials, aroma raw materials and innovative tobacco products.

6. INTENTIONS OF THE JOINT OFFERORS IN RELATION TO THE GROUP

The Joint Offerors intend to continue with the existing business of the Group and do not intend to introduce significant changes to the business of the Group (including any redeployment of the fixed assets of the Group). It is also the intention of the Joint Offerors that there will not be significant changes in the management and employees of the Group as a result of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the issue Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

Subject to the Joint Offerors acquiring less than 90% of the disinterested Shares (as defined in the Takeovers Code) within the period of four months after posting the Composite Documents as required by Rule 2.11 of the Takeovers Code, the Joint Offerors intend the Company to remain listed on the Stock Exchange after close of the Offers. The directors of the Joint Offerors will take appropriate steps to ensure that sufficient public float exists in the Shares after the close of the Offers.

Subject to compliance with the relevant requirements under the Companies Act and the Joint Offerors acquiring not less than 90% of the disinterested Shares (as defined in the Takeovers Code) within the period of four months after posting the Composite Document as required by Rule 2.11 of the Takeovers Code (in any event no later than 22 April 2017), the Joint Offerors intend to exercise its rights under Section 102 or Section 103 of the Companies Act to compulsorily acquire those Offer Shares not acquired by the Joint Offerors pursuant to the Share Offer, and following which an application will be made for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

Written notice of the Joint Offerors' exercise of their rights of compulsory acquisition as described above will be provided by the Joint Offerors to those Shareholders who do not accept the Share Offer.

The Joint Offerors' ability to exercise their rights of compulsory acquisition is dependent on the level of acceptances of the Share Offer reaching the prescribed level under the Companies Act and on the requirements of Rule 2.11 of the Takeovers Code being satisfied. If the Joint Offerors are unable to effect the compulsory acquisition set out above, the Joint

LETTER FROM BNPP SECURITIES

Offerors will take steps (as and when appropriate) to ensure that there is sufficient public float. In the event that the compulsory acquisition and withdrawal of listing of the Company do not take place, there can be no assurance that the Shares will trade at or above the Offer Price in future.

7. REASONS FOR THE OFFERS AND THE EXPECTED BENEFITS

The Offers are aimed to generate the following expected benefits:

- (i) The Joint Offerors take the view that the price of the Shares has not been satisfactory since mid-2015. The price of the Shares may continue to be affected by the slowdown of macroeconomic growth and stringent control on the cigarette consumption. As such, the Offers present an immediate opportunity for holders of the Offer Shares to realise their investments in the Offer Shares for cash and redeploy the cash received from accepting the Offers into other investment opportunities.
- (ii) In addition, the average daily trading volume of the Shares for the 24 months up to and including the Last Trading Date was approximately 8.54 million Shares per day, representing only approximately 0.27% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to divest scalable on-market disposals without adversely affecting the price of the Shares.
- (iii) Since the Joint Offerors (together with the Concert Parties) hold approximately 41.16% of the issued Shares, it is unlikely that the holders of the Offer Shares will receive any alternative general offers from third parties to acquire the Offer Shares without the acceptance of such general offers by the Joint Offerors and their Concert Parties, which hold the Shares as a long-term investment.

8. FURTHER TERMS OF THE OFFERS

(a) Offer Shares and Options

Subject to the Share Offer becoming unconditional, by accepting the Share Offer, an accepting Shareholder will sell its Offer Shares to the Joint Offerors free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them from the date on which the Share Offer is made or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made.

Subject to the Share Offer becoming unconditional, the acceptance of the Option Offer by an Optionholder will result in the cancellation of those relevant Options, together with all rights attaching thereto.

LETTER FROM BNPP SECURITIES

(b) Hong Kong stamp duty

Seller's ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the market value of the Offer Shares or the consideration payable by the Joint Offerors in respect of the relevant acceptance of the Share Offer, whichever is higher, and will be deducted from the cash amount due to such accepting Shareholder. The Joint Offerors will pay the buyer's ad valorem stamp duty on its own behalf and, subject to such deduction aforesaid, will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the Offer Shares which are validly tendered for acceptance under the Share Offer.

No stamp duty is payable in connection with the cancellation of the Options.

9. GENERAL MATTERS RELATING TO THE OFFERS

(a) Availability of the Offers

The Joint Offerors intend to make the Offers available to all Shareholders and Optionholders including those who are not resident in Hong Kong. This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this Composite Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

The respective Offers made to the Shareholders and/or the Optionholders (as the case may be) who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such persons are located. Such persons should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Shareholders and Optionholders wishing to accept the Share Offer and/or the Option Offer (as applicable) to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

Shareholders and Optionholders are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of accepting the Offers (as applicable). It is emphasised that none of the Joint Offerors, BNPP Securities, any of their respective directors, officers or associates and any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of any of the Offers (as applicable).

LETTER FROM BNPP SECURITIES

Any acceptance by any Shareholder and Optionholder will be deemed to constitute a representation and warranty from such Shareholder and Optionholder to the Joint Offerors that the local laws and requirements have been complied with. Shareholders and Optionholders who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

10. ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from the Board” on pages 18 to 23 of this Composite Document, the “Letter from the Independent Board Committee” on pages 24 to 25 of this Composite Document and the “Letter from VMS” on pages 26 to 47 of this Composite Document in relation to their respective recommendations and advice with respect to the Offers.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document, all of which form part of this Composite Document.

Yours faithfully,
For and on behalf of
BNP Paribas Securities (Asia) Limited
Isadora Li
Managing Director

LETTER FROM THE BOARD



HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

Executive Directors:

Ms. CHU Lam Yiu (*Chairwoman and CEO*)

Mr. XIA Li Qun

Mr. POON Chiu Kwok

Mr. LAM Ka Yu

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Dr. DING Ningning

Mr. LEE Luk Shiu

Ms. MA Yun Yan

Mr. WU Chi Keung

*Head office and principal place of
business in Hong Kong:*

Suite 3008

30/F, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

22 December 2016

To the Shareholders and Optionholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER
BY BNP PARIBAS SECURITIES (ASIA) LIMITED
ON BEHALF OF THE JOINT OFFERORS
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF
HUABAO INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY HELD BY THE JOINT OFFERORS AND
PARTIES ACTING IN CONCERT WITH ANY OF THEM) AND
TO CANCEL ALL THE OUTSTANDING OPTIONS OF
HUABAO INTERNATIONAL HOLDINGS LIMITED**

1. INTRODUCTION

On 23 November 2016, the Joint Offerors and the Company jointly announced that BNPP Securities on behalf of the Joint Offerors, would make a voluntary conditional cash offer to acquire all of the issued shares in the share capital of the Company (other than those already held by the Joint Offerors and the Concert Parties) and, pursuant to Rule 13 of the Takeovers Code, would extend appropriate offers to cancel all outstanding Options.

* *for identification purposes only*

LETTER FROM THE BOARD

This letter forms part of this Composite Document and sets out, among other things, the background of the Offers and information relating to the Group.

Your attention is further drawn to the “Letter from BNPP Securities” on pages 7 to 17, the “Letter from the Independent Board Committee” on pages 24 to 25 and the “Letter from VMS” on pages 26 to 47 in this Composite Document.

2. THE OFFERS

The terms of the Offers summarised below are extracted from the “Letter from BNPP Securities” and Appendix I to this Composite Document as well as the Forms of Acceptance. You are recommended to refer to them for further details.

Principal terms of the Offers

Share Offer:

For each Offer ShareHK\$3.30 in cash

As at the Latest Practicable Date, there were 3,107,962,876 Shares in issue, of which 1,279,262,415 Shares (representing approximately 41.16% of the issued share capital of the Company as at the Latest Practicable Date) were held by the Joint Offerors and their respective Concert Parties.

Option Offer:

**For outstanding Options with an
exercise price of HK\$6.65 each**

For cancellation of each OptionHK\$0.0001 in cash

As at the Latest Practicable Date, there were 6,450,000 outstanding Options granted under the Share Option Scheme, entitling the Optionholders to subscribe for an aggregate of 6,450,000 Shares at an exercise price of HK\$6.65 per Share.

The exercise period in which the Options are exercisable are as follows:

Number of Options	Exercise price	Exercise period
6,450,000	HK\$6.65	17 April 2008 to 16 October 2017

LETTER FROM THE BOARD

As the exercise price for the Options with an exercise price of HK\$6.65 each is above the Share Offer Price so that all such Options are out-of-money, the Option Offer will be a nominal cash offer for the cancellation of such outstanding Options (whether such Options are exercisable or not).

The Option Offer will be extended to all Optionholders in accordance with the Takeovers Code.

3. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there were 3,107,962,876 Shares and 6,450,000 outstanding Options with an exercise price of HK\$6.65 each in respect of 6,450,000 Shares.

The table below sets out the shareholding structure of the Company (based on the information received by the Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) (a) as at the Latest Practicable Date; and (b) immediately after the completion of the Offers, assuming that (i) holders of at least 90% of the disinterested shares (as referred to under Rule 2.11 of the Takeovers Code) tender their acceptances for the Share Offer and that the Joint Offerors have exercised their rights of compulsory acquisition; (ii) no additional securities will be issued or repurchased by the Company and there is no other change in shareholding from the Latest Practicable Date up to and including the date of close of the Offers; and (iii) none of the outstanding Options is exercised prior to the completion of the Offers:

Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Offers	
	No. of Shares held	Approx. % of issued Shares	No. of Shares held	Approx. % of issued Shares
Raise Sino	32,134,000	1.03	946,484,231	30.45
Resourceful Link	627,180,526	20.18	1,541,530,756	49.60
Mogul Enterprises (<i>Note 1</i>)	131,367,889	4.23	131,367,889	4.23
Jumbo Elite (<i>Note 1</i>)	149,000,000	4.79	149,000,000	4.79
Real Elite (<i>Note 1</i>)	149,000,000	4.79	149,000,000	4.79
Power Nation (<i>Note 1</i>)	190,580,000	6.14	190,580,000	6.14

LETTER FROM THE BOARD

Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Offers	
	No. of Shares held	Approx. % of issued Shares	No. of Shares held	Approx. % of issued Shares
Aggregate number of Shares held by Joint Offerors and Concert Parties	1,279,262,415	41.16	3,107,962,876	100
<i>Shares held subject to the Share Offer:</i>				
XIA Li Qun (Note 2)	5,250,000	0.17	–	–
POON Chiu Kwok (Note 2)	3,000,000	0.10	–	–
LEE Luk Shiu (Note 3)	100,000	0.00	–	–
Lazard Asset Management LLC	270,538,341	8.70	–	–
Other Independent Shareholders	1,549,812,120	49.87	–	–
Aggregate number of Shares held by Independent Shareholders	1,828,700,461	58.84	–	–
Total:	<u>3,107,962,876</u>	<u>100.00</u>	<u>3,107,962,876</u>	<u>100.00</u>

Notes:

1. Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation are solely owned by Ms. CHU, the sole shareholder of each of the Joint Offerors, and therefore are deemed Concert Parties.
2. Mr. XIA Li Qun and Mr. POON Chiu Kwok are executive Directors.
3. Mr. LEE Luk Shiu is an independent non-executive Director.

4. INFORMATION OF THE GROUP

The Company is incorporated in Bermuda with limited liability and whose Shares are listed on the Main Board of the Stock Exchange. It is an investment holding company.

The Group is principally engaged in the research and development, production and sale of flavours and fragrances, tobacco raw materials, aroma raw materials and innovative tobacco products.

In addition, Shareholders and the Optionholders should also note that the Company has proposed a spin-off (the “**Proposed Spin-off**”) and listing of Huabao Flavours & Fragrances Co., Ltd. (華寶香精股份有限公司) (formerly known as Huabao Food Flavours & Fragrances (Shanghai) Co., Ltd. (華寶食用香精香料(上海)有限公司) (the “**Spin-off Company**”) by way of a separate A shares listing (the “**Proposed A Share Listing**”) of the Spin-off Company on a stock exchange in the PRC. The Spin-off Company is a non wholly-owned subsidiary of the Company and, together with its subsidiaries, is principally engaged in the flavours and fragrances business in the PRC.

LETTER FROM THE BOARD

On 19 August 2016, the Company submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. On 27 October 2016, the Stock Exchange confirmed that the Company may proceed with the Proposed Spin-off.

However, it should be noted that the Proposed Spin-off and the Proposed A Share Listing will be subject to, among other things, obtaining approvals from the relevant PRC regulators in accordance with all applicable regulations and suitable market conditions, thus may or may not materialise.

Please refer to the Company's announcements dated 19 August 2016 and 31 October 2016 for details of the Proposed Spin-off. The Company will make further announcement(s) in relation to the Proposed Spin-off and the Proposed A Share Listing in accordance with the requirements of the Listing Rules as and when appropriate.

5. INFORMATION ON THE JOINT OFFERORS AND THEIR INTENTIONS IN RELATION TO THE GROUP

Your attention is drawn to the sections headed "4. Information on the Joint Offerors" and "6. Intentions of the Joint Offerors in relation to the Group" in the "Letter from BNPP Securities" set out in this Composite Document.

In particular, the Board noted that, as stated in the "Letter from BNPP Securities" contained in this Composite Document:

- (i) subject to the Joint Offerors acquiring less than 90% of the disinterested Shares (as defined in the Takeovers Code) within the period of four (4) months after posting the Composite Documents as required by Rule 2.11 of the Takeovers Code, the Joint Offerors intend the Company to remain listed on the Stock Exchange after the close of the Offers. The directors of the Joint Offerors will take appropriate steps to ensure that sufficient public float exists in the Shares after the close of the Offers;
- (ii) subject to compliance with the relevant requirements under the Companies Act and the Joint Offerors acquiring not less than 90% of the disinterested Shares (as defined in the Takeovers Code) within the period of four (4) months after posting the Composite Document as required by Rule 2.11 of the Takeovers Code (in any event no later than 22 April 2017), the Joint Offerors intend to exercise its rights under Section 102 or Section 103 of the Companies Act to compulsorily acquire those Offer Shares not acquired by the Joint Offerors pursuant to the Share Offer, and following which an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules; and
- (iii) the Joint Offerors intend to continue with the existing business of the Group and do not intend to introduce significant changes to the business of the Group (including any redeployment of the fixed assets of the Group). It is also the intention of the Joint Offerors that there will not be significant changes in the management and employees of the Group as a result of the Offers.

LETTER FROM THE BOARD

6. RECOMMENDATIONS

The Independent Board Committee, which comprises Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung (each being an independent non-executive Director), has been established by the Board to make a recommendation to the Independent Shareholders and the Optionholders as to whether the Offers are, or are not, fair and reasonable and as to acceptance.

Other than Mr. Lee Luk Shiu's shareholding in the Company, none of the members of the Independent Board Committee is interested in or involved in the Offers. As at the Latest Practicable Date, among the Directors (save for Ms. CHU), Mr. XIA Li Qun, Mr. POON Chiu Kwok and Mr. LEE Luk Shiu were interested in 5,250,000, 3,000,000 and 100,000 Shares respectively. Mr. POON Chiu Kwok has indicated that he intended to accept the Share Offer in relation to 100,000 Shares, whereas Mr. XIA Li Qun and Mr. LEE Luk Shiu have indicated that they intended to accept the Share Offer in respect of all of their respective beneficial shareholdings in the Company.

VMS has been appointed (with the approval of the Independent Board Committee) to advise the Independent Board Committee as to whether the Offers are, or are not, fair and reasonable and as to acceptance.

Your attention is drawn to the "Letter from the Independent Board Committee" as set out on pages 24 to 25 of this Composite Document containing its recommendation to the Independent Shareholders and Optionholders in respect of the Offers, and the "Letter from VMS" as set out on pages 26 to 47 of this Composite Document containing its advice to the Independent Board Committee in respect of the Offers.

7. ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Forms of Acceptance in respect of the acceptance and settlement procedures of the Offers.

Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

In considering what action to take in connection with the Offers, you should also consider your own tax position, if any, and in case of doubt, consult your professional advisers.

Yours faithfully,
By Order of the Board
Huabao International Holdings Limited
XIA Li Qun
Executive Director



HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

22 December 2016

To the Shareholders and Optionholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER
BY BNP PARIBAS SECURITIES (ASIA) LIMITED
ON BEHALF OF THE JOINT OFFERORS
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF
HUABAO INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY HELD BY THE JOINT OFFERORS AND
PARTIES ACTING IN CONCERT WITH ANY OF THEM) AND
TO CANCEL ALL THE OUTSTANDING OPTIONS OF
HUABAO INTERNATIONAL HOLDINGS LIMITED**

We refer to the composite offer and response document (the “**Composite Document**”) dated 22 December jointly issued by the Company and the Joint Offerors, of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in this Composite Document.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Offers and to advise you as to whether or not, in our opinion, the terms of the Offers are fair and reasonable so far as the Shareholders and Optionholders are concerned, and as to the acceptance of the Offers. VMS has been appointed as the Independent Financial Adviser to advise us and make recommendation to us in this respect. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the “Letter from VMS” on pages 26 to 47 of this Composite Document.

We also wish to draw your attention to the “Letter from the Board”, the “Letter from BNPP Securities” and the additional information set out in the appendices to this Composite Document.

* *for identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Offers, the information contained in this Composite Document and the advice from VMS contained in the “Letter from VMS” set out in this Composite Document, we consider that the terms of the Offers (including but not limited to the Share Offer Price and price of the Option Offer) are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. Accordingly, we recommend the Independent Shareholders and the Optionholders to accept the Offers.

Shareholders and Optionholders are recommended to read the full text of the “Letter from VMS” set out in this Composite Document.

Yours faithfully,

The Independent Board Committee

Dr. DING Ningning

Independent non-executive Director

Mr. LEE Luk Shiu

Independent non-executive Director

Ms. MA Yun Yan

Independent non-executive Director

Mr. WU Chi Keung

Independent non-executive Director

LETTER FROM VMS

Set out below is the text of the letter of advice from VMS Securities Limited to the Independent Board Committee, the Independent Shareholders and the Optionholders prepared for inclusion in this Composite Document.

VMS Securities Limited
49/F, One Exchange Square
8 Connaught Place, Central, Hong Kong
香港中環康樂廣場8號交易廣場1期49樓
Tel/電話: (852) 2996 2100
Fax/傳真: (852) 2996 1210

22 December 2016

To: The Independent Board Committee, the Independent Shareholders and the Optionholders of Huabao International Holdings Limited

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFER
BY BNP PARIBAS SECURITIES (ASIA) LIMITED
ON BEHALF OF THE JOINT OFFERORS
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE SHARE CAPITAL OF
HUABAO INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY HELD BY THE JOINT OFFERORS AND
PARTIES ACTING IN CONCERT WITH ANY OF THEM) AND
TO CANCEL ALL THE OUTSTANDING OPTIONS OF
HUABAO INTERNATIONAL HOLDINGS LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in respect of the voluntary conditional cash offer to (i) acquire all of the issued shares in the share capital of the Company (other than those already held by the Joint Offerors and the Concert Parties); and (ii) cancel all the outstanding Options pursuant to Rule 13 of the Takeovers Code. Details of the Offers are set out in this Composite Document to the Independent Shareholders and the Optionholders dated 22 December 2016, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors, namely, Dr. Ding Ningning, Mr. Lee Luk Shiu, Ms. Ma Yun Yan and Mr. Wu Chi Keung, has been formed to advise the Independent Shareholders and the Optionholders as to whether the terms of the

LETTER FROM VMS

Offers are fair and reasonable and as to acceptance of the Offers. We, VMS Securities Limited, have been appointed by the Independent Board Committee as the independent financial adviser to advise the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not connected with the Company, the Joint Offerors, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered suitable to give independent advice to the Independent Board Committee in respect of the Offers. Apart from the normal advisory fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, or the Joint Offerors, or any of their respective substantial shareholders, directors, or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst others, the Joint Announcement, the annual reports of the Company for the two years ended 31 March 2015 and 2016 (the “**2015 Annual Report**” and the “**2016 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 September 2016 (the “**2017 Interim Report**”) and the information contained in the Composite Document. We have also discussed with and reviewed the information provided by the management of the Group (the “**Management**”) regarding the business and outlook of the Group.

We have relied solely on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations provided to us by the Directors and the Management. We have assumed that all such statements, information, opinions and representations contained or referred to in the Composite Document and all information and representations which have been provided by the Directors and the Management for which they are solely responsible for, are true, accurate and valid at the time they were made and will continue to be so at the Latest Practicable Date. We have also assumed that all the opinions and representations made or provided by the Directors and the Management contained in the Composite Document have been reasonably made after due and careful enquiry. In addition, we have sought and obtained confirmation from the Company, the Directors and the Management that no material facts have been omitted from the information provided and referred to in the Composite Document. Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us in which event this letter shall be amended and updated. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group.

We have not considered the tax and regulatory consequences on the Independent Shareholders and the Optionholders of acceptance or non-acceptance of the Offers since these

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are particular to their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFERS

BNPP Securities, for and on behalf of the Joint Offerors, is making the voluntary conditional cash offer to all the Independent Shareholders and the Optionholders (i) to acquire all the issued Shares (other than those already held by the Joint Offerors and the Concert Parties); and (ii) to cancel all the outstanding Options on the following basis:

Share Offer:

For each Offer ShareHK\$3.30 in cash

The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all encumbrances and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made.

As at the Latest Practicable Date, there are 3,107,962,876 Shares in issue, of which 1,279,262,415 Shares (representing approximately 41.16% of the issued share capital of the Company as at the Latest Practicable Date) are held by the Joint Offerors and their respective Concert Parties.

Option Offer:

For cancellation of each OptionHK\$0.0001 in cash

As at the Latest Practicable Date, there are 6,450,000 outstanding Options granted under the Share Option Scheme, entitling the Optionholders to subscribe for 6,450,000 Shares at an exercise price of HK\$6.65 per Share.

The exercise period of the Options is from 17 April 2008 to 16 October 2017.

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As the exercise price of the Options is HK\$6.65 which is above the Share Offer Price, all such Options are out-of-money and thus, the Option Offer will be a nominal cash offer for cancellation of such outstanding Options (whether such Options are exercisable or not).

The Option Offer will be extended to all the Optionholders in accordance with the Takeovers Code.

The Share Offer is conditional upon valid acceptances of the Share Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Joint Offerors may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Joint Offerors and the Concert Parties together holding at least 50% of the voting rights of the Company. This condition is not waivable.

The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

Further details of the Offers (including the terms and procedures for acceptance of the Offers) are set out in the “Letter from BNPP Securities” as set out on pages 7 to 17 of the Composite Document, Appendix I to the Composite Document and the accompanying Forms of Acceptance. The Independent Shareholders and the Optionholders are urged to read the relevant sections in the Composite Document in full.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations with regard to the Offers, we have considered the following principal factors and reasons:

1. Business, financial information and prospects of the Group

(A) Business of the Group

The Company is incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the research and development, production and sale of flavours and fragrances, tobacco raw materials, aroma raw materials and innovative tobacco products.

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(B) Financial information of the Group

The following are the (i) audited consolidated financial information of the Group for the three years ended 31 March 2016, 2015 and 2014 as extracted from the 2016 Annual Report and the 2015 Annual Report; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 September 2016 and 2015 as extracted from the 2017 Interim Report.

	For the year ended 31 March			For the six months ended 30 September	
	2016	2015	2014	2016	2015
	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Sales	3,928,217	4,326,486	4,237,425	1,859,477	1,693,019
Cost of goods sold	<u>(1,223,041)</u>	<u>(1,301,169)</u>	<u>(1,239,306)</u>	<u>(648,634)</u>	<u>(521,283)</u>
Gross Profit	2,705,176	3,025,317	2,998,119	1,210,843	1,171,736
Other income and other gains – net	197,427	263,205	204,571	138,922	70,215
Selling and marketing expenses	(253,346)	(204,650)	(169,936)	(154,069)	(118,603)
Administrative expenses	<u>(901,154)</u>	<u>(763,727)</u>	<u>(655,510)</u>	<u>(533,141)</u>	<u>(389,539)</u>
Operating profit	1,748,103	2,320,145	2,377,244	662,555	733,809
Finance income – net	73,415	69,107	42,355	21,972	27,720
Share of profit/(loss) of associates and a jointly controlled entity	<u>11,397</u>	<u>(3,005)</u>	<u>(2,354)</u>	<u>1,970</u>	<u>(1,239)</u>
Profit before income tax	1,832,915	2,386,247	2,417,245	686,497	760,290
Income tax expenses	<u>(365,380)</u>	<u>(391,054)</u>	<u>(420,381)</u>	<u>(139,806)</u>	<u>(187,318)</u>
Profit for the year/period	<u><u>1,467,535</u></u>	<u><u>1,995,193</u></u>	<u><u>1,996,864</u></u>	<u><u>546,691</u></u>	<u><u>572,972</u></u>

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(i) For the year ended 31 March 2015

During the year, sales increased by approximately 2.10% to approximately HK\$4,326.49 million whereas operating profit decreased by approximately 2.40% to approximately HK\$2,320.15 million. Profit for the year remained fairly stable. The above movements were mainly caused by the combined operating fluctuations within the two largest business segments, being the flavours segment and the reconstituted tobacco leaves segment which together accounted for approximately 89.77% of the Group's total sales in the year.

For the flavours segment which accounted for approximately 67.91% of the Group's total sales for the year, according to the 2015 Annual Report, sales increased by approximately 4.81% which was mainly attributable to the accelerated sales growth of food and beverage flavours. However, operating profit decreased by approximately 4.20% which was mainly attributable to (i) the larger share of food and beverage flavours, of which the profit margin was relatively lower; and (ii) the increase in sales and administration expenses.

For the reconstituted tobacco leaves segment which accounted for 21.86% of the Group's total sales for the year, according to the 2015 Annual Report, sales decreased by approximately 11.61% as (i) there was fierce industry competition as a result of new entrants during the year; and (ii) the decrease in usage of reconstituted tobacco leaves as a result of the backlog of tobacco leaves among tobacco enterprises. Due to the Group's effective cost control and its industry leading position for its products, operating profit only decreased slightly by 1.13%.

(ii) For the year ended 31 March 2016

During the year, sales decreased by approximately 9.21% to approximately HK\$3,928.22 million, operating profit decreased by approximately 24.66% to approximately HK\$1,748.10 million and accordingly, profit for the year decreased by 26.45% to approximately HK\$1,467.54 million. Such decreases were mainly caused by decreases in sales and operating profit for both of the two largest business segments, being the flavours segment and the reconstituted tobacco leaves segment, which together accounted for approximately 87.16% of the Group's total turnover for the year.

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For the flavours segment which accounted for approximately 69.39% of the Group's total sales for the year, according to the 2016 Annual Report, the decreases in sales and operating profit were mainly due to the impacts of the sluggish macroeconomics, decrease in production volume of cigarettes and destocking of raw materials of the tobacco industry.

For the reconstituted tobacco leaves segment which accounted for approximately 17.77% of the Group's total sales for the year, according to the 2016 Annual Report, the decreases in sales and operating profit were mainly due to (i) the emerging of new production capacity which changed the industry landscape; and (ii) the policy of reducing raw material levels from the State Tobacco Monopoly Administration in the PRC, which adversely affected the Group's sales volume of reconstituted tobacco leaves.

(iii) For the six months ended 30 September 2016

During the period, the Group had made adjustments to the organisational structure with combinations of certain business segments to implement and promote the Group's overall strategy. In particular and among others, (i) the flavours segment was combined with the fragrances segment to form the flavours and fragrances segment; and (ii) the reconstituted tobacco leaves segment and the new materials segment were merged into the tobacco raw materials segment.

During the period, sales increased by approximately 9.83% to approximately HK\$1,859.48 million whereas operating profit decreased by approximately 9.71% to approximately HK\$662.56 million. Profit for the period decreased by approximately 4.59% to approximately HK\$546.69 million. The above movements were mainly caused by the combined operating fluctuations within the two largest business segments, being the flavours and fragrances segment and the tobacco raw materials segment, which together accounted for approximately 78.80% of the Group's total sales for the period.

For the flavours and fragrances segment which accounted for approximately 57.58% of the Group's total sales for the period, according to the 2017 Interim Report, sales and operating profit both declined which were mainly due to the slowdown of macroeconomic growth, the sluggish tobacco industry, the high inventory level of tobacco products and the decrease in both production and sales volumes, which resulted in the decline of sales of flavours and fragrances.

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For the tobacco raw materials segment which accounted for approximately 21.22% of the Group's total sales for the period, according to the 2017 Interim Report, sales and operating profit both increased due to the increase in sales volume after clearing the reconstituted tobacco leaves inventory of the tobacco industry.

	As at 30 September 2016	As at 31 March 2016
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets	5,224,068	5,395,034
Current assets	7,453,480	6,191,188
Total assets	12,677,548	11,586,222
Current liabilities	775,551	932,034
Non-current liabilities	113,698	123,770
Total liabilities	889,249	1,055,804
Net current assets	6,677,929	5,259,154
Total equity	11,788,299	10,530,418

Total assets increased by approximately 9.42% or approximately HK\$1,091.33 million. It was mainly due to the increase in current assets, which was mainly attributed to the increase in (i) the cash and cash equivalents; and (ii) the trade and other receivables. The increase in cash and cash equivalents was mainly the results of (i) cash receipts of approximately HK\$983.69 million from a deemed disposal of a then wholly owned subsidiary by issuing new shares; and (ii) additional cash generated from operating activities. The increase in trade and other receivables was mainly due to the increase in the trade receivables and the related trade receivable turnover days which was a result of delay in issuing invoices by a major operating subsidiary involving in flavours and fragrances business due to its registration relocation and change in the company name.

Total liabilities decreased by approximately 15.78% or approximately HK\$166.56 million. It was mainly due to the decrease in trade and other payables. Such decrease was mainly due to the decrease in trade payables and the related trade payable turnover days which was a result of acquisitions of two subsidiaries with relatively shorter trade payable turnover periods.

Net current assets increased by approximately 26.98% or approximately HK\$1,418.78 million. It was mainly due to (i) the increase in current assets as a result of the increase in cash and cash equivalents and trade and other receivables; and (ii) the decrease in current liabilities as a result of decrease in trade and other payables.

With the combined effects of the above increase in total assets and decrease in total liabilities, total equity increased accordingly.

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(C) Prospects of the Group

As advised by the Management, majority of the Group's business relates to the tobacco industry which comprises tobacco flavours, tobacco raw materials and innovative tobacco products. According to the 2017 Interim Report, (i) various smoking ban legislations and tobacco controlling policies imposed by the central and local governments of the PRC; (ii) expanding scope and the implementation of non-smoking areas in public places in the PRC; (iii) promulgation and implementation of the new Advertising Law in the PRC in 2015, narrowing the marketing space of the tobacco market; (iv) tax-induced price hike policy which has raised the consumption tax and wholesale price and subsequently escalated the consumption cost of cigarettes; and (v) increasing health awareness, all these have suppressed the demand for cigarettes and posted substantial pressure on the tobacco industry.

Taking into consideration the above landscape for the tobacco industry as well as the downward trend for the performance of the Group's tobacco related segments since the year of 2015, we are of the opinion that the tobacco industry environment ahead is very challenging.

2. Principal terms of the Share Offer

The Share Offer Price of HK\$3.30 represents:

- (i) a premium of approximately 0.30% over the closing price of HK\$3.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 9.27% over the closing price of HK\$3.020 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (iii) a premium of approximately 12.59% over the average closing price of approximately HK\$2.931 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;
- (iv) a premium of approximately 11.64% over the average closing price of approximately HK\$2.956 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;
- (v) a premium of approximately 11.90% over the average closing price of approximately HK\$2.949 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Date;
- (vi) a premium of approximately 12.44% over the average closing price of approximately HK\$2.935 per Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Date;
- (vii) a premium of approximately 0.61% over the Company's audited consolidated net asset value ("NAV") attributable to the Shareholders of approximately HK\$3.28 per

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Share, calculated based on the Group's audited consolidated NAV attributable to the Shareholders of approximately HK\$10,187.24 million as at 31 March 2016 as shown in the audited financial statements of the Group as at 31 March 2016 and 3,107,962,876 Shares in issue as at the Latest Practicable Date; and

- (viii) a discount of approximately 4.35% to the Group's unaudited consolidated NAV attributable to the Shareholders of approximately HK\$3.45 per Share, calculated based on the Group's unaudited consolidated NAV attributable to the Shareholders of approximately HK\$10,737.17 million as at 30 September 2016 as shown in the unaudited financial statements of the Group as at 30 September 2016 and 3,107,962,876 Shares in issue as at the Latest Practicable Date.

As the Share Offer Price represents (i) a premium over the historical closing prices as at the above benchmark dates/for the above benchmark periods; and (ii) roughly the same as the NAV of the Group as at 31 March 2016 (the latest financial year end) and only a slightly discount to the NAV of the Group as at 30 September 2016 (the latest interim period end), we consider that the Share Offer Price is fair and reasonable.

(A) Historical price performance of the Shares

The chart below shows the daily closing price of the Shares quoted on the Stock Exchange from 2 November 2015 (roughly 12-month before 23 November 2016, date of the Joint Announcement) to the Latest Practicable Date (the "**Review Period**") against the Share Offer Price. The Review Period covers more than 12 months before and including the date of the Joint Announcement in relation to the Offer. As such, we consider the length of the Review Period to be reasonable for illustrating the relationship between the historical trend of the closing price of the Shares and the Share Offer Price.



Source: Bloomberg

Note: Trading of the Shares was suspended from 21 November 2016 to 23 November 2016 pending release of the Joint Announcement in relation to the Offers.

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During the Review Period, the lowest and the highest closing price of the Shares were HK\$2.41 per Share recorded on 10 December 2015 and HK\$3.33 per Share recorded on 4 May 2016 respectively. The Share Offer Price of HK\$3.30 represents a premium of approximately 36.93% over the lowest closing price of the Shares and a discount of approximately 0.90% over the highest closing price of the Shares during the Review Period. The average closing price during the Review Period was approximately HK\$2.91 per Share over which the Share Offer Price represents a premium of approximately 13.40%.

During the period commencing from 2 November 2015 to 18 November 2016 (being the Last Trading Day), the closing price of the Shares dropped to the lowest of HK\$2.41 per Share on 10 December 2015 and climbed up to the highest of HK\$3.33 per Share on 4 May 2016. The Management advised that the Company is not aware of any particular reason for the above price movements. At the request of the Company, trading in the Shares was suspended from 21 November 2016 to 23 November 2016 (both days inclusive) pending publication of the Joint Announcement. Immediately after the publication of the Joint Announcement, the closing price of the Shares increased to HK\$3.29 per Share on 24 November 2016 (being the first trading day after the publication of the Joint Announcement). We consider that such rise in the closing price of the Shares may be associated with the proposed Offers as the Share Offer Price represents a premium of approximately 9.27% over the closing price of HK\$3.02 per Share on the Last Trading Day. After issuance of the Joint Announcement, the market price of the Shares exhibited an upward movement towards the Share Offer Price. The price of the Shares closed at HK\$3.29 per Share as at the Latest Practicable Date.

The Independent Shareholders and the Optionholders should note that the information set out above is not an indicator of the future performance of the Shares and the price of the Shares may increase or decrease from its closing price as at the Latest Practicable Date.

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(B) Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

	Total trading volume	No. of trading days	Average daily trading volume	Percentage of average daily trading volume to total no. of Shares in issue <i>(Note 2)</i>	Percentage of average daily trading volume of Shares to the public float <i>(Note 3)</i>
2015					
November	224,338,551	21	10,682,788	0.34%	0.58%
December	210,439,432	22	9,565,429	0.31%	0.52%
2016					
January	268,176,094	20	13,408,805	0.43%	0.73%
February	165,386,025	18	9,188,113	0.30%	0.50%
March	170,175,487	21	8,103,595	0.26%	0.44%
April	114,811,698	20	5,740,585	0.18%	0.31%
May	168,915,031	21	8,043,573	0.26%	0.44%
Jun	97,017,945	21	4,619,902	0.15%	0.25%
July	63,234,674	20	3,161,734	0.10%	0.17%
August	175,629,648	22	7,983,166	0.26%	0.44%
September	175,629,648	21	8,363,317	0.27%	0.46%
October	57,530,760	19	3,027,935	0.10%	0.17%
November <i>(Note 1)</i>	390,180,502	19	20,535,816	0.66%	1.12%
24 November	170,860,115	1	170,860,115	5.50%	9.34%
24 November to the Latest Practicable Date	591,585,967	18	32,865,887	1.06%	1.80%

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Trading in the Shares was suspended from 21 November 2016 to 23 November 2016.
2. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 3,107,962,876 Shares).
3. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by the public Shareholders as at the Latest Practicable Date (i.e. 1,828,700,461 Shares), other than those held by the Joint Offerors and the Concert Parties.

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As set out above, prior to the publication of the Joint Announcement in November 2016, the average daily trading volume for the respective month ranged from approximately 3.03 million Shares to approximately 13.41 million Shares, representing approximately 0.10% to approximately 0.43% of the total number of Shares in issue as at the Latest Practicable Date, or approximately 0.17% to approximately 0.73% of the total number of Shares held by the public Shareholders as at the Latest Practicable Date.

The trading volume of the Shares was comparatively high from November 2015 to February 2016. The Management advised that save for the publication of the interim result for the six months ended 30 September 2015 in November 2015 and an announcement in respect of a discloseable transaction in December 2015, the Management is not aware of any particular reason for the relatively high trading volume during the respective period.

It is noted that the daily trading volume of the Shares surged immediately after the publication of the Joint Announcement. On 24 November 2016 (being the first trading day after the publication of the Joint Announcement), the trading volume of the Shares skyrocketed to approximately 170.86 million. The trading volume represents approximately 5.50% of the total number of Shares in issue as at the Latest Practicable Date or 9.34% of the total number of Shares held by the public Shareholders as at the Latest Practicable Date. It was likely to be driven by the investors who wished to lock-in a profit from the arbitrage opportunity arising from the difference between the then market price and the Share Offer Price.

Following the publication of the Joint Announcement from 24 November 2016 (being the first trading day after the publication of the Joint Announcement) to the Latest Practicable Date, the average trading volume was approximately 1.06% and 1.80% of the total number of Shares in issue and the total number of Shares held by the public Shareholders as at the Latest Practicable Date, respectively. It seems that the trading volume of the Shares tended to be more active post-publication of the Joint Announcement. However, the sustainability of the recent trading volume of the Shares is uncertain. Also, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the price of the Share. Accordingly, the market price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. Therefore, we are of the view that the Share Offer represents an opportunity for the Independent Shareholders, particularly, for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Share Offer Price if they so wish to.

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(C) *Comparable analysis*

P/E and P/B comparables analysis

In assessing the fairness and reasonableness of the Share Offer Price, it is a general practice to apply commonly used benchmarks for evaluating the value of companies. We have considered applying the price-earnings ratios (the “**P/E ratio(s)**”) and the price-to-book ratios (the “**P/B ratio(s)**”) in our analysis which are two of the most commonly adopted valuation ratios.

We have identified comparable companies which are (i) listed on the Stock Exchange; (ii) principally engaged in manufacturing and trading of flavours and fragrances; and (iii) manufacturing of fine chemical products which are to certain extent relating to the Group’s flavours and fragrances and tobacco products. We have identified an exhaustive list of 5 companies (the “**P/E & P/B Comparables**”). Shareholders should note that the business, operations and prospects of the Company are not the same as the P/E & P/B Comparables.

We consider that the selection of the P/E & P/B Comparables can reflect the general business performance and value similar to those of the Company although the analysis of which is for reference only due to different size, financial performance, financial position and market capitalisation of the P/E & P/B Comparables when assessing the fairness and reasonableness of the Share Offer Price.

Set out below are the P/E ratios and P/B ratios of the P/E & P/B Comparables based on their respective closing prices as at the Latest Practicable Date and their respective latest published financial information:

Company name (stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	P/E ratio (Note 1)	P/B ratio (Note 2)
China Flavors and Fragrances Company Limited (3318)	Research & development, manufacture and sale of flavours and fragrances, which are provided to customers for making addition or improvement of flavours or fragrances in the customers’ manufactured tobacco, food and daily consumer goods	1,742	21.67	1.10

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Company name (stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	P/E ratio (Note 1)	P/B ratio (Note 2)
Dongyue Group Limited (189)	Manufacture, distribution and sale of refrigerants, polymers, organic silicone and dichloromethane, polyvinyl chloride and liquid alkali and others; and property development in the PRC	2,893	5.33	0.45
EcoGreen International Group Limited (2341)	Research and development, production and sale of fine chemicals products from natural resources for use in aroma chemicals and pharmaceutical products; and trading of fine chemicals products and natural materials	1,109	11.55	0.64
Lee & Man Chemical Company Limited (746)	Manufacture and sale of chemical products	1,980	7.34	0.82
Tiande Chemical Holdings Limited (609)	Research and development, production and sale of fine chemical products	1,638	8.46	1.17
Minimum			5.33	0.45
Maximum			21.67	1.17
Average			10.87	0.84
The Company/ the Share Offer		10,256	7.07 (Note 3)	0.96 (Note 4)

Source: website of the Stock Exchange (www.hkex.com.hk)

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Notes:

- (1) The P/E ratios of the P/E & P/B Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the profit for the year attributable to the equity holders of the P/E & P/B Comparables as extracted from their respective latest annual reports, divided by the total number of issued shares as at Latest Practicable Date.
- (2) P/B ratios of the P/E & P/B Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the NAV attributable to the equity holders of the P/E & P/B Comparables as extracted from their respective latest interim reports, divided by the total number of issued shares as at Latest Practicable Date.
- (3) The implied P/E ratio of the Company is calculated based on the Share Offer Price and the profit for the year attributable to the equity holders of the Company of approximately HK\$1,450.25 million as stated in the 2016 Annual Report and 3,107,962,876 Shares in issue of the Company as at Latest Practicable Date.
- (4) The implied P/B ratio of the Company is calculated based on the Share Offer Price and the NAV attributable to the equity holders of the Company of approximately HK\$10,737.17 million as stated in the 2017 Interim Report and 3,107,962,876 Shares in issue of the Company as at Latest Practicable Date.

As shown in the table above, the P/E ratios of the P/E & P/B Comparables range from approximately 5.33 times to approximately 21.67 times with an average of approximately 10.87 times and the P/B ratios of the P/E & P/B Comparables range from approximately 0.45 time to approximately 1.17 times with an average of approximately 0.84 time. We noted that the implied P/E ratio for the Company lies within the range of P/E ratios of the P/E & P/B Comparables. Regarding the implied P/B ratio for the Company, it lies within the range and is above the average of P/B ratios of the P/E & P/B Comparables. Based on the above, we consider the Share Offer Price is fair and reasonable from the perspective of P/E and P/B comparables analysis.

Similar transaction comparables analysis

According to the section headed “Intentions of the Joint Offerors in relation to the Group” in the “Letter from BNPP Securities”, we note that the Joint Offerors intend to compulsorily acquire those Offer Shares not acquired by the Joint Offerors under the Share Offer by exercising its right under Section 102 or Section 103 of the Companies Act if the Joint Offerors acquiring not less than 90% of the disinterested Shares within four months after posting the Composite Document (in any event no later than 22 April 2017), and following which an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange under Rule 6.15 of the Listing Rules. In other words, there is an intention of the Joint Offerors to privatise the Company if they acquire not less than 90% of the disinterested Shares.

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In this regard, we also compare the Share Offer Price to the offer prices of other voluntary conditional cash offer cases which the companies were successfully privatised. We identified from the Stock Exchange and reviewed all the voluntary conditional cash offer cases which the companies were successfully privatised (the “**Similar Transaction Comparables**”) from 2 November 2015 which is roughly and more than 12 months before 23 November 2016 (being date of the Joint Announcement) to the Latest Practicable Date. In particular, we have identified two Similar Transaction Comparables, one of which is principally engaged in property development and project development in the PRC; and the other is engaged in the development and operation of the commercial property. We note that the businesses of the Similar Transaction Comparables are totally different from that of the Company, thus, the Similar Transaction Comparables are considered irrelevant to our case.

The Independent Shareholders and the Optionholders should note that the Company may or may not be successfully privatised as the success of which is subject to the acceptance of the Share Offer by no less than 90% of the disinterested Shareholders under the Companies Act and on the requirements of Rule 2.11 of the Takeovers Code.

The Joint Offerors advised that the Share Offer is primarily targeted to provide an exit for the existing Independent Shareholders at a price close to its historical highest closing price given the low liquidity during the Review Period. Accordingly, the terms and in particular the price of the Share Offer (and accordingly the price of the Option Offer) are formulated in accordance with this. We consider that the Share Offer Price is fair and reasonable after taking into account that (i) the Share Offer Price lies within the range of P/E ratios and P/B ratios of the P/E & P/B Comparables; (ii) the Share Offer Price is close to its historical highest closing price during the Review Period; (iii) the Share Offer Price represents a premium of approximately 0.61% over the Group’s latest audited NAV attributable to the Shareholder per Share as at 31 March 2016 and a slightly discount of approximately 4.35% to the Group’s latest published unaudited NAV attributable to the Shareholder per Share as at 30 September 2016; and (iv) the historical liquidity is relative low. For further detail analyses, please refer to the section “OPINION AND RECOMMENDATION” of this letter. In this regard, we consider that the Share Offer is a good opportunity for the Independent Shareholders, especially those who holds a large volume of the Shares, to exit for part or all their Shares at the Share Offer Price.

The Independent Shareholders and the Optionholders should note that the Company will only be privatised by the Joint Offerors when and only when the Joint Offerors will acquire not less than 90% of the disinterested Shares within the period of four months after posting the Composite Document under the Companies Act and on the requirements of Rule 2.11 of the Takeovers Code (in any event no later than 22 April 2017). In this regard, the Company may or may not be privatised by the Joint Offerors.

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3. Principal terms of the Option Offer

The Joint Offerors are making the Option Offer to the Optionholders in accordance with Rule 13 of the Takeovers Code. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

As at the Latest Practicable Date, there were 6,450,000 outstanding Options granted under the Share Option Scheme, entitling the Optionholders to subscribe for 6,450,000 Shares at an exercise price of HK\$6.65 per Share.

The exercise price for the Options is above the Share Offer Price so that all such Options are out-of-money. The Option Offer will be at a nominal cash offer of HK\$0.0001 (whether such Options are exercisable or not).

The Option Offer is in essence calculated on a “see-through” basis, pursuant to which each Optionholder will be entitled to receive a nominal value as the Share Offer Price is lower than the exercise price of the Options. The Optionholder would have received a price at an amount equal to the excess of the Share Offer Price over the exercise price of the Options if the Share Offer Price exceeded the exercise price of the Options. We note that the adoption of a “see-through” basis is normally adopted in Hong Kong for general offers of a similar nature. Therefore, we consider such basis of determining the offer price of the Option Offer is acceptable and in line with market practice.

4. Proposed Spin-off

According to the Company’s announcements dated 19 August 2016 and 31 October 2016, the Company has proposed a spin-off (the “**Proposed Spin-Off**”) and listing of Huabao Flavours & Fragrances Co., Ltd. (華寶香精股份有限公司) (the “**Spin-off Company**”) by way of a separate A shares listing (the “**Proposed A Share Listing**”) of the Spin-off Company on a stock exchange in the PRC. The Spin-off Company is a non-wholly owned subsidiary of the Company and, together with its subsidiaries, is principally engaged in the flavours and fragrances business in the PRC.

On 19 August 2016, the Company submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. On 27 October 2016, the Stock Exchange confirmed that the Company may proceed with the Proposed Spin-off.

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In relation to the status of the Proposed A Share Listing, the Directors expected that it was unlikely to consummate before the close of the Offers taking into account the current circumstances and status. According to the statistics quoted on the website of China Securities Regulatory Commission (the “CSRC”), there are currently hundreds of companies¹ pending the review and approval by the CSRC for their new listing on the stock exchanges in the PRC. As of now, it is difficult to estimate the timetable for the Proposed A Share Listing. As the Proposed Spin-off was only approved by the Stock Exchange at the end of October 2016, the application of the Proposed A Share Listing has not yet been submitted to CSRC and thus the Proposed A share Listing is very unlikely to be completed before close of the Offers. In this regard, the Proposed A Share Listing will not have any effect on the Offers because it remains uncertain as to whether or not the Proposed A Share Listing can be successfully implemented.

The Independent Shareholders and the Optionholders should note that the Proposed A Share Listing is subject to, among others, obtaining approvals from the relevant PRC regulators in accordance with all applicable regulations and suitable market conditions, thus it may or may not materialise.

5. Information and intention of the Joint Offerors in relation to the Group

(A) Information on the Joint Offerors

As stated in the “Letter from BNPP Securities” contained in the Composite Document, the Joint Offerors consist of Raise Sino and Resourceful Link, both of which are incorporated in the British Virgin Islands with limited liabilities and investment companies wholly-owned by Ms. CHU, a director and the sole shareholder of the Joint Offerors. Ms. CHU is an executive Director, chairwoman and chief executive officer of the Company. As at the Latest Practicable Date, the Joint Offerors, together with the Concert Parties, hold approximately 41.16% of the issued Shares.

The Joint Offerors will finance the cash required for the Offers from a combination of (i) debt financing to be provided by the Hong Kong branch of Minsheng Bank to the Joint Offerors and certain of the Concert Parties, namely Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation; and (ii) internal cash resources of the Joint Offerors.

As part of the security package for the respective financing arrangements with Minsheng Bank, each of the Joint Offerors, Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation has granted a share mortgage over all the Shares it held in favour of Minsheng Bank. In addition, Minsheng Bank has required that any Offer Shares purchased with its financing be charged to it for securing the obligations of the Joint Offerors under the respective loan facilities.

¹ According to the website of the CSRC, it is stated that as at 24 November 2016, there are 665 companies under the CSRC’s review for the new listing on the stock exchanges of the PRC. (http://www.csrc.gov.cn/pub/zjhpublish/G00306202/201611/t20161125_306658.htm)

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(B) Intentions of the Joint Offerors

According to the section headed “Intentions of the Joint Offerors in relation to the Group” in the “Letter from BNPP Securities” of the Composite Document, the intentions of the Joint Offerors are as below:

- (i) subject to the Joint Offerors acquiring less than 90% of the disinterested Shares (as defined in the Takeovers Code) within the period of four months after posting the Composite Documents as required by Rule 2.11 of the Takeovers Code, the Joint Offerors intend the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers. The directors of the Joint Offerors will take appropriate steps to ensure that sufficient public float exists in the Shares after the close of the Offers;
- (ii) subject to compliance with the relevant requirements under the Companies Act and the Joint Offerors acquiring not less than 90% of the disinterested Shares (as defined in the Takeovers Code) within the period of four months after posting the Composite Document as required by Rule 2.11 of the Takeovers Code (in any event no later than 22 April 2017), the Joint Offerors intend to exercise its rights under Section 102 or Section 103 of the Companies Act to compulsorily acquire those Offer Shares not acquired by the Joint Offerors pursuant to the Share Offer, and following which an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules; and
- (iii) the Joint Offerors intend to continue with the existing business of the Group and do not intend to introduce significant changes to the business of the Group (including and redeployment of the fixed assets of the Group). It is also the intention of the Joint Offerors that there will not be significant changes in the management and employees of the Group as a result of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the issue Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

6. Potential Other Alternatives

We note that the Joint Offers (together with the Concert Parties) hold approximately 41.16% of the total issued Shares. We were also given the understanding that the Joint Offerors hold the Shares as a long-term investment. As such, it is unlikely that the holders of the Offer Shares would receive any alternative general offers from third parties to acquire the Offer Shares.

LETTER FROM VMS

OPINION AND RECOMMENDATION

Based on the aforesaid, in particular, (i) the P/E and P/B comparables analysis shows that the Share Offer Price is within the market range from the perspective of P/E and P/B comparables analysis according to the P/E and P/B comparables analysis; (ii) the “see-through” basis reflected in the price of the Option Offer which is commonly adopted in the market; (iii) the Share Offer Price is close to its historical highest closing price during the Review Period; (iv) there was a downward trend for the performance of the Group’s tobacco related segments since the year of 2015 and the tobacco industry environment ahead is very challenging as discussed in the section “Prospects of the Group” of this letter; (v) the Share Offer Price represents a premium of approximately 0.61% over the Group’s latest audited NAV attributable to the Shareholders per share as at 31 March 2016 and a slightly discount of approximately 4.35% to the Group’s latest published unaudited NAV attributable to the Shareholders per share as at 30 September 2016; and (vi) the historical liquidity is relatively low and it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of the Shares, in particular a large block of the Shares, in the open market without depressing the price of the Shares, on balance, we are of the view that the terms of the Offers (including the Share Offer Price and price of the Option Offer) are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. In this regard, we recommend the Independent Board Committee to advise the Independent Shareholders and the Optionholders to accept the Offers.

The Independent Shareholders and the Optionholders are further reminded that (i) the Share Offer is subject to satisfaction of the Condition for the Joint Offerors holding at least 50% upon valid acceptances of the Share Offer; and (ii) the Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

In view of the volatility of market conditions, those Independent Shareholders and the Optionholders who intend to accept the Share Offer and/or the Option Offer are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, instead of accepting the Offers, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offers after having regard to the market price and the liquidity of the Shares. However, the Optionholders are reminded that there will be a time lag between the exercise of the Options and the receipt of the conversion Shares due to the time required for the administrative procedures for exercising the Options. Accordingly, the Optionholders who wish to exercise their Options should be mindful of the possible price fluctuations of the Shares during the aforesaid time lag.

For those Independent Shareholders and Optionholders who consider to retain their Shares in full or in part, we would like to remind the Independent Shareholders and the Optionholders that if they consider retaining their Shares or tendering less than all their Shares under the Share Offer or exercising their Options, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers in view of the historical low liquidity of the Shares and there is no guarantee that the prevailing level of the Share price will sustain during and after the Offer Period.

LETTER FROM VMS

The Independent Shareholders and the Optionholders are strongly advised that the decision to realise or to continue holding their investments in the Shares is subject to individual circumstances and investment objectives. The Independent Shareholders and the Optionholders are also reminded to read carefully the procedures for accepting the Offers, details of which are set out in Appendix I to the Composite Document and the accompanying Forms of Acceptance, if they wish to accept the Offers.

Yours faithfully
For and on behalf of
VMS Securities Limited
Nick Man
Managing Director
Corporate Finance

Note: Mr. Nick Man is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of VMS Securities Limited to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Nick Man has over 10 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for connected transactions involving companies listed in Hong Kong.

1. PROCEDURES FOR ACCEPTANCE

To accept any of the Offers, you should complete and sign the relevant accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the relevant Offer.

1.1 The Share Offer

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong marked "Huabao International Holdings Limited – Share Offer" on the envelope as soon as possible but in any event so as to reach the Registrar by not later than 4.00 p.m. on the Closing Date or such later time and/or date as the Joint Offerors may determine and announce in accordance with the Takeovers Code.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees. In order to meet the deadline set by HKSCC Nominees, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees.
- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Joint Offerors and/or BNPP Securities and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.
- (d) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be provided to the Registrar.

- (e) Acceptance of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Share Offer Acceptance is received by the Registrar on or before the latest time for acceptance of the Share Offer and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (f) Seller's ad valorem stamp duty payable by the Shareholders who accept the Share Offer and calculated at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the market value of the Offer Shares or the consideration payable by the Joint Offerors in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the amount payable by the Joint Offerors to the relevant Shareholders on acceptance of the Share Offer. The Joint Offerors will arrange for payment of the seller's ad valorem stamp duty on behalf of the Shareholders who accept the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.
- (g) If the Share Offer is withdrawn or lapses, the Joint Offerors shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares lodged with the **WHITE** Form of Share Offer Acceptance to the relevant Shareholder(s).

- (h) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

1.2 The Option Offer

- (a) If you are an Optionholder and you wish to accept the Option Offer in respect of your Options (whether in full or in part), you must send the duly completed and signed **BLUE** Form of Option Offer Acceptance together with the relevant certificate(s) or other documents (if any) evidencing the grant of the Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Options which you hold that you wish to tender to the Option Offer to the company secretary of the Company at Suite 3008, 30/F, Central Plaza, 18 Harbour Road, Hong Kong, marked “Huabao International Holdings Limited – Option Offer” on the envelope as soon as possible but in any event so as to reach the company secretary of the Company by not later than 4.00 p.m. on the Closing Date or such later time and/or date as the Joint Offerors may determine and announce in accordance with the Takeovers Code.
- (b) No stamp duty will be deducted from the amount paid or payable to the holder(s) of the Options who accept(s) the Option Offer.
- (c) If the Option Offer is withdrawn or lapses, the Joint Offerors shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the certificate(s) or other documents (if any) evidencing the grant of the Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Options lodged with the **BLUE** Form of Option Offer Acceptance to the relevant Optionholders.
- (d) No acknowledgement of receipt of any **BLUE** Form of Option Offer Acceptance and/or the certificate(s) or other documents (if any) evidencing the grant of the Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Options will be given.

2. SETTLEMENT UNDER THE OFFERS

2.1 The Share Offer

Subject to the Share Offer becoming or being declared unconditional and provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares as required by Note 1 to Rule 30.2 of the Takeovers Code are complete and in good order and in all respects and have been received by the Registrar before the close of the Share Offer, a cheque for the amount due to each of the Shareholders who accept the Share Offer less seller's ad valorem stamp duty in respect of the Offer Shares tendered by him under the Share Offer will be despatched to such Shareholder by ordinary post at his own risk as soon as possible but in any event within seven (7) Business Days following the later of the date on which the Share Offer becomes or is declared unconditional and the receipt of all relevant documents by the Registrar to render such acceptance complete and valid.

2.2 The Option Offer

Subject to the Share Offer becoming or being declared unconditional and provided that a valid **BLUE** Form of Option Offer Acceptance and the relevant option certificate(s) or other documents (if any) evidencing the grant of the Options and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Options are complete and in good order and in all respects and have been received by the company secretary of the Company before the close of the Option Offer, a cheque for the amount due to each of the Optionholders who accept the Option Offer in respect of the Options tendered by him under the Option Offer will be despatched to such Optionholder by ordinary post at his own risk as soon as possible but in any event within seven (7) Business Days of the later of the date on which the Option Offer becomes or is declared unconditional and the receipt of all relevant documents by the company secretary of the Company to render such acceptance complete and valid.

Settlement of the consideration to which any Shareholder or Optionholder is entitled under the Share Offer or Option Offer, as applicable, will be implemented in full in accordance with their respective terms, (save in respect of the payment of the seller's ad valorem stamp duty for the Share Offer) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Joint Offerors may otherwise be, or claim to be, entitled against such Shareholder or Optionholder.

3. ACCEPTANCE PERIOD AND REVISIONS

Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance must be received by the Registrar and the **BLUE** Form of Option Offer Acceptance must be received by the company secretary of the Company, in each case, in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.

If the Offers are extended, the Joint Offerors will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, a statement that the Offers will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the relevant Offers before the Offers are closed. If, in the course of the Offers, the Joint Offerors revise the terms of the Offers, all Shareholders and Optionholders, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms. A revised offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.

If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

4. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Share Offer.

5. ANNOUNCEMENT

By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Joint Offerors must inform the Executive and the Stock Exchange of its decision in relation to the expiry, revision and extension or unconditionality of the Offers. The Joint Offerors must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended, expired or have become or been declared unconditional. The announcement will state the following:

- (i) the total number of Shares and Options for which acceptances of the Joint Offerors have been received;
- (ii) the total number of Shares and Options held, controlled or directed by the Joint Offerors and its Concert Parties before the Offer Period;
- (iii) the total number of Shares and Options acquired or agreed to be acquired during the Offer Period by the Joint Offerors and its Concert Parties; and
- (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Joint Offerors and any of the Concert Parties have borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

The announcement will specify the percentages of the relevant classes of issued share capital, and the percentages of voting rights represented by these numbers of Shares.

In computing the total number of Shares and Options represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in this Appendix I, and which have been received by the Registrar and the company secretary of the Company, as the case may be, no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Listing Rules.

6. RIGHT OF WITHDRAWAL

The Share Offer is conditional upon the fulfilment of the Condition set out in the “Letter from BNPP Securities” in this Composite Document and the Options Offer are conditional upon the Share Offer becoming and being declared unconditional in all respects. Acceptance of the Offers tendered by holders of Offer Shares and Options, respectively, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the paragraph below. Note that Rule 17 of the Takeovers Code provides that an acceptor of any of the Offers shall be entitled to withdraw his acceptance after twenty-one (21) days from the first Closing Date (being Thursday, 12 January 2017) if the Share Offer has not by then become unconditional as to acceptances and up to the earlier of, such time as the Share Offer becomes or is declared unconditional as to acceptances and 4:00 p.m. on the 60th day from the date of despatch of this Composite Document (being Monday, 20 February 2017 (or the date beyond which the Joint Offerors have stated that the Offers will not be extended, if applicable)).

Under Rule 19.2 of the Takeovers Code, if the Joint Offerors are unable to comply with the requirements set out in the section headed “Announcements” above, the Executive may require that the holders of Offer Shares and Options who have tendered acceptances to the relevant Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that section are met.

7. HONG KONG STAMP DUTY

Seller’s ad valorem stamp duty at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the market value of the Offer Shares or the consideration payable by the Joint Offerors in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the amount payable to the relevant Shareholder on acceptance of the Share Offer. The Joint Offerors will arrange for payment of the stamp duty on behalf of accepting Shareholders in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.

8. GENERAL

- (a) All communications, notices, Form(s) of Acceptance, share certificate(s) in respect of Shares and option certificates in respect of the Options, transfer receipt(s), other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Shareholders and the Optionholders or their designated agents, by ordinary post at their own risk, and none of the Joint Offerors, BNPP Securities and any of their respective directors, the Registrar, the company secretary of the Company and other parties involved in the Offers and any of their respective agents accepts any liability for any loss or delay in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form(s) of Acceptance form part of the terms and conditions of the Offers.
- (c) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (d) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an authority to the Joint Offerors, BNPP Securities or such person or persons as the Joint Offerors may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Joint Offerors, or such person or persons as it may direct, the Shares and/or the Options in respect of which such person or persons has/have accepted the Offers.
- (f) Subject to the Share Offer becoming unconditional, acceptance of the Share Offer by any person will be deemed to constitute a warranty by such person to the Joint Offerors and the Company:
 - (i) that the Offer Shares tendered for acceptance under the Share Offer are sold by an accepting Shareholder to the Joint Offerors free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made; and

- (ii) that if such Shareholder accepting the Share Offer is an overseas Shareholder, he has observed the laws of all relevant jurisdictions in connection therewith, including the obtaining of any governmental or exchange control or other consents, as may be required, or the compliance with other necessary formalities or legal requirements and the payment of any issue, transfer or other taxes in such jurisdiction.
- (g) Subject to the Share Offer becoming unconditional, the acceptance of the Option Offer by an Optionholder will result in the cancellation of those relevant Options, together with all rights attaching thereto.
- (h) Reference to any of the Offers in this Composite Document and in the Form(s) of Acceptance shall include any extension and/or revision thereof.
- (i) All acceptances, instructions, authorities and undertakings given by the Shareholders in the **WHITE** Form of Share Offer Acceptance and by the Optionholders in the **BLUE** Form of Option Offer Acceptance shall be irrevocable except as permitted under the Takeovers Code.
- (j) In making their decisions with regard to the Offers, the Shareholders and Optionholders should rely on their own examination of the Joint Offerors, the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance shall not be construed as any legal or business advice on the part of the Company, the Joint Offerors and/or BNPP Securities. The Shareholders and Optionholders should consult their own professional advisers for professional advice.
- (k) The English text of this Composite Document and of the Forms of Acceptance shall prevail over their respective Chinese text.

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of audited consolidated financial information of the Group for the three years ended 31 March 2014, 2015 and 2016 and unaudited consolidated financial information of the Group for the six months ended 30 September 2016, as extracted from the relevant annual reports and interim report of the Company.

	For the year ended 31 March			For the six months ended 30 September
	2014 (HK\$'000) (Audited)	2015 (HK\$'000) (Audited)	2016 (HK\$'000) (Audited)	2016 (HK\$'000) (Unaudited)
Sales	4,237,425	4,326,486	3,928,217	1,859,477
Gross profit	2,998,119	3,025,317	2,705,176	1,210,843
Operating profit	2,377,244	2,320,145	1,748,103	662,555
Profit before income tax	2,417,245	2,386,247	1,832,915	686,497
Profit for the year/period	1,996,864	1,995,193	1,467,535	546,691
Profit attributable to equity holders of the Company	1,977,325	1,986,584	1,450,250	557,753
Earnings per share for profit attributable to the Company's equity holders for the year/period				
– Basic (HK cents)	63.76	64.02	46.69	17.95
– Diluted (HK cents)	63.72	63.93	46.66	17.95
Dividend per share for the year/period (HK cents)	19.17	9.52	–	–
Special dividend per share for the year/period (HK cents)	9.88	22.20	–	–
				As at
	As at 31 March			30 September
	2014 (HK\$'000) (Audited)	2015 (HK\$'000) (Audited)	2016 (HK\$'000) (Audited)	2016 (HK\$'000) (Unaudited)
Non-current assets	5,024,372	5,022,115	5,395,034	5,224,068
Current assets	5,384,034	5,878,752	6,191,188	7,453,480
Total assets	10,408,406	10,900,867	11,586,222	12,677,548
Capital and reserves attributable to the Company's equity holders	8,685,571	9,169,046	10,187,240	10,737,165
Non-controlling interests	314,658	234,796	343,178	1,051,134
Total equity	9,000,229	9,403,842	10,530,418	11,788,299
Non-current liabilities	92,676	72,607	123,770	113,698
Current liabilities	1,315,501	1,424,418	932,034	775,551
Total liabilities	1,408,177	1,497,025	1,055,804	889,249
Net current assets	4,068,533	4,454,334	5,259,154	6,677,929
Total assets less current liabilities	9,092,905	9,476,449	10,654,188	11,901,997

The auditors of the Company, PricewaterhouseCoopers (for the years ended 31 March 2014, 2015 and 2016), did not issue any qualified or modified opinion (including emphasis of matter, adverse opinion and disclaimer of opinion) on the Group's consolidated financial statements for the three years ended 31 March 2014, 2015 and 2016 respectively, and the Company had no items which are exceptional or extraordinary because of size, nature or incidence for the same financial years.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2016

Set out below are the Group's audited consolidated financial statements for the year ended 31 March 2016 which are published in the Company's annual report issued on 4 July 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Notes</i>	As at 31 March	
		2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,307,819	1,405,495
Land use rights	7	185,688	194,060
Intangible assets	8	3,261,635	2,897,367
Investments in associates	9	337,616	227,795
Investment in a jointly controlled entity	10	–	6,987
Available-for-sale financial assets	11	222,488	225,217
Deferred income tax assets	12	79,788	65,194
		<u>5,395,034</u>	<u>5,022,115</u>
Current assets			
Inventories	13	834,024	818,433
Trade and other receivables	14	1,440,690	1,309,693
Financial assets at fair value through profit or loss	15	229,149	124,535
Available-for-sale financial assets	11	165,617	–
Restricted bank deposit	16	117,130	–
Short-term time deposits	16	220,527	951,802
Cash and cash equivalents	16	3,184,051	2,674,289
		<u>6,191,188</u>	<u>5,878,752</u>
Total assets		<u><u>11,586,222</u></u>	<u><u>10,900,867</u></u>

		As at 31 March	
	<i>Notes</i>	2016	2015
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	<i>17</i>	310,666	310,432
Reserves	<i>19</i>	813,203	1,188,606
Retained earnings	<i>20</i>	9,063,371	7,670,008
		<u>10,187,240</u>	<u>9,169,046</u>
Non-controlling interests		<u>343,178</u>	<u>234,796</u>
Total equity		<u>10,530,418</u>	<u>9,403,842</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	<i>12</i>	85,329	72,607
Trade and other payables	<i>22</i>	38,441	–
		<u>123,770</u>	<u>72,607</u>
Current liabilities			
Borrowings	<i>21</i>	18,002	750,278
Trade and other payables	<i>22</i>	794,679	562,030
Current income tax liabilities		119,353	112,110
		<u>932,034</u>	<u>1,424,418</u>
Total liabilities		<u>1,055,804</u>	<u>1,497,025</u>
Total equity and liabilities		<u><u>11,586,222</u></u>	<u><u>10,900,867</u></u>

The notes on pages II-8 to II-63 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Notes</i>	Year ended 31 March	
		2016	2015
Sales	5	3,928,217	4,326,486
Cost of goods sold	24	<u>(1,223,041)</u>	<u>(1,301,169)</u>
Gross profit		2,705,176	3,025,317
Other income and other gains – net	23	197,427	263,205
Selling and marketing expenses	24	(253,346)	(204,650)
Administrative expenses	24	<u>(901,154)</u>	<u>(763,727)</u>
Operating profit		1,748,103	2,320,145
Finance income		85,973	83,095
Finance costs		(12,558)	(13,988)
Finance income – net	26	73,415	69,107
Share of profit/(loss) of associates and a jointly controlled entity	9, 10	<u>11,397</u>	<u>(3,005)</u>
Profit before income tax		1,832,915	2,386,247
Income tax expense	27	<u>(365,380)</u>	<u>(391,054)</u>
Profit for the year		<u>1,467,535</u>	<u>1,995,193</u>
Attributable to:			
Equity holders of the Company		1,450,250	1,986,584
Non-controlling interests		<u>17,285</u>	<u>8,609</u>
		<u>1,467,535</u>	<u>1,995,193</u>
Earnings per share for profit attributable to the Company's equity holders for the year			
– Basic (HK cents)	28(a)	<u>46.69</u>	<u>64.02</u>
– Diluted (HK cents)	28(b)	<u>46.66</u>	<u>63.93</u>

The notes on pages II-8 to II-63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31 March	
	2016	2015
Profit for the year	1,467,535	1,995,193
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Fair value changes on available-for-sale financial assets, net of tax	(9,451)	13,461
Transfer of reserves to income statement upon sale of available-for-sale financial assets, net of tax	(8,392)	–
Currency translation differences on foreign operations	(472,346)	6,341
Other comprehensive income for the year, net of tax	<u>(490,189)</u>	<u>19,802</u>
Total comprehensive income for the year, net of tax	<u>977,346</u>	<u>2,014,995</u>
Total comprehensive income attributable to:		
Equity holders of the Company	971,149	2,006,322
Non-controlling interests	6,197	8,673
	<u>977,346</u>	<u>2,014,995</u>

The notes on pages II-8 to II-63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Notes	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital	Reserves	Retained earnings	Total		
Balance at 1 April 2014		310,132	1,110,334	7,265,105	8,685,571	314,658	9,000,229
Fair value changes on available-for-sale financial assets, net of tax		–	13,461	–	13,461	–	13,461
Currency translation differences		–	6,277	–	6,277	64	6,341
Profit for the year		–	–	1,986,584	1,986,584	8,609	1,995,193
Total comprehensive income for the year ended 31 March 2015		–	19,738	1,986,584	2,006,322	8,673	2,014,995
Transactions with owners in their capacity as owners:							
Appropriations from net profit	19, 20	–	54,251	(54,251)	–	–	–
Dividends paid to non-controlling interests		–	–	–	–	(34,553)	(34,553)
Acquisition of additional interest in Sino Investment High-Tech Ltd. (“Sino Investment”) from non-controlling interest		–	(9,824)	–	(9,824)	(30,176)	(40,000)
Acquisition of additional interest in Huabao Korea Co., Ltd (“Huabao Korea”) from non-controlling interest		–	5,137	–	5,137	(23,806)	(18,669)
Employee share option scheme							
– Issue of shares upon exercise of share options		300	8,970	–	9,270	–	9,270
Final and special dividend for the year ended 31 March 2014	20	–	–	(542,741)	(542,741)	–	(542,741)
Interim and special dividend for the 6 months ended 30 September 2014	20	–	–	(984,689)	(984,689)	–	(984,689)
Total transactions with owners		300	58,534	(1,581,681)	(1,522,847)	(88,535)	(1,611,382)
Balance at 31 March 2015		310,432	1,188,606	7,670,008	9,169,046	234,796	9,403,842
Balance at 1 April 2015		310,432	1,188,606	7,670,008	9,169,046	234,796	9,403,842
Fair value changes on available-for-sale financial assets, net of tax		–	(9,451)	–	(9,451)	–	(9,451)
Reversal of fair value change on disposal of available-for-sale financial assets, net of tax		–	(8,392)	–	(8,392)	–	(8,392)
Currency translation differences		–	(461,258)	–	(461,258)	(11,088)	(472,346)
Profit for the year		–	–	1,450,250	1,450,250	17,285	1,467,535
Total comprehensive income for the year ended 31 March 2016		–	(479,101)	1,450,250	971,149	6,197	977,346
Transactions with owners in their capacity as owners:							
Appropriations from net profit	19, 20	–	56,981	(56,981)	–	–	–
Dividends payable to non-controlling interests		–	–	–	–	(8,947)	(8,947)
Dividends paid to non-controlling interests		–	–	–	–	(48,731)	(48,731)
Acquisition of equity interest in Yancheng City Chunzhu Aroma Co.,Ltd (“Yancheng Chunzhu”)	30(a)	–	–	–	–	84,647	84,647
Acquisition of equity interest in VMR Products LLC and its subsidiaries (“VMR”)	30(b)	–	–	–	–	118,883	118,883
Acquisition of additional equity interest in Yancheng Chunzhu from non-controlling interest	31(a)	–	39,764	–	39,764	(39,764)	–
Repurchase of shares in VMR	31(b)	–	(5,070)	–	(5,070)	(7,143)	(12,213)
Non-controlling interest from newly-incorporated subsidiaries		–	–	–	–	3,240	3,240
Employee share option scheme							
– Issue of shares upon exercise of share options		234	9,631	–	9,865	–	9,865
Share-based payment							
– Value of consultant service		–	2,392	–	2,392	–	2,392
Unclaimed dividend for forfeited shares		–	–	94	94	–	94
Total transactions with owners		234	103,698	(56,887)	47,045	102,185	149,230
Balance at 31 March 2016		<u>310,666</u>	<u>813,203</u>	<u>9,063,371</u>	<u>10,187,240</u>	<u>343,178</u>	<u>10,530,418</u>

The notes on pages II-8 to II-63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Notes</i>	Year ended 31 March	
		2016	2015
Cash flows from operating activities			
Cash generated from operations	32	1,835,973	2,582,464
Income tax paid		(363,744)	(440,569)
Net cash generated from operating activities		<u>1,472,229</u>	<u>2,141,895</u>
Cash flows from investing activities			
Acquisitions of subsidiaries	30	(294,497)	–
Purchases of available-for-sale financial assets	11	(228,833)	(52,558)
Proceeds from disposal of available-for-sale financial assets		38,384	–
Deposits paid for acquisition of available-for-sale financial assets		(43,204)	–
Acquisition of an associate		(5,196)	–
Proceeds from disposal of a jointly controlled entity/ an associate		6,338	10,952
Purchases of financial assets at fair value through profit or loss		–	(95,877)
Purchases of property, plant and equipment, land use right and intangible asset		(137,262)	(154,179)
Proceeds from disposal of property, plant and equipment	32	302	375
Short-term time deposits released/(placed)		684,259	(144,425)
Increase in restricted bank deposit		(117,130)	–
Dividend received		20,495	3,089
Interest received		90,192	83,088
Net cash generated from/(used in) investing activities		<u>13,848</u>	<u>(349,535)</u>
Cash flows from financing activities			
Dividends paid to shareholders and non-controlling interests		(48,731)	(1,565,695)
Acquisition of additional interests in subsidiaries from non-controlling interests		–	(58,669)
Capital contributions from non-controlling interests		3,240	–
Proceeds from issue of shares in connection with exercise of share options		9,865	9,271
New short-term bank borrowings		–	290,150
Repayment of short-term bank borrowings		(756,649)	(65,150)
Repayment to a shareholder		–	(93,985)
Interest paid		(14,231)	(13,489)
Repurchase of shares from non-controlling interests		(254)	–
Net cash used in financing activities		<u>(806,760)</u>	<u>(1,497,567)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 April		679,317	294,793
Effects of currency translation on cash and cash equivalents		2,674,289	2,375,345
		(169,555)	4,151
Cash and cash equivalents at 31 March	16	<u><u>3,184,051</u></u>	<u><u>2,674,289</u></u>

The notes on pages II-8 to II-63 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

1. GENERAL INFORMATION

Huabao International Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are mainly engaged in the research and development, production, distribution and sale of flavours, reconstituted tobacco leaves, aroma raw materials, fragrances and new materials in the People’s Republic of China (the “PRC”). Ms. Chu Lam Yiu, who is the Chairwoman of the Board of Directors, holds approximately 41% beneficial equity interest in the Company as at 31 March 2016, and is the single largest shareholder of the Company.

These consolidated financial statements are presented in thousands of units of HK dollars (“HKD’000”) unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 June 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by remeasurement of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, ‘Operating segments’, HKAS 16, ‘Property, plant and equipment’ and HKAS 38, ‘Intangible assets’ and HKAS 24, ‘Related party disclosures’.

Amendments from annual improvements to HKFRSs – 2011 – 2013 Cycle, on HKFRS 3, ‘Business combinations’, HKFRS 13, ‘Fair value measurement’ and HKAS 40, ‘Investment property’.

The Group has early adopted amendments to HKAS16 and HKAS41, “Agriculture: bearer plants”. As at 31 March 2016, the Group recognised its newly acquired bearer plants as property, plant and equipment amounting to approximately HKD3,396,000 (2015: None).

The impact of adoption of the improvements and amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) The following new standards and amendments to standards are not yet effective and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKFRS 14 “Regulatory deferral accounts”	1 January 2016
HKFRS 11 (Amendment) on accounting for acquisitions of interests in joint operations	1 January 2016
HKAS 16 and HKAS 38 (Amendment) on clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 10 and HKAS 28 (Amendment) on the sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKAS 27 (Amendment) “Equity method in separate financial statements”	1 January 2016
Annual improvements 2014 on changes from the 2012-2014 cycle of the annual improvements project	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment) on investment entities: applying the consolidation exception	1 January 2016
HKAS 1 for the disclosure initiative	1 January 2016
HKFRS 15 “Revenue from contracts with customers”	1 January 2018
HKFRS 9 “Financial instruments”	1 January 2018
HKFRS 16 “Leases”	1 January 2019

Management is currently assessing the impact of the above new and amended standards to the Group’s consolidated financial statements.

2.2 Consolidation

(a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured at either fair value or

the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

(i) *Business combinations*

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(b) *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in consolidated other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of an associate in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

(c) Jointly controlled entity

The Group has applied HKFRS 11 "Joint arrangements" to all joint arrangements. According to HKFRS 11, Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed to ensure consistency with the policies adopted by the Group.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the Company's functional currency and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "other income and other gains – net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between currency translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group's losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group's losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Construction in progress represents the direct costs of construction of property, plant and equipment incurred plus interest capitalised less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and available for their intended use.

All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	5-10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5-10 years
Leasehold improvements	2-5 years or over the lease term, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income and other gains – net", in the consolidated income statement.

2.7 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer relationships and non-competition agreement

Customer relationships and non-competition agreement acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful lives of 5 to 10 years.

(c) Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of 10 to 20 years.

(d) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

(e) Patents

Patents include purchased technology and skills acquired from third parties. They have a finite useful life and carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the technology and skills over their estimated useful life of 3 to 10 years.

(f) Other intangible assets

Other intangible assets mainly include product design and domain name. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations. They have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 5 years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group and Company's loans and receivables comprise "trade and other receivables", "cash and cash equivalents", "restricted bank deposits", "amounts due from subsidiaries" and "short-term time deposits" in the statements of financial position.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other income and other gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "other income and other gains – net".

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its costs is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to owners of the Company.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the consolidated income statement in the period in which they are incurred.

Borrowing costs include interest expense and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries, associates and jointly controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis difference

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

Pension obligations

The Group operates the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong which is generally funded through payments to insurance companies under defined contribution plan. It pays contributions to administered pension insurance plans on a mandatory, contractual or voluntary basis. Moreover, all the employees of the Group's entities incorporated in Mainland China of the PRC (the "Mainland China") participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the local governments. The Group also makes defined contribution to retirement schemes managed by the insurance company in accordance with German regulation and rules for the employees of the subsidiary located in Germany. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. No pension obligation is required under the Botswana laws and regulation.

2.22 Share-based payment

(a) *Share option scheme*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) *Share award scheme*

The Group operates an equity-settled plan, under which the entity receives services as consideration for equity instruments (share award) of the Group. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The fair value of the services received in exchange for the grant of the options is charged to the income statement when the services are received.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) the management intends to complete the intangible asset and use or sell it;
- (c) there is an ability to use or sell the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development assets are tested for impairment annually.

2.25 Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the final dividends are approved by the Company's shareholders and interim dividends are approved by the Company's Board of Directors.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk, and fair value interest rate risk), credit risk and liquidity risk. The Group does not have any significant price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under the policies approved by the Board of Directors. The Group identifies and evaluates financial risks in close co-operations with its operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and Mainland China and is exposed to foreign exchange risk primarily through financial instruments that are denominated in a currency other than the functional currency in which they are measured. The functional currency of the PRC subsidiaries is RMB, and the functional currency of the HK subsidiaries is HKD. The foreign exchange risk of the Group primarily arises from dividend receivables which are denominated in RMB and borrowings which are denominated in Euro ("EUR"). The exchange rate of HKD against RMB and cash repatriation from the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The majority of the subsidiaries of the Group operate in the PRC and most of their transactions are denominated in RMB. The Group did not have other significant exposure to foreign exchange risk.

If HKD had strengthened/weakened by 5% against RMB during the year ended 31 March 2016, with all other factors remaining unchanged, the profit after income tax for the year and equity as at year end date would have been affected as follows:

	Change of profit after income tax for the year increase/(decrease)		Change of equity as at 31 March increase/(decrease)	
	2016	2015	2016	2015
Group				
– Strengthened by 5%	(22,095)	(14,348)	(443,413)	(465,242)
– Weakened by 5%	22,095	14,348	443,413	465,242
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

If HKD had strengthened/weakened by 5% against EUR during the year ended 31 March 2016, with all other factors remaining unchanged, the profit after income tax for the year would have been affected as follows:

	Change of profit after income tax for the year increase/(decrease)	
	2016	2015
Group		
– Strengthened by 5%	–	7,256
– Weakened by 5%	–	(7,256)
	<u> </u>	<u> </u>

(ii) *Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group does not have significant interest-bearing assets. Fluctuation of market rates does not have a significant impact to the Group's performance.

The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are at floating rates, and expose the Group to cash flow interest-rate risk.

At 31 March 2016 and 2015, if interest rates on borrowings had been 1 percentage points higher/lower, with all other variables held constant, there would have been no material impact to the profit after income tax for the year.

(iii) *Price risk*

The Group is exposed to price risk because of investments held by the Group, which are classified as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

The sensitivity analysis is determined based on the exposure to price risk of the financial assets at fair value through profit or loss at the end of each reporting period. If the fair values of the financial assets at fair value through profit or loss held by the Group had been 5% higher/lower, profit after tax for the year would have been approximately HKD9,739,000 and HKD5,293,000 higher/lower, for the years ended 31 March 2016 and 2015, respectively.

(b) *Credit risk*

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, credit exposure to customers and related parties arising from outstanding receivables.

As at the reporting dates, all the Group's cash and cash equivalents, restricted bank deposits and short-term time deposits are placed in high quality financial institutions without significant exposure to credit risk.

The Group currently sells substantially all its products namely flavours, reconstituted tobacco leaves, aroma raw materials, fragrances and new materials in the PRC domestic market. Credit is granted for a period up to 6 months to the major customers. The credit period is determined according to an assessment made on the financial conditions and past payment history of these customers with the approval obtained from senior management. As at 31 March 2016, the 5 largest debtors accounted for approximately 40% (2015: 39%) of total trade receivables balance of the Group.

The Directors are of the view that most customers with outstanding balances as at 31 March 2016 are either existing customers with a long business relationship with the Group and/or reputable companies in the industry. The risk of credit default is considered to be low and accordingly, the provision for doubtful debts as at 31 March 2016 amounting to approximately HKD13,763,000 (2015: HKD7,044,000) is considered adequate to cover any significant potential credit risk.

As at 31 March 2016, the Company had certain balances due from subsidiaries. The Directors do not consider that there is significant credit risk arising from these balances in light of the past repayment history and operations of these subsidiaries.

(c) *Liquidity risk*

Cash flow forecast is performed in the operating entities of the Group. The Directors monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and that the Group does not breach borrowing covenants on its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and if applicable, external regulatory or legal requirements – for example, currency restrictions.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are based on the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years
Group				
At 31 March 2016				
Borrowings (including interest)	18,276	–	–	–
Trade and other payables excluding statutory liabilities and advances from customers	664,270	17,326	13,678	3,192
At 31 March 2015				
Borrowings (including interest)	761,469	–	–	–
Trade and other payables excluding statutory liabilities and advances from customers	449,584	–	–	–

As at 31 March 2016, the Group's net current assets is HKD5,259,154,000 (2015: HKD4,454,334,000).

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The operating cash inflows of the Group are sufficient for investing activities including acquisition of new businesses.

The Group monitors its capital risk based on the debt-to-equity ratio. This ratio is calculated by dividing the net debt by the total owners' equity. The Group's net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Therefore, the Group's debt-to-equity ratio is zero as at 31 March 2016 and 2015.

3.3 Fair value estimation

The following categorises financial instruments carried at fair value based on the level of inputs to valuation techniques within a fair value hierarchy. The different levels have been defined as follows:

- Quoted price (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The financial assets of level 1 within the fair value hierarchy as at 31 March 2016 was the financial assets at fair value through profit or loss. The fair value of this financial instrument traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The financial assets of level 3 within the fair value hierarchy as at 31 March 2016 and 2015 were the available-for-sale financial assets, of which the changes for the years ended 31 March 2016 and 2015 are presented in Note 11. In addition, the remeasurements mentioned in Note 9(c) during the financial year were of level 3. There were no transfers into or out of level 3.

Other than available-for-sale financial assets and financial assets at fair value through profit or loss, there are no financial instruments that were measured at fair value as at 31 March 2016 and 2015.

Market approach is adopted in valuation of available-for-sale financial assets. There were no changes in valuation techniques during the year.

3.4 Group's valuation processes

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes with the assistance of an independent valuer when necessary, including level 3 fair values. This team reports directly to the chief financial officer ("CFO"). Discussions of valuation processes and results are held between the CFO and the valuation team at least once every six months, in line with the Group's reporting dates.

3.5 Fair value of financial assets and liabilities measured at amortised cost

The fair values of financial assets and liabilities measured at amortised cost approximate their carrying amounts.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

If the budgeted gross margin, estimated pre-tax discount rate or forecast and terminal growth rate used in the value-in-use calculation for the CGUs of flavours segment had been 16.6 percentage points lower, 4.7 percentage points higher or 3% lower than management's estimates at 31 March 2016 respectively, with all other assumptions remaining unchanged, the Group would not have recognised an impairment of goodwill.

If the budgeted gross margin, estimated pre-tax discount rate or forecast and terminal growth rate used in the value-in-use calculation for the CGUs of reconstituted tobacco leaves segment had been 2.6 percentage points lower, 0.9 percentage points higher or 1 percentage points lower than management's estimates at 31 March 2016 respectively, with all other assumptions remaining unchanged, the Group would have recognised an impairment of goodwill amounting to approximately HKD522,000, HKD826,000 or HKD1,062,000, respectively.

If the budgeted gross margin, estimated pre-tax discount rate or forecast growth rate used in the value-in-use calculation for the CGUs of Yancheng Chunzhu under aroma raw materials segment had been 2.8 percentage points lower, 3.3 percentage points higher or 6.9 percentage points lower than management's estimates at 31 March 2016 respectively, with all other assumptions remaining unchanged, the Group would have recognised an impairment of goodwill amounting to approximately HKD340,000, HKD364,000 or HKD126,000, respectively.

If the budgeted gross margin, estimated pre-tax discount rate or forecast and terminal growth rate used in the value-in-use calculation for the CGUs of fragrances segment had been 1 percentage point lower, 1 percentage point higher or 1 percentage point lower than management's estimates at 31 March 2016 respectively, with all other assumptions remaining unchanged, the Group would have recognised an impairment of goodwill amounted to approximately HKD3,854,000, HKD13,190,000 or HKD9,798,000, respectively.

If the budgeted gross margin or estimated pre-tax discount rate used in the value-in-use calculation for the CGUs of VMR under flavour segment had been 1.8 percentage points lower or 2.7 percentage points higher than management's estimates at 31 March 2016 respectively, with all other assumptions remaining unchanged, the Group would have recognised an impairment of goodwill amounting to approximately HKD386,000 or HKD6,000. If no terminal growth was expected, with all other assumptions remaining unchanged, the Group would not have recognised an impairment of goodwill.

(b) PRC Enterprise Income Tax and Deferred Taxation

The Group's subsidiary that operates in the PRC is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it's probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

(c) Dividends policy of subsidiaries

According to the relevant regulations of the Corporate Income Tax Laws, when a foreign investment enterprise distributes dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, it will be subject to withholding income tax. The applicable withholding income tax rate varies with the origin of the overseas investors.

The Directors estimated that a portion of profits generated by the PRC subsidiaries would be distributed to their Hong Kong immediate parent companies and the approval on the treaty rate will be obtained. Therefore, deferred income tax liabilities had been provided based on 5% or 10% of the estimated profits to be remitted to Hong Kong.

As at 31 March 2016, deferred income tax liabilities of HKD343,470,000 (31 March 2015: HKD358,457,000) had not been recognised for the withholding tax that would be payable on the unremitted profits of certain PRC subsidiaries. The Directors have decided not to distribute these earnings.

The Directors will regularly review the funding requirements of the Group and thus revise the dividend distribution policy of its subsidiaries as appropriate.

(d) Business combination

Accounting for acquisitions requires the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the acquisition of the subsidiaries (Note 30), the Group has undertaken a process to identify all assets and liabilities acquired. Judgements made in identifying all acquired assets and liabilities, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset's useful lives, could materially impact the calculation of goodwill and depreciation and amortisation charges in subsequent periods. Estimated fair values are based on information available at the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Determining the estimated useful lives of tangible and intangible assets acquired also requires judgement.

5. TURNOVER AND SEGMENT INFORMATION

The Group has organized its operations into five main operating segments:

- (1) Flavours;
- (2) Reconstituted tobacco leaves;
- (3) Aroma raw materials;
- (4) Fragrances; and
- (5) New materials.

The chief operating decision-makers have been identified as the Company's executive directors (the 'Executive Directors'). The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. Due to the change in the structure of the internal organisation, the newly acquired subsidiary, Yancheng Chunzhu together with existing entities with similar products which were included in the flavour segment previously are now presented as a new operating segment, aroma raw materials segment. Accordingly, the comparative figures of last year has been reclassified. In addition, the newly acquired subsidiary VMR was included in the flavours segment currently as it is so treated in the Group's internal reporting.

The Executive Directors consider the business from the operation's perspective and assess the performance of flavours, reconstituted tobacco leaves, aroma raw materials, fragrances and new materials segments:

- (1) Flavours segment includes research and development, production and sale of flavours products.
- (2) Reconstituted tobacco leaves segment includes research and development, production and sale of paper-making reconstituted tobacco leaves.
- (3) Aroma raw materials segment includes research and development, manufacture and sale of aroma raw materials products that are extracted from natural material or generated from chemical process.
- (4) Fragrances segment includes research and development, production and sale of fragrances products.
- (5) The new materials segment includes research and development, manufacture and sale of new materials products that are innovative, functional, and applicable to tobacco industry.

The Executive Directors assess the performance of the operating segments based on a measure of operating profit.

The segment information for the year ended 31 March 2016 is presented below:

	Year ended 31 March 2016							Total
	Flavours	Reconstituted tobacco leaves	Aroma raw materials	Fragrances	New materials	Total segments	Corporate	
Total turnover	2,809,731	699,794	351,583	82,033	74,750	4,017,891	–	4,017,891
Inter-segment sales	(84,110)	(1,544)	(4,018)	(2)	–	(89,674)	–	(89,674)
Segment turnover – net	<u>2,725,621</u>	<u>698,250</u>	<u>347,565</u>	<u>82,031</u>	<u>74,750</u>	<u>3,928,217</u>	<u>–</u>	<u>3,928,217</u>
Segment result	1,463,848	229,729	57,327	7,237	13,580	1,771,721	(23,618)	1,748,103
Finance income								85,973
Finance costs								(12,558)
Finance income – net								73,415
Share of profit of associates and a jointly controlled entity								11,397
Profit before income tax								1,832,915
Income tax expense								(365,380)
Profit for the year								<u>1,467,535</u>
Depreciation	<u>47,496</u>	<u>86,890</u>	<u>9,853</u>	<u>1,669</u>	<u>13,937</u>	<u>159,845</u>	<u>7</u>	<u>159,852</u>
Amortisation	<u>45,222</u>	<u>7,588</u>	<u>7,338</u>	<u>826</u>	<u>2</u>	<u>60,976</u>	<u>–</u>	<u>60,976</u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	As at 31 March 2016							Total
	Flavours	Reconstituted tobacco leaves	Aroma raw materials	Fragrances	New materials	Total segments	Corporate	
Segment assets	6,861,856	3,315,418	807,058	153,430	222,692	11,360,454	225,768	11,586,222

The segment information for the year ended 31 March 2015 is presented below:

	Year ended 31 March 2015							Total
	Flavours	Reconstituted tobacco leaves	Aroma raw materials	Fragrances	New materials	Total segments	Corporate	
Total turnover	2,954,577	974,301	275,219	85,075	86,769	4,375,941	–	4,375,941
Inter-segment sales	(16,273)	(28,727)	(4,424)	(31)	–	(49,455)	–	(49,455)
Segment turnover – net	2,938,304	945,574	270,795	85,044	86,769	4,326,486	–	4,326,486
Segment result	1,852,235	417,891	45,930	10,654	15,311	2,342,021	(21,876)	2,320,145
Finance income								83,095
Finance costs								(13,988)
Finance income – net								69,107
Share of loss of associates and a jointly controlled entity								(3,005)
Profit before income tax								2,386,247
Income tax expense								(391,054)
Profit for the year								1,995,193
Depreciation	44,322	83,619	8,110	1,682	13,403	151,136	8	151,144
Amortisation	30,739	12,063	1,546	842	–	45,190	–	45,190

	As at 31 March 2015							Total
	Flavours	Reconstituted tobacco leaves	Aroma raw materials	Fragrances	New materials	Total segments	Corporate	
Segment assets	6,705,890	3,353,107	499,051	164,299	161,573	10,883,920	16,947	10,900,867

Segment result represents the profit earned by each segment without inclusion of unallocated corporate expenses, finance costs, finance income and share of results of associates and a jointly controlled entity. This is the measure reported to chief operating decision makers for the purpose of resource allocation and assessment of segment performance.

The total of non-current assets, other than financial instruments and deferred tax assets, of the Group as at 31 March 2016 and 2015 are mainly located in the PRC.

Revenues from external customers are derived from the sales of flavours, reconstituted tobacco leaves, aroma raw materials, fragrances, and new materials to customers mainly located in the PRC.

Revenue derived from sales made to the single largest external customer amounted to 18% (2015: 19%) of the Group's total revenue. These revenues are attributable to flavours segment.

6. PROPERTY, PLANT AND EQUIPMENT

	Notes	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Others	Total
At 1 April 2014									
Cost		766,269	825,529	87,170	186,960	25,006	117,953	–	2,008,887
Accumulated depreciation		(184,256)	(244,649)	(49,045)	(92,480)	(12,960)	–	–	(583,390)
Net book amount		<u>582,013</u>	<u>580,880</u>	<u>38,125</u>	<u>94,480</u>	<u>12,046</u>	<u>117,953</u>	<u>–</u>	<u>1,425,497</u>
Year ended 31 March 2015									
Net book amount at 1 April		582,013	580,880	38,125	94,480	12,046	117,953	–	1,425,497
Additions		2,968	16,451	4,036	11,674	3,520	95,670	–	134,319
Transfers		24,165	41,004	10	7,609	–	(72,788)	–	–
Disposal of a subsidiary		(654)	–	–	–	–	(2,548)	–	(3,202)
Disposals	32	–	(1,213)	(15)	(143)	(100)	–	–	(1,471)
Depreciation	24	(37,713)	(82,040)	(9,614)	(19,356)	(2,421)	–	–	(151,144)
Currency translation differences		415	(1,240)	(10)	(270)	(32)	2,633	–	1,496
Net book amount at 31 March		<u>571,194</u>	<u>553,842</u>	<u>32,532</u>	<u>93,994</u>	<u>13,013</u>	<u>140,920</u>	<u>–</u>	<u>1,405,495</u>
At 31 March 2015									
Cost		793,107	878,032	90,702	204,467	27,489	140,920	–	2,134,717
Accumulated depreciation		(221,913)	(324,190)	(58,170)	(110,473)	(14,476)	–	–	(729,222)
Net book amount		<u>571,194</u>	<u>553,842</u>	<u>32,532</u>	<u>93,994</u>	<u>13,013</u>	<u>140,920</u>	<u>–</u>	<u>1,405,495</u>
Year ended 31 March 2016									
Net book amount at 1 April		571,194	553,842	32,532	93,994	13,013	140,920	–	1,405,495
Additions		5,852	7,292	4,238	12,310	10,261	56,130	3,544	99,627
Transfers		53,125	61,481	15	3,155	34,861	(152,637)	–	–
Acquisition of equity interest in Yancheng Chunzhu	30(a)	11,449	17,718	564	1,698	–	3,716	–	35,145
Acquisition of equity interest in VMR	30(b)	–	–	107	3,128	4,689	–	–	7,924
Disposals	32	–	(1,914)	(235)	(340)	10	(437)	–	(2,916)
Provisions for impairment	24	–	(15,058)	–	–	–	–	–	(15,058)
Depreciation	24	(39,650)	(83,335)	(9,737)	(19,962)	(7,017)	–	(151)	(159,852)
Currency translation differences		(27,075)	(24,995)	(1,400)	(4,220)	(496)	(4,363)	3	(62,546)
Net book amount at 31 March		<u>574,895</u>	<u>515,031</u>	<u>26,084</u>	<u>89,763</u>	<u>55,321</u>	<u>43,329</u>	<u>3,396</u>	<u>1,307,819</u>
At 31 March 2016									
Cost		829,232	914,211	91,213	218,935	80,884	43,329	3,544	2,181,348
Accumulated depreciation		(254,337)	(399,180)	(65,129)	(129,172)	(25,563)	–	(148)	(873,529)
Net book amount		<u>574,895</u>	<u>515,031</u>	<u>26,084</u>	<u>89,763</u>	<u>55,321</u>	<u>43,329</u>	<u>3,396</u>	<u>1,307,819</u>

Depreciation was recorded in the following categories:

	<i>Note</i>	Year ended 31 March	
		2016	2015
Manufacturing overheads		80,646	69,896
Selling and marketing expenses		2,415	2,510
Administrative expenses		76,791	78,738
		<u> </u>	<u> </u>
Total depreciation	24	<u>159,852</u>	<u>151,144</u>

7. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	As at 31 March	
	2016	2015
Outside Hong Kong, held on:		
Leases between 10 and 50 years	<u>185,688</u>	<u>194,060</u>

	<i>Notes</i>	Year ended 31 March	
		2016	2015
At 1 April		194,060	200,247
Additions		760	–
Acquisition of equity interest in Yancheng Chunzhu	30(a)	5,690	–
Amortisation	24	(6,347)	(6,323)
Currency translation differences		(8,475)	136
		<u> </u>	<u> </u>
At 31 March		<u>185,688</u>	<u>194,060</u>

8. INTANGIBLE ASSETS

	Notes	Goodwill (a)	Trademarks and licenses (b)	Customer relationships	Non- competition agreement	Computer software	Patents	Product design	Domain name	Total
At 1 April 2014										
Cost		2,732,367	136,209	276,098	4,893	3,204	23,258	-	-	3,176,029
Accumulated amortisation		-	(34,209)	(184,758)	(3,238)	(2,141)	(20,253)	-	-	(244,599)
Net book amount		<u>2,732,367</u>	<u>102,000</u>	<u>91,340</u>	<u>1,655</u>	<u>1,063</u>	<u>3,005</u>	<u>-</u>	<u>-</u>	<u>2,931,430</u>
Year ended 31 March 2015										
Net book amount at 1 April		2,732,367	102,000	91,340	1,655	1,063	3,005	-	-	2,931,430
Additions		-	-	-	-	703	16	-	-	719
Amortisation	24	-	(7,920)	(29,551)	(537)	(753)	(106)	-	-	(38,867)
Currency translation differences		3,101	114	866	1	-	3	-	-	4,085
Net book amount at 31 March		<u>2,735,468</u>	<u>94,194</u>	<u>62,655</u>	<u>1,119</u>	<u>1,013</u>	<u>2,918</u>	<u>-</u>	<u>-</u>	<u>2,897,367</u>
At 31 March 2015										
Cost		2,735,468	136,374	277,202	4,899	3,886	23,301	-	-	3,181,130
Accumulated amortisation		-	(42,180)	(214,547)	(3,780)	(2,873)	(20,383)	-	-	(283,763)
Net book amount		<u>2,735,468</u>	<u>94,194</u>	<u>62,655</u>	<u>1,119</u>	<u>1,013</u>	<u>2,918</u>	<u>-</u>	<u>-</u>	<u>2,897,367</u>
Year ended 31 March 2016										
Net book amount at 1 April		2,735,468	94,194	62,655	1,119	1,013	2,918	-	-	2,897,367
Additions		-	-	-	-	1,121	6,100	-	-	7,221
Acquisition of equity interest in Yancheng Chunzhu	30(a)	79,651	83,554	32,228	-	-	29,244	-	-	224,677
Acquisition of equity interest in VMR	30(b)	54,148	120,140	-	-	2,365	-	85,261	50,381	312,295
Amortisation	24	-	(11,409)	(29,859)	(270)	(1,362)	(2,463)	(5,845)	(3,421)	(54,629)
Currency translation differences		(125,791)	(420)	(25)	(49)	(18)	72	593	342	(125,296)
Net book amount at 31 March		<u>2,743,476</u>	<u>286,059</u>	<u>64,999</u>	<u>800</u>	<u>3,119</u>	<u>35,871</u>	<u>80,009</u>	<u>47,302</u>	<u>3,261,635</u>
At 31 March 2016										
Cost		2,743,476	334,439	298,145	4,657	11,013	57,656	85,724	52,366	3,587,476
Accumulated amortisation		-	(48,380)	(233,146)	(3,857)	(7,894)	(21,785)	(5,715)	(5,064)	(325,841)
Net book amount		<u>2,743,476</u>	<u>286,059</u>	<u>64,999</u>	<u>800</u>	<u>3,119</u>	<u>35,871</u>	<u>80,009</u>	<u>47,302</u>	<u>3,261,635</u>

Amortisation is included in administrative expenses in the consolidated income statement.

- (a) Goodwill is mainly attributable to the anticipated profitability of operations, the anticipated future operating synergies and enlarged market share. Goodwill arising from prior year is allocated to the Group's CGUs identified mainly according to the operating segments. Goodwill arising from the acquisition of Yancheng Chunzhu and VMR are allocated to the respective entities acquired.

The goodwill is allocated as follows:

	As at 31 March									
	2016					2015				
	Reconstituted tobacco Flavours	Reconstituted tobacco leaves	Yancheng Chunzhu	Fragrances	VMR	Total	Reconstituted tobacco Flavours	Reconstituted tobacco leaves	Fragrances	Total
Goodwill	1,424,827	1,131,272	80,084	52,850	54,443	2,743,476	1,489,845	1,190,058	55,565	2,735,468

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates below. The terminal growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	As at 31 March							
	2016				2015			
	Flavours	Reconstituted Tobacco leaves	Yancheng Chunzhu	Fragrances	VMR	Flavours	Reconstituted Tobacco leaves	Fragrances
Gross margin	75%	56%-57%	27%-28%	42%	52.6%-53%	76%	57%-59%	42%
Revenue growth rate in forecast period	3%	2.5%-3%	11%-63%	5%-10%	5%-33%	3%	3%-5%	5%-15%
Terminal growth rate	3%	3%	3%	5%	3%	3%	3%	5%
Discount rate	13.5%	15%	17%	13.5%	17.5%	13.5%	15%	13.5%

These assumptions have been used for the analysis of each CGU within the operating segment.

Management determined budgeted gross margin based on past performance and their expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments or entities.

Based on the assessment of the cash flow projections of the various CGUs, the Directors considered that there is no impairment of goodwill as at 31 March 2016 and 2015.

- (b) Trademarks represent Peacock, Xinghu, Samshiang, Chunzhu, V2、V2PRO、Vapour2 trademarks.

9. INVESTMENTS IN ASSOCIATES

The Group has interests in two and one individually immaterial associates as at 31 March 2016 and 2015 respectively. The following table analyses, in aggregate, the movements of the carrying amount of the Group's investments in these associates, and its share of results of these associates.

An analysis of the movements of equity investments in associates is as follows:

	Notes	Year ended 31 March	
		2016	2015
At 1 April		227,795	239,044
Share of profit/(loss) of associates		11,462	(3,208)
Disposal of Henan Jinrui Flavours Co., Ltd.		–	(8,305)
Acquisition of Yunnan Hongta Blue Eagle Paper Co. Ltd (“Hongta Blue Eagle”)	(b)	121,342	–
Dividends received or receivable		(10,802)	–
Acquisition of Yancheng Chunzhu	(c)	101,890	–
Transfer to investments in subsidiaries upon gaining control over Yancheng Chunzhu	(c)	(101,907)	–
Currency translation differences		(12,164)	264
		<u>337,616</u>	<u>227,795</u>
At 31 March		<u>337,616</u>	<u>227,795</u>

(a) As at 31 March 2016, the Group had interests in the following associates:

Name	Country of incorporation	% of ownership Interests	Principal activities
Guizhou Huangguoshu Golden Leaf Technology Co., Ltd. (“Huangguoshu Golden Leaf”)	PRC	40%	Pre-operating
Hongta Blue Eagle	PRC	25.1%	Manufacture and sales of cigarette paper and auxiliary products

(b) In December 2015, the Group purchased 25.1% of the equity interest in Hongta Blue Eagle for a consideration of HKD121,342,000 (equivalent to RMB101,658,000).

(c) In August 2015, the Group acquired 30% equity interest in Yancheng Chunzhu, and provided a five-year loan amounting to RMB84,000,000 (equivalent to HKD101,890,000) to one of the shareholders. The loan was secured over pledge of the shareholder's 69% share in Yancheng Chunzhu. There was also a call option attached to the loan which gave the Group the right to acquire an additional 30% equity interest in Yancheng Chunzhu. As the contract contained an embedded derivative, management designated the entire hybrid contract as a financial asset at fair value through profit or loss. Based on the term of the option, it could only be exercised from 22 November 2015 onward and the original largest shareholder still controlled Yancheng Chunzhu during that period. Given the Group did not have substantive control over Yancheng Chunzhu at the date it acquired the 30% equity interest, the investment was initially accounted for as investment in an associate by the Group until the option became effective. Subsequently, the Group obtained control and acquired the additional 30% equity interest in Yancheng Chunzhu. Upon obtaining control over Yancheng Chunzhu, the previously held 30% equity interest in Yancheng Chunzhu was re-measured to fair value with the resulting gain or loss being recognised in profit or loss and transferred the re-measured carrying amount from investment in an associate to investment in a subsidiary. Please refer to Note 30(a) for more details.

10. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

The following table analyses the movements of the carrying amount of the Group's investment in a jointly controlled entity. This entity had been deregistered in June 2015.

	Year ended 31 March	
	2016	2015
At 1 April	6,987	7,442
Share of (loss)/profit of the jointly controlled entity	(65)	203
Deregistration of Yunnan Qing Tian Xiang Keji Fazhan Co. Ltd.	(6,950)	–
Dividend from the jointly controlled entity	–	(666)
Currency translation differences	28	8
	<u>–</u>	<u>8</u>
At 31 March	<u>–</u>	<u>6,987</u>

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>Note</i>	Year ended 31 March	
		2016	2015
At 1 April		225,217	154,504
Additions for the year		228,833	52,558
Disposal for the year		(44,079)	–
Fair value change	<i>19(a)</i>	(12,474)	17,968
Currency translation differences		(9,392)	187
		<u>388,105</u>	<u>225,217</u>
At 31 March		<u>388,105</u>	<u>225,217</u>

Additions for the year represents investments in wealth management products amounting to HKD165,617,000 and investments in technology innovation sector amounting to HKD63,216,000.

Available-for-sale financial assets include:

	<i>Notes</i>	As at 31 March	
		2016	2015
Non-current assets:			
Unlisted equity investments in the PRC: at fair value	<i>(a)</i>	119,339	185,284
Unlisted equity investments in Israel: at fair value	<i>(a)</i>	103,149	39,933
		<u>222,488</u>	<u>225,217</u>
Current assets:			
Wealth management products	<i>(b)</i>	165,617	–
		<u>165,617</u>	<u>–</u>

- (a) The fair value of unlisted equity investments are based on market comparable companies with the following unobservable inputs used.

Unlisted equity interest	Fair value as at		Valuation techniques	Unobservable inputs	Average	
	31 March 2016	2015			2016	2015
Tobacco, flavours and fragrances industry	107,338	172,659	Market comparable companies	Price to sales ratio	2.9	2.6
				Discount for lack of marketability	20%	20%
				Price to book ratio	2.9	2.8
Private equity fund investment	115,150	52,558	Net asset value	n/a	n/a	n/a

- (b) Wealth management products represents financial products issued by commercial banks in PRC. These products are principal protected and with non-guaranteed return, the terms ranging from one day to one month. The carrying amount approximated the fair value. The fair values are based on cash flow discounted using the expected return based on management judgment and are of level 3 within the fair value hierarchy.

Available-for-sale financial assets are denominated in the following currencies:

	As at 31 March	
	2016	2015
RMB	284,956	185,284
USD	103,149	39,933
	388,105	225,217
	388,105	225,217

None of these financial assets is impaired.

12. DEFERRED INCOME TAX ASSETS/LIABILITIES

The movements in the deferred income tax are as follows:

	Notes	Deferred income tax assets			Total	Deferred income tax liabilities		Total
		Unrealised profits arising from intra-group sales	Recoverable tax loss	Others		Valuation surplus of assets and recognition of intangible assets	Withholding income tax on dividends expected to be remitted from group entities incorporated in the PRC	
At 1 April 2014		66,208	-	-	66,208	70,117	22,559	92,676
Recognised in other comprehensive income	19	-	-	-	-	4,507	-	4,507
Recognised in the income statement	27	(1,094)	-	-	(1,094)	(8,781)	(15,829)	(24,610)
Currency translation differences		80	-	-	80	34	-	34
At 31 March 2015		65,194	-	-	65,194	65,877	6,730	72,607
Acquisition of equity interest in Yancheng Chunzhu		-	-	-	-	22,517	-	22,517
Recognised in other comprehensive income	19	-	-	-	-	(3,789)	-	(3,789)
Recognised in the income statement	27	8,806	7,150	2,264	18,220	2,384	(6,730)	(4,346)
Currency translation differences		(3,417)	(159)	(50)	(3,626)	(1,660)	-	(1,660)
At 31 March 2016		70,583	6,991	2,214	79,788	85,329	-	85,329

Deferred income tax assets are recognised for temporary differences arising from unrealised profits from intra-group sales, and calculated under the liability method using the tax rate which are enacted or substantively enacted by the balance sheet date.

Deferred income tax liabilities arose from the valuation surplus of property, plant and equipment, land use rights, intangible assets, available-for-sale financial assets; recognition of intangible assets as a result of acquisition of subsidiaries; changes in fair value of financial assets at fair value through profit or loss and withholding income tax on dividends expected to be remitted abroad by group entities incorporated in the PRC.

Pursuant to the Corporate Income Tax Laws of the PRC approved by the National People's Congress on 16 March 2007, a 10% withholding tax is levied on dividends remitted from the PRC entities to overseas investors with effect from 1 January 2008. A lower withholding tax rate of 5% is applied to Hong Kong investors as there is a tax treaty between the PRC and Hong Kong. However, the 5% treaty rate is not automatically granted. The taxpayer needs to apply to the relevant tax bureau for an approval for the treaty rate. The Directors estimated that a portion of profits generated by the PRC subsidiaries would be distributed to their Hong Kong immediate parent companies and the approval for the treaty rate will be obtained. Therefore, deferred income tax liabilities had been provided based on 5% or 10% of the estimated profits to be remitted to Hong Kong. The Directors of the Company will review the funding requirements of the Group and revise the dividend distribution policy of its subsidiaries as appropriate.

As at 31 March 2016, deferred income tax liabilities of HKD343,470,000 (2015: HKD358,457,000) have not been recognised for the withholding tax that would otherwise be payable on the undistributed profits approximately HKD6,858,315,000 (2015: HKD7,303,736,000) retained by certain PRC subsidiaries.

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 March	
	2016	2015
Deferred income tax assets:		
– to be recovered after more than 12 months	6,991	–
– to be recovered within 12 months	72,797	65,194
	<u>79,788</u>	<u>65,194</u>
Deferred income tax liabilities:		
– to become payable after more than 12 months	75,747	58,842
– to become payable within 12 months	9,582	13,765
	<u>85,329</u>	<u>72,607</u>

13. INVENTORIES

	As at 31 March	
	2016	2015
At cost:		
Raw materials	652,639	667,012
Work in progress	13,624	6,037
Finished goods	167,761	145,384
	<u>834,024</u>	<u>818,433</u>

For the year ended 31 March 2016, the cost of inventories recognised as expense and included in cost of goods sold and administrative expenses for the year ended 31 March 2016 amounted to approximately HKD977,403,000 (2015: HKD1,102,762,000).

14. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	As at 31 March	
		2016	2015
Trade receivables	(a)	994,949	936,735
Less: Provision for impairment of receivables		(13,763)	(7,044)
Trade receivables – net		981,186	929,691
Notes receivable		192,647	224,940
Prepayments and other receivables		231,930	106,060
Advances to staff		15,054	13,473
Others		19,873	35,529
		<u>1,440,690</u>	<u>1,309,693</u>

Except for prepayment of HKD44,028,000 (2015: HKD28,435,000), trade and other receivables are financial assets categorised under “loans and receivables”. All trade and other receivables are either recoverable within one year or on demand. Accordingly, the fair values of the trade and other receivables approximate to their carrying amounts.

- (a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 March 2016 and 2015, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice date was as follows:

	As at 31 March	
	2016	2015
0 – 90 days	869,233	837,444
91 – 180 days	55,538	47,365
181 – 360 days	41,803	14,087
Over 360 days	28,375	37,839
	994,949	936,735
	994,949	936,735

As at 31 March 2016, unbilled trade receivables of HKD371,792,000 (2015: HKD457,111,000) was categorised in the aging of 0-90 days.

After considering the credit period, trade receivables are assessed for impairment. As at 31 March 2016, trade receivables of HKD68,143,000 (2015: HKD58,904,000) were past due but not impaired. These relate to a number of independent customers with no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 March	
	2016	2015
Past due up to 90 days	46,475	25,545
Past due over 90 days	21,668	33,359
	68,143	58,904
	68,143	58,904

As at 31 March 2016, trade receivables of HKD28,375,000 (2015: HKD7,044,000) were impaired with HKD13,763,000 (2015: HKD7,044,000) provision made. The individually impaired receivables mainly relate to customers which had ceased business with the Group and were not in a position to repay. These receivables are all aged over one year.

- (b) The carrying amounts of the Group's trade receivables (including amounts due from related parties which are trade in nature) are denominated in the following currencies:

	As at 31 March	
	2016	2015
RMB	957,383	927,795
USD	37,473	8,674
HKD and other	93	266
	994,949	936,735
	994,949	936,735

Movements of the provision for impairment of trade receivables were as follows:

		Year ended 31 March	
	<i>Note</i>	2016	2015
At 1 April		7,044	7,787
Provision for/(reversal of) impairment on trade receivables	24	7,910	(507)
Trade receivables written off during the year as uncollectible		(682)	(245)
Currency translation differences		(509)	9
		<u>13,763</u>	<u>7,044</u>
At 31 March		<u>13,763</u>	<u>7,044</u>

The creation and release of provision for impaired receivables have been included in “administrative expenses” in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 March	
	2016	2015
Listed equity securities, PRC, at market value, denominated in RMB	<u>229,149</u>	<u>124,535</u>

Changes in fair values of financial assets at fair value through profit or loss are recorded in “other income and other gains – net” in the consolidated income statement (Note 23).

The fair values of all equity securities are based on their current bid prices in an active market, and they are categorised within level 1 of fair value hierarchy.

16. CASH AND BANK BALANCES

		As at 31 March	
	<i>Notes</i>	2016	2015
Restricted bank balance	(a)	117,130	–
Cash and cash equivalents		3,184,051	2,674,289
Short-term time deposits	(b)	220,527	951,802
		<u>3,521,708</u>	<u>3,626,091</u>

(a) Restricted bank balance represents the consideration payable for acquiring 25.1% equity interest in Hongta Blue Eagle (Note 9), which had not been remitted out as at 31 March 2016, due to foreign exchange control regulations.

(b) The original maturity of time deposits was six month or above with average interest rate of 2.1% (2015: 3.3%). The fair values of the short-term time deposits approximate their carrying amounts. None of the deposits is either past due or impaired.

Cash and bank balances are denominated in the following currencies:

	As at 31 March	
	2016	2015
RMB	2,502,421	3,543,201
HKD	423,923	67,241
USD	589,138	10,992
Euro and others	6,226	4,657
	<u>3,521,708</u>	<u>3,626,091</u>

As at 31 March 2016, the Group's and the Company's maximum exposure to credit risk of cash and bank balances is their carrying amounts.

17. SHARE CAPITAL

	<i>Note</i>	Number of shares	Share capital <i>HKD'000</i>
Ordinary shares, issued and fully paid:			
At 1 April 2014		3,101,317,961	310,132
Issue of shares upon exercise of share options		3,000,000	300
		<u>3,104,317,961</u>	<u>310,432</u>
At 31 March 2015		3,104,317,961	310,432
Issue of shares upon exercise of share options	18	2,340,000	234
		<u>3,106,657,961</u>	<u>310,666</u>

18. SHARE-BASED PAYMENT

Movements in the number of shares under share-based payment outstanding during the year are set out below:

		Year ended 31 March	
		2016	2015
	<i>Notes</i>	Number of share options ('000)	Number of share options ('000)
Share option			
1 April	<i>(a i)</i>	17,590	23,990
Exercised	<i>(a ii)</i>	(2,340)	(3,000)
Lapsed	<i>(a iii)</i>	–	(3,400)
		<u>15,250</u>	<u>17,590</u>
31 March	<i>(a iv)</i>	15,250	17,590
Share award			
1 April		–	–
Grant		4,350	–
		<u>4,350</u>	<u>–</u>
31 March		4,350	–
		<u>19,600</u>	<u>17,590</u>

(a) Share option scheme

On 10 October 2006 and 25 October 2006, the Group granted 97,200,000 and 30,400,000 share options with an exercise price of HKD3.09 per share and vesting periods of 0 to 3 years to employees and directors respectively. On 17 October 2007, the Group granted 13,900,000 and 3,600,000 share options with an exercise price of HKD6.65 per share and vesting periods of 0.5 to 3 years to employees and a director respectively. On 14 April 2008, the Group granted 10,400,000 share options to two directors with an exercise price of HKD6.39 per share and vesting periods of 0 to 3 years. The options have a contractual option term of 10 years. The Group has no legal or contractual obligation to repurchase or settle the options in cash. The fair value of the share options at the grant date was determined using the Black-Scholes valuation model.

- (i) The weighted average exercise prices per share are HKD4.91 and HKD4.89 as at 1 April 2015 and 2014 respectively.
- (ii) The weighted average market share price immediately before the share option exercise date was HKD8.20 (2015: HKD5.03). The weighted average exercise prices per share are HKD4.22 and HKD3.09 for the share options exercised during the year ended 31 March 2016 and 2015 respectively.
- (iii) Share options lapsed was due to resignation of a director. The weighted average exercise price per share is HKD6.39 for the share option lapsed during the year ended 31 March 2015.
- (iv) The weighted average exercise prices per share are HKD5.02 and HKD4.91 as at 31 March 2016 and 2015 respectively.

Share options outstanding as at 31 March 2016 are analysed as follows:

Grantee	Exercise price in HKD per share	Number of share options ('000)	Expiry date
Directors	3.09	900	24 October 2016
Employees	3.09	6,100	9 October 2016
Employees	6.65	8,250	16 October 2017
At 31 March 2016		<u>15,250</u>	

All share options outstanding as at 31 March 2016 and 2015 are currently exercisable.

(b) Share Award

In December 2015, Future Dragon International Limited, a wholly owned subsidiary of the Company, entered into a service contract with a consultant ("the Consultant"). According to the service contract, the Consultant was granted not more than 4,349,717 shares in the Company on full completion of the services before 30 December 2015. It is considered as an equity-settled share-based payment and accounted for as restricted share award. As such, the services received are measured and accounted for at their fair values, which amounted to RMB10,000,000 (approximately HKD11,960,000) and expensed over the vesting period on a straight-line basis. The corresponding equity for the settlement of payment is also increased by the fair value of the services received.

As at 31 March 2016 no shares outstanding are currently exercisable.

(c) Share option scheme of VMR

VMR, a non-wholly owned subsidiary of the Group, operated a share option scheme before it was acquired by the Group. Under the scheme, options over 80,000 shares were authorised to be issued. On the acquisition date at 18 December 2015, the total number of shares under options outstanding is 66,094 with the weighted average exercise price of HKD219.72 (USD28.33). All options vest over a three year period and expire five years from the date of grant. The fair value of the share options at the grant date was determined using the Black-Scholes valuation model.

Movements in the number of shares options outstanding from date of acquisition to 31 March 2016 and their related weighted average exercise prices are set out below:

	Year ended 31 March 2016	
	Weighted average exercise price in HKD per share	Number of share options (<i>'000</i>)
18 December 2015	219.72	66,094
Grant	–	–
Lapsed	–	–
Exercised	–	–
	<hr/>	<hr/>
31 March	<u>219.72</u>	<u>66,094</u>

The total amount of compensation recognised for all options issued from 19 December 2015 to 31 March 2016 amounted to approximately HKD839,000 (USD108,000). The remaining unrecognised compensation cost relates to the options issued amounted to approximately HKD4,997,000 (USD644,000) as of March 31 2016.

Share options outstanding as at 31 March 2016 are analysed as follows:

Grantee	Exercise price in HKD per share	Number of share options (<i>'000</i>)	Expiry date
Employees	164.98	14,100	3 December 2017
Employees	164.98	12,100	14 September 2018
Employees	752.32	7,750	1 July 2019
Employees	164.98	5,500	5 July 2020
Employees	129.92	<u>26,644</u>	17 December 2020
At 31 March 2016		<u>66,094</u>	

23,685 share options out of total outstanding options as at 31 March 2016 are currently exercisable.

19. RESERVES

	Notes	Contributed surplus	Merger reserve	Share premium	Capital reserve	Capital redemption reserve	Share-based compensation reserve	Currency translation reserve	Other reserves	Total
At 1 April 2014		288,191	(617,160)	445,977	1,677	5,853	41,817	705,528	238,451	1,110,334
Fair value changes on available-for-sale financial assets, net of tax	(a)	-	-	-	-	-	-	-	13,461	13,461
Appropriations from net profit		-	-	-	-	-	-	-	54,251	54,251
Acquisition of additional interests in Sino-Investment from non-controlling interests		-	-	-	-	-	-	-	(9,824)	(9,824)
Acquisition of additional interests in Huabao Korea from non-controlling interests		-	-	-	-	-	-	-	5,137	5,137
Employee share option scheme – exercise of share options		-	-	10,181	-	-	(1,211)	-	-	8,970
Currency translation differences		-	-	-	-	-	-	6,277	-	6,277
At 31 March 2015		<u>288,191</u>	<u>(617,160)</u>	<u>456,158</u>	<u>1,677</u>	<u>5,853</u>	<u>40,606</u>	<u>711,805</u>	<u>301,476</u>	<u>1,188,606</u>
At 1 April 2015		288,191	(617,160)	456,158	1,677	5,853	40,606	711,805	301,476	1,188,606
Fair value changes on available-for-sale financial assets, net of tax	(a)	-	-	-	-	-	-	-	(9,451)	(9,451)
Reversal of fair value change for disposal of available-for-sale financial assets, net of tax	(b)	-	-	-	-	-	-	-	(8,392)	(8,392)
Appropriations from net profit		-	-	-	-	-	-	-	56,981	56,981
Share-based payment – Value of consultancy services		-	-	-	-	-	2,392	-	-	2,392
Acquisition of additional equity interest in Yancheng Chunzhu from non-controlling interest	31(a)	-	-	-	-	-	-	-	39,764	39,764
Repurchase of shares of VMR from non-controlling interests	31(b)	-	-	-	-	-	-	-	(5,070)	(5,070)
Employee share option scheme – exercise of share options		-	-	12,093	-	-	(2,462)	-	-	9,631
Currency translation differences		-	-	-	-	-	-	(461,258)	-	(461,258)
At 31 March 2016		<u>288,191</u>	<u>(617,160)</u>	<u>468,251</u>	<u>1,677</u>	<u>5,853</u>	<u>40,536</u>	<u>250,547</u>	<u>375,308</u>	<u>813,203</u>

(a) The amount of changes in fair value in available-for-sale financial assets before tax is HKD12,474,000 (2015: HKD17,968,000) (Note 11), of which HKD3,023,000 (2015: HKD4,507,000) was recognised in other comprehensive income as deferred tax (Note 12).

(b) The amount of HKD8,392,000 of fair value change in available-for-sale financial assets after netting off the deferred tax amounting to HKD766,000 (Note 12) previously recognised in other comprehensive income was reversed due to disposal during the year ended 31 March 2016.

20. RETAINED EARNINGS

	Year ended 31 March	
	2016	2015
At 1 April	7,670,008	7,265,105
Profit for the year	1,450,250	1,986,584
Appropriations from net profit	(56,981)	(54,251)
Unclaimed dividend forfeited	94	–
Final and special dividend for the year ended 31 March 2014	–	(542,741)
Interim and special dividend for the six months ended 30 September 2014	–	(984,689)
	<u>9,063,371</u>	<u>7,670,008</u>
At 31 March	<u>9,063,371</u>	<u>7,670,008</u>

21. BORROWINGS

	Notes	As at 31 March	
		2016	2015
Current			
– Secured bank borrowings	(a)	13,201	15,150
– Unsecured bank borrowings	(b)	4,801	735,128
		<u>18,002</u>	<u>750,278</u>
Total borrowings		<u>18,002</u>	<u>750,278</u>

(a) As at 31 March 2016, the bank borrowing was secured by a pledge of land and buildings located in Jiangsu Province owned by a subsidiary, Yancheng Chunzhu. The borrowing is denominated in RMB and is repayable within one year. During the year, the average interest rate was 6.38%.

(b) Unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 1.90% (2015: 2.24%) per annum.

Borrowings are financial liabilities categorised under “financial liabilities measured at amortised cost”. The fair values of the borrowings approximate their carrying amounts.

Bank borrowings are denominated in the following currencies:

	As at 31 March	
	2016	2015
HKD	–	590,000
EUR	–	145,128
RMB	18,002	15,150
	<u>18,002</u>	<u>750,278</u>
	<u>18,002</u>	<u>750,278</u>

Interest expense on bank borrowings for the year ended 31 March 2016 amounted to HKD10,445,000 (2015: HKD13,878,000). No interest expense (2015: nil) was capitalised during the year.

22. TRADE AND OTHER PAYABLES

	<i>Note</i>	As at 31 March	
		2016	2015
Trade payables	(a)	371,263	394,759
Dividends payable		8,947	–
Wages payable		52,659	70,723
Other taxes payable		77,004	39,378
Accruals for expenses		75,452	9,454
Advances from customers		7,124	2,345
Payable for acquisition of an associate		116,806	–
Payable for licence fee		43,462	–
Other payables		80,403	45,371
		<u>833,120</u>	<u>562,030</u>

Except for other taxes payable of HKD77,004,000 (2015: HKD39,378,000), wages payable of HKD52,659,000 (2015: HKD70,723,000) and advances from customers of HKD7,124,000 (2015: HKD2,345,000), trade and other payables balances are financial liabilities categorised under “financial liabilities measured at amortised cost”. The fair values of trade and other payables approximate their carrying amounts.

- (a) As at 31 March 2016 and 2015, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates was as follows:

	As at 31 March	
	2016	2015
0 – 90 days	289,879	271,306
91 – 180 days	56,234	88,508
181 – 360 days	6,546	12,296
Over 360 days	18,604	22,649
	<u>371,263</u>	<u>394,759</u>

- (b) The carrying amounts of the Group’s trade payables (including amounts due to related parties which are trade in nature) are denominated in the following currencies:

	As at 31 March	
	2016	2015
RMB	307,009	369,833
USD	54,932	12,996
HKD	1,950	3,820
EUR and other	7,372	8,110
	<u>371,263</u>	<u>394,759</u>

23. OTHER INCOME AND OTHER GAINS – NET

		Year ended 31 March	
	Note	2016	2015
Changes in fair value of financial assets at fair value through profit or loss		68,045	28,658
Loss on disposal of financial assets at fair value through profit & loss		(9,058)	–
Gain on disposal of available-for-sale financial assets		3,296	–
Gain on disposal of an associate		–	3,487
Gain on disposal of a subsidiary		–	2,180
Government grants		191,455	229,442
Foreign exchange loss – net		(40,595)	(5,549)
Change in fair value of previously held interests in an associate upon acquisition as a subsidiary	30(a)	(14,182)	–
Others		(1,534)	4,987
		<u>197,427</u>	<u>263,205</u>

24. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analysed according to their nature (with the exception of “research and development expenses” which are shown as a single item and analysed according to their nature in note (a) below) as follows:

		Year ended 31 March	
	Notes	2016	2015
Depreciation	6	132,111	124,596
Provision for impairment on property, plant and equipment	6	15,058	–
Amortisation	7,8	60,462	44,304
Changes in inventories of finished goods and work in progress		29,964	8,873
Raw materials and consumables used		894,333	1,026,344
Provision for/(reversal of) impairment on trade receivables	14	7,910	(507)
Lease rentals		40,438	38,153
Auditor’s remuneration		10,901	8,360
Travelling expenses		91,649	49,443
Employee benefit expenses	25	357,209	337,764
Research and development expenses	(a)	239,665	256,205
Delivery expenses		39,212	49,621
Utilities expenses		82,879	84,368
Motor vehicle expenses		19,077	21,237
Maintenance expenses		31,644	25,217
Advertising and promotion expenses		91,373	43,518
Office administrative and communication expenses		23,205	14,167
Other surcharges		13,796	12,921
Others		196,655	124,962
		<u>2,377,541</u>	<u>2,269,546</u>
Total of cost of goods sold, selling and marketing expenses and administrative expenses		<u>2,377,541</u>	<u>2,269,546</u>

- (a) Depreciation, amortisation and employee benefit expenses included in research and development expenses are set out below:

	<i>Notes</i>	Year ended 31 March	
		2016	2015
Depreciation	6	27,741	26,548
Amortisation	7,8	514	886
Employee benefit expenses	25	94,257	94,727
		<u> </u>	<u> </u>

No development cost has been capitalised for the year ended 31 March 2016 (2015: Nil).

25. EMPLOYMENT BENEFIT EXPENSES

	<i>Note</i>	Year ended 31 March	
		2016	2015
Wages, salaries and bonus		368,972	362,677
Defined contribution plans and other employee insurances	(a)	47,272	44,415
Other benefits		35,222	25,399
		<u> </u>	<u> </u>
		<u>451,466</u>	<u>432,491</u>

(a) Defined contribution plans and other employee insurances

The expenses mainly include contribution of pension, housing scheme and other employee insurances for employees, of which the arrangement of pension scheme is as below:

In Hong Kong, the Group operates a MPF Scheme for all eligible employees. The assets of the MPF Scheme are held separately from those of the Group.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HKD1,500 per employee with a choice to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HKD1,500 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

In Mainland China, the Group makes defined contribution to retirement schemes managed by the local governments. It is the local governments' responsibility to pay the retirement benefits to those staff who retire.

In Germany, the Group makes defined contributions at certain percentage of monthly salary to retirement schemes managed by the insurance company in accordance with German rules and regulations. It is the insurance company's responsibility to pay the retirement benefits to those staff who retire. In Botswana, no pension obligation is required under its laws and regulations.

In the United States of America ("USA"), the Group makes defined contributions at certain percentage of monthly salary to retirement and medical schemes managed by the federal government of USA in accordance with US rules and regulations. It is the federal government's responsibility to pay the retirement benefits to those staff who retire.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2015: 2) directors whose emoluments are reflected in Note 37(a). The emoluments paid and payable to the remaining 2 (2015: 3) individuals during the year are as follows:

	Year ended 31 March	
	2016	2015
Basic salaries and allowances	12,476	12,251
Contributions to the retirement scheme	123	135
	<u>12,599</u>	<u>12,386</u>

The emoluments fell within the following bands:

	Number of employees	
	2016	2015
Emolument bands		
HKD2,500,001 – HKD3,000,000	–	1
HKD3,500,001 – HKD4,000,000	1	–
HKD4,500,001 – HKD5,000,000	–	2
HKD8,500,001 – HKD9,000,000	1	–

26. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2016	2015
Finance income:		
– Interest income on bank deposits	85,973	83,095
Finance costs:		
– Interest expense on bank borrowings and others	(12,558)	(13,988)
Finance income – net	<u>73,415</u>	<u>69,107</u>

27. INCOME TAX EXPENSE

The amount of taxation charged to the consolidated income statements represents:

	Notes	Year ended 31 March	
		2016	2015
Current income tax			
– Hong Kong profits tax	(a)	10,737	13,408
– PRC corporate income tax	(b)	375,870	400,000
– Germany company income tax	(d)	142	139
– Botswana company income tax	(e)	1,197	1,023
Deferred income tax	12	(22,566)	(23,516)
		<u>365,380</u>	<u>391,054</u>

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.
- (b) PRC corporate income tax has been calculated on the estimated assessable profit for the year at the tax rates applicable to respective companies of the Group.
- (c) The income tax rates enacted or substantively enacted to the major subsidiaries of the Group incorporated in the PRC are derived from various tax policies as follows:
- (i) The Corporate Income Tax Law of the PRC stipulates the applicable income tax rate at 25% for domestic enterprises in the PRC.
- (ii) Encouraged enterprises of western regions can continue to enjoy tax rate of 15% until 2022.
- (iii) The Corporate Income Tax Law also stipulated that the Corporate Income Tax shall be levied at the reduced rate of 15% for High/New Tech Enterprises that are specifically supported by the State.
- (d) The Germany company income tax has been provided at the rate of 15% (2015: 15%) on the estimated assessable profit for the year.
- (e) The Botswana company income tax has been provided at the rate of 15% (2015: 15%) on the estimated assessable profit for the year.
- (f) The subsidiary in U.S. is a limited partnership and does not chargeable to income tax at partnership level. The corporate owners of the partnership pay tax on its share of the partnership's taxable income at the rate of 35% for the year.
- (g) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions during the year.
- (h) The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the standard tax rates before tax holiday applicable to the respective companies of the Group as follows:

	As at 31 March	
	2016	2015
Profit before income tax	1,832,915	2,386,247
Add: Share of (profit)/loss of associates and a jointly controlled entity	(11,397)	3,005
	<u>1,821,518</u>	<u>2,389,252</u>
Tax calculated at statutory tax rate	459,401	615,880
Tax incentives	(209,084)	(300,826)
Super deduction for research and development expenditure	(11,889)	(10,947)
Utilization of previously unrecognised tax losses	(540)	(5,767)
Expenses not deductible for tax purposes	4,571	37,388
Income not subject to tax	(19,690)	–
Withholding tax on the earnings from subsidiaries	98,334	30,709
Tax losses for which no deferred income tax assets were recognised	44,277	24,617
	<u>365,380</u>	<u>391,054</u>
Income tax expense	<u>365,380</u>	<u>391,054</u>

As the Directors are not certain whether future taxable profit would be available in certain subsidiaries, the Group did not recognise deferred income tax assets of HKD90,541,000 (2015: HKD50,817,000) in respect of tax losses of such dormant subsidiaries amounting to HKD446,401,000 (2015: HKD234,672,000). The tax loss will expire in the following years:

	As at 31 March	
	2016	2015
Expired on 31 March 2016	–	741
Expired on 31 March 2017	15,505	17,994
Expired on 31 March 2018	22,261	22,883
Expired on 31 March 2019	24,910	25,591
Expired on 31 March 2020	51,585	56,451
Expired on 31 March 2021	122,642	–
No expiry date	209,498	111,012
	<u>446,401</u>	<u>234,672</u>

28. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 March	
	2016	2015
Profit attributable to equity holders of the Company	<u>1,450,250</u>	<u>1,986,584</u>
Weighted average number of ordinary shares in issue ('000)	<u>3,106,435</u>	<u>3,103,145</u>
Basic earnings per share (HK cents per share)	<u>46.69</u>	<u>64.02</u>

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the year ended 31 March 2016, the share options and awarded shares granted by the Company have potential dilutive effect on the earnings per share.

The weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised and awarded shares were granted. The number of shares that could have been issued upon the exercise of all dilutive share options and awarded share less the number of shares that could have been issued at fair value (determined as the Company's average share price for the year) for the same total proceeds is added to the denominator. No adjustment is made to the net profit.

	Year ended 31 March	
	2016	2015
Profit attributable to equity holders of the Company	1,450,250	1,986,584
Weighted average number of ordinary shares used to calculate basic earnings per share ('000)	3,106,435	3,103,145
Adjustments for:		
– exercise of share options ('000)	1,628	4,170
– grant of awarded shares ('000)	345	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	3,108,408	3,107,315
Diluted earnings per share (HK cents per share)	46.66	63.93

29. DIVIDENDS

	Year ended 31 March	
	2016	2015
Interim dividend: nil (2015: HK9.52 cents) per share	–	295,531
Proposed final dividend: nil (2015: Nil) per share	–	–
	–	295,531
Special dividend: nil (2015: HK22.20 cents) per share	–	689,158
	–	984,689

No final dividend (2015: nil) is proposed at the meeting of the Board held on 22 June 2016.

30. BUSINESS COMBINATIONS

(a) Yancheng Chunzhu

On 21 August 2015, Zhaoqing Perfumery Co., Ltd (Guangdong) (“Guangdong Zhaoqing”), an indirect wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to acquire 30% equity interest in Yancheng Chunzhu, a company incorporated in the PRC, for a cash consideration of RMB84,000,000 (approximately HKD101,890,000). In the meantime, the Group also provided a five-year loan of RMB84,000,000 (approximately HKD102,338,000) to one of the latter’s shareholders. There was also a call option attached to the loan which gave the Group a right to acquire an additional 30% equity interest in Yancheng Chunzhu. As the call option can only be exercised from 22 November 2015 onward, the 30% investment in Yancheng Chunzhu was initially accounted for as an associate by the Group until the option became exercisable. When the right to exercise the option became effective from 22 November 2015, Guangdong Zhaoqing has substantive right whereby Yancheng Chunzhu was considered as a non-wholly owned subsidiary of the Group. On 6 December 2015, the Group exercised the right to acquire an additional 30% equity interest. Upon obtaining control over Yancheng Chunzhu, the Group applied the acquisition method to account for the transaction as an acquisition of a subsidiary, remeasured its previously held 30% share in Yancheng Chunzhu to fair value with the resulting loss being recognised in profit or loss and transferred the remeasured carrying amount from investment in an associate to investment in a subsidiary.

The loss of approximately HKD14,182,000 as a result of remeasuring at fair value its 30% equity interest in Yangcheng Chunzhu before the business combination was included in other income in the Group's consolidated income statement for the year ended 31 March 2016. The fair value of the previously held interest in Yangcheng Chunzhu was determined by an independent appraisal firm by applying the income approach. Furthermore, the additional 30% equity interest also obtained by transferring the five year loan, which was previously recorded as financial assets at fair value through profit or loss (see Note 9(c) for details), as the consideration. The transfer resulted in a gain from the fair value change of approximately HKD18,733,000 as determined by an independent appraisal firm by applying the income approach. The gain is included in other income in the Group's consolidated income statement for the year ended 31 March 2016.

Yangcheng Chunzhu is principally engaged in the production and sales of aromatic raw materials. As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economies of scale. The goodwill of HKD79,651,000 arising from the acquisition is attributable to the workforce and economies of scale expected from combining the operations of the Group and Yangcheng Chunzhu. None of the goodwill recognised is expected to be deductible for income tax purposes.

Details of net assets acquired and goodwill are as follows:

Consideration

– Financial assets at fair value through profit or loss	118,896
– Fair value of previously held interests in Yangcheng Chunzhu	<u>87,725</u>
Total purchase consideration	206,621
Less: fair value of identifiable net assets acquired – shown below	<u>(126,970)</u>
Goodwill (Note 8)	<u><u>79,651</u></u>

The fair value of assets and liabilities as at the respective acquisition dates arising from the acquisitions are as follows:

Net assets acquired	
Property, plant and equipment	35,145
Land use right	5,690
Intangible assets	145,026
Inventories	1,573
Trade and other receivable	73,568
Cash and cash equivalents	21,760
Trade and other payables	(17,472)
Tax payables	(2,001)
Short-term loan	(29,155)
Deferred tax liabilities (Note 12)	<u>(22,517)</u>
Total identifiable net assets	211,617
Less: non-controlling interest	<u>(84,647)</u>
Fair value of identifiable net assets acquired	<u><u>126,970</u></u>
Outflow of cash to acquire business, net of cash acquired	
Consideration – cash paid (out of total consideration of HKD206,621)	204,228
Cash and cash equivalents in subsidiaries acquired	<u>(21,760)</u>
Net cash outflow on acquisition	<u><u>182,468</u></u>

Non-controlling interests in Yancheng Chunzhu are measured at the present ownership interests' proportionate share in the recognised amounts of Yanchen Chunzhu's identifiable net assets.

The acquired business contributed revenue of HKD70,267,000 and net profit after tax of HKD9,860,000 to the Group for the period from date of acquisition to 31 March 2016. If the acquisition had occurred on 1 April 2015, consolidated revenue and consolidated net profit after tax would have been increased by approximately HKD191,848,000 and HKD24,182,000, respectively.

(b) VMR and its subsidiaries

On 9 December 2015, High Praise Enterprises Limited ("High Praise Enterprises"), an indirect wholly-owned subsidiary of the Company and VMR entered into the Subscription Agreement pursuant to which High Praise Enterprises agreed to subscribe for an effective interest of 51% of the issued share capital of VMR for a consideration of USD22.95 million (equivalent to approximately HKD177,884,000).

VMR is a company engaged in the design, manufacturing and distribution of electronic cigarettes which owns a number of technology and design patents. The Management believes that electronic cigarette is an emerging area in cigarette industry with promising growth prospects in the PRC. It is expected that the market position of the Group in this industry will be strengthened through merger and acquisition. VMR had become a non-wholly owned subsidiary of our Group on 18 December 2015. The goodwill of HKD54,148,000 arising from the acquisition is attributable to the workforce and the synergy expected from combining the operations of the Group and VMR. None of the goodwill recognised is expected to be deductible for income tax purposes.

Details of net assets acquired and goodwill are as follows:

Consideration – cash paid	177,884
Less: fair value of identifiable net assets acquired – shown below	<u>(123,736)</u>
Goodwill (<i>Note 8</i>)	<u><u>54,148</u></u>

The fair value of assets and liabilities as at the respective acquisition dates arising from the acquisitions are as follows:

Net assets acquired	
Property, plant and equipment	7,924
Intangible assets	258,147
Inventories	29,783
Trade and other receivable	23,820
Cash and cash equivalents	65,855
Trade and other payables	<u>(142,910)</u>
Total identifiable net assets	242,619
Less: non-controlling interest	<u>(118,883)</u>
Fair value of identifiable net assets acquired	<u>123,736</u>
Outflow of cash to acquire business, net of cash acquired	
Consideration – cash paid	177,884
Cash and cash equivalents in subsidiaries acquired	<u>(65,855)</u>
Net cash outflow on acquisition	<u><u>112,029</u></u>

Acquisition-related costs of HKD3,930,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 March 2016.

Non-controlling interests in VMR are measured at the present ownership interests' proportionate share in the recognised amounts of VMR's identifiable net assets.

The acquired business contributed revenue of HKD85,789,000 and net loss after tax of HKD19,782,000 to the Group for the period from date of acquisition to 31 March 2016. If the acquisition had occurred on 1 April 2015, consolidated revenue and consolidated net loss after tax would have been increased by approximately HKD297,788,000 and HKD112,763,000, respectively.

31. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(a) Acquisition of additional equity interest in Yancheng Chunzhu:

After the acquisition of 60% equity interest in Yancheng Chunzhu as mentioned in Note 30(a), the Group acquired additional 23.59% equity interest in Yancheng Chunzhu from the non-controlling interests in Yancheng Chunzhu by a share swap with 16.41% equity interest in the subsidiary Guangdong Zhaoqing. After completion of the transaction, the Group's shareholding in Yancheng Chunzhu increased from 60% to 83.59%. As the acquisition of the additional 23.59% equity interest in Yancheng Chunzhu was not a linked transaction with the exercise of option on acquiring additional 30% equity interest, it was accounted for separately. The effect of change in the ownership interest in Yancheng Chunzhu on the equity attributable to owners of the Company during the year is summarised as follows:

	Amount
Net assets attributable to non-controlling interest acquired	50,192
Net assets attributable to non-controlling interest given as consideration	<u>(10,428)</u>
Excess of net assets attributable to non-controlling interest acquired over non-controlling interest given as consideration, recognised in equity	<u><u>39,764</u></u>

The Group recognised a decrease in non-controlling interests of HKD39,764,000 and an increase in equity attributable to owners of the Company of HKD39,764,000.

(b) Repurchase of shares in VMR from non-controlling interests:

After the acquisition of 51% equity interest in VMR as mentioned in Note 30(b), VMR repurchased 0.96% of its shares from one of its shareholders. After completion of the share repurchase, the Group's shareholding in VMR increased from 51% to 51.50%. The effect of change in the ownership interest in VMR on the equity attributable to owners of the Company during the year is summarised as follows:

	Amount
Net assets attributable to non-controlling interest acquired	7,143
Consideration paid to non-controlling interest	<u>(12,213)</u>
Consideration paid in excess of non-controlling interest acquired recognised in equity	<u><u>(5,070)</u></u>

The Group recognised a decrease in non-controlling interests of HKD7,143,000 and an decrease in equity attributable to owners of the Company of HKD5,070,000.

32. CASH GENERATED FROM OPERATIONS

	Notes	Year ended 31 March	
		2016	2015
Profit before income tax		1,832,915	2,386,247
Adjustments for:			
– Depreciation	6	159,852	151,144
– Provision for impairment on property, plant and equipment	6	15,058	–
– Amortisation	7,8	60,976	45,190
– Interest expense	26	12,558	13,988
– Interest income	26	(85,973)	(83,095)
– Share-based payment		2,392	–
– Share of (profit)/loss of associates and a jointly controlled entity	9,10	(11,397)	3,005
– Provision for/(reversal of) impairment on trade receivables	14,24	7,910	(507)
– Loss on disposal of property, plant and equipment		1,929	1,145
– Gain on disposal of an associate	23	–	(3,487)
– Gain on disposal of a subsidiary	23	–	(2,180)
– Gain on disposal of available-for-sale assets	23	(3,296)	–
– Investment income of available-for-sale assets		(152)	–
– Loss on disposal of financial assets at fair value through profit or loss	23	9,058	–
– Changes in fair value of financial assets at fair value through profit or loss	30(a), 23	(18,733)	(28,658)
– Change in fair value of previously held interests in an associate upon acquisition as a subsidiary	23	14,182	–
– Foreign exchange loss – net	23	40,595	5,549
Changes in working capital:			
– Inventories		(59,545)	40,293
– Trade and other receivables		(241,618)	165,671
– Trade and other payables		99,262	(111,841)
Net cash generated from operations		<u>1,835,973</u>	<u>2,582,464</u>

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Note	Year ended 31 March	
		2016	2015
Net book amount	6	2,916	1,471
Loss on disposal of property, plant and equipment		(1,929)	(1,145)
Currency translation differences		(685)	49
Proceeds from disposal of property, plant and equipment		<u>302</u>	<u>375</u>

As mentioned in Note 31(a), the acquisition of additional equity interest in Yancheng Chunzhu was a non-cash transaction.

33. COMMITMENTS**(a) Capital commitments**

Capital expenditure authorised but not contracted for, and contracted for but not yet incurred at the end of the year are as follows:

	As at 31 March 2016	2015
Authorised but not contracted for property, plant and equipment	11,031	11,604
Contracted for but not provided for:		
– Property, plant and equipment	36,594	80,655
– Available-for-sale financial assets	130,120	193,520
	<u>177,745</u>	<u>285,779</u>

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at the closing date are as follows:

	As at 31 March 2016	2015
Land and buildings:		
Not later than 1 year	30,946	25,394
Later than 1 year and not later than 5 years	56,805	57,792
Later than 5 years	10,474	12,360
	<u>98,225</u>	<u>95,546</u>

34. RELATED PARTY TRANSACTIONS**(a) Name and relationship with related parties**

Name	Relationship
Huangguoshu Golden Leaf	An associate indirectly held by the Company

(b) Key management compensation

Key management includes directors (executive, non-executive and independent non-executive) and senior management. The amounts of compensation paid and payable to directors is disclosed in Note 37(a). The amounts of compensation paid and payable to senior management for employee services is shown below:

	Year ended 31 March 2016	2015
Fees, salaries and bonus	22,880	18,217
Employer's contributions to retirement benefit scheme	477	393
	<u>23,357</u>	<u>18,610</u>

The compensation of senior management fell within the following bands:

	Number of employees	
	2016	2015
Below HKD500,000	–	1
HKD500,001 – HKD1,000,000	2	3
HKD1,000,001 – HKD1,500,000	4	1
HKD2,000,001 – HKD2,500,000	2	1
HKD2,500,001 – HKD3,000,000	–	1
HKD3,500,001 – HKD4,000,000	1	–
HKD4,500,001 – HKD5,000,000	–	2
HKD8,500,001 – HKD9,000,000	1	–

(c) Balances with related parties

	As at 31 March	
	2016	2015
Balances due from related parties:		
– Huangguoshu Golden Leaf		
– other receivables	17	15

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Nominal value of issued/registered capital	Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to non-controlling interests	Principal activities and place of operation
			Direct	Indirect		
Aromascape Development Centre GmbH ^{FC1, AD1}	Germany, Limited liability company	EUR25,000	–	100	–	Research and development of flavours & fragrances in Germany
F&G (Botswana) (Pty) Limited	Republic of Botswana, Limited liability company	BWP100	–	100	–	Production and sales of natural extracts in Botswana
Guangdong Golden leaf Technology Development Co., Ltd. ^{SJ1, YX1, ZH2}	PRC*, Limited liability company	RMB100,000,000	–	100	–	Research & development, manufacture and sale of reconstituted tobacco leaves in the PRC
Guangdong Jinke Reconstituted Tobacco Leaves Co., Ltd. ^{XQ1, SJ1, YX1, YX2}	PRC*, Limited liability company	RMB40,000,000	–	55.375	44.625	Manufacture & sale of reconstituted tobacco leaves in the PRC

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Name	Place of incorporation and kind of legal entity	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to non-controlling interests	Principal activities and place of operation
			Direct	Indirect		
Guangzhou Huabao Food Co., Ltd. ^{CH1, CH2, X1}	PRC*, Limited liability company	RMB10,000,000	–	100	–	Research, development, manufacturing & sales of flavours & fragrances in the PRC
Guizhou Province Huashuo Biological Technology Co., Ltd. ^{YX1, YX2, ZH1}	PRC*, Limited liability company	RMB10,000,000	–	100	–	Manufacturing & sales of natural extracts in the PRC
Hua Fang Tobacco Flavors Ltd. ^{C1, FC1}	PRC*, Limited liability company	USD4,000,000	–	51	49	Manufacturing & sales of tobacco flavours & fragrances in the PRC
Huabao Flavours & Fragrances (HK) Limited ^{C1, FC1}	Hong Kong, Limited liability company	HKD3,000,000	–	100	–	Research, development, manufacturing & sales of flavours & fragrances in Hong Kong
Huabao Food Flavour & Fragrance (Shanghai) Co, Ltd. ^{YX1, YX2, FC1, ZH1}	PRC*, Limited liability company	USD10,000,000	–	100	–	Manufacturing & sales of tobacco flavours & fragrances in the PRC
Huabao Korea Company Limited ^{XQ1, SJ1, SJ2}	Korea, Limited liability company	WON16,320,000,000	–	100	–	Manufacture and sale of Filter materials in Korea
Huabao Qianqi Leasing (Shenzhen) Co., Ltd. ^{X1, XQ1, XQ2}	PRC*, Limited liability company	RMB300,000,000	–	100	–	Equipment leasing, office stationery leasing, assets management, investment management, investment and leasing consulting in the PRC

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

Name	Place of incorporation and kind of legal entity	Nominal value of issued/registered capital	Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to non-controlling interests	Principal activities and place of operation
			Direct	Indirect		
Huashun Flavours (Shanghai) Co., Ltd. ^{X1, ZH1, ZH2}	PRC*, Limited liability company	USD1,000,000	–	100	–	Manufacture and sale of fine chemicals in the PRC
Owada Flavours Technology (Guangzhou) Co., Ltd. ^{SJ1, XQ1, XQ2}	PRC*, Limited liability company	HKD60,000,000	–	100	–	Research, development, production and sale of tobacco flavours & fragrances in the PRC
Qingdao Huabao Flavors & Fragrances Co., Ltd. ^{C1, ZH1}	PRC*, Limited liability company	HKD3,673,500	–	70	30	Manufacture and sale of flavors & fragrances in the PRC
Qingdao Qingda Product Co., Ltd. ^{CH1, CH2, DX1, ZH1}	PRC*, Limited liability company	RMB41,640,000	–	100	–	Manufacturing & sales of natural extracts in the PRC
Shanghai Danhua Xianghua Keji Co., Ltd. ^{SJ1}	PRC*, Limited liability company	RMB10,000,000	–	72	28	Research, development and sale of flavours & fragrances in the PRC
Shanghai H&K Flavors & Fragrances Co., Ltd. ^{CH1, CH2, X1}	PRC*, Limited liability company	RMB100,000,000	–	100	–	Manufacturing & sales of food flavours & fragrances in the PRC
Smart Sino International Limited ^{C1, X1}	Hong Kong, Limited liability company	HKD10,000	–	100	–	Investment holding, trading of fine chemicals in Hong Kong
Standpoint Electronic Technology Development (Shanghai) Co., Ltd. ^{L1, L2, DX1}	PRC*, Limited liability company	HKD10,000,000	–	100	–	Research, development and sales of electronic products, daily commodities, fragrances and business management services

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

Name	Place of incorporation and kind of legal entity	Nominal value of issued/registered capital	Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to non-controlling interests	Principal activities and place of operation
			Direct	Indirect		
Taicang Wenhua Industrial Co., Ltd. ^{X1, ZH1, ZH2}	PRC*, Limited liability company	USD1,200,000	–	100	–	Production and sale of tobacco flavours & fragrances in the PRC
Wuxi Huahai Flavors Ltd. ^{X1, ZH1, ZH2}	PRC*, Limited liability company	USD650,000	–	100	–	Production and sale of tobacco flavours & fragrances in the PRC
Wuxi Huaxin Flavors & Fragrances Co., Ltd. ^{X1, ZH1, ZH2}	PRC*, Limited liability company	USD1,000,000	–	100	–	Production and sale of tobacco flavours & fragrances in the PRC
Wuxi Jiahua Flavour & Fragrance Co., Ltd. ^{X1, ZH1, ZH2}	PRC*, Limited liability company	RMB60,000,000	–	100	–	Production and sale of tobacco flavours & fragrances in the PRC
Xiamen Amber Daily Chemical Technology Co., Ltd. ^{CH1, CH2, XQ1}	PRC*, Limited liability company	RMB30,000,000	–	51	49	Research, development, distribution and retail of fragrances in the PRC
Xinjiang Huabao Natural Biological Technology Co., Ltd. ^{CH1, DX1}	PRC*, Limited liability company	RMB15,000,000	–	74.29	25.71	Production and sale of food flavours and fragrances in the PRC
Yancheng City Chunzhu Aroma Co., Ltd. ^{X1, CH1}	PRC*, Limited liability company	RMB6,000,000	–	83.59	16.41	Production and sales of aromatic raw materials in the PRC
Yingtian Huabao Flavours & Fragrances Co., Ltd. ^{FC1, FC2, ZH1}	PRC*, Limited liability company	RMB100,000,000	–	100	–	Production and sale of tobacco flavours & fragrances in the PRC

Name	Place of incorporation and kind of legal entity	Nominal value of issued/registered capital	Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to non-controlling interests	Principal activities and place of operation
			Direct	Indirect		
Yongzhou Shan Xiang Flavour Co., Ltd. ^{CH1, CH2}	PRC*, Limited liability company	RMB35,000,000	–	79.14	20.86	Production and sale of flavours & fragrances in the PRC
Yunnan Tianhong Flavor & Fragrance Co., Ltd. ^{C1, SJ1, SJ2}	PRC*, Limited liability company	USD2,550,000	–	60	40	Production and sale of tobacco flavours & fragrances in the PRC
VMR Products, LLC ^{L1, DX1}	USA, Limited partnership	–	–	51.50	48.50	Design, manufacturing and sale of electronic cigarettes in USA
Zhaoqing Perfumery Co., Ltd. (Guangdong) ^{ZH1}	PRC*, Limited liability company	RMB11,000,000	–	83.59	16.41	Manufacturing & sales of food flavours & fragrances in the PRC

As at 31 March 2016 and 2015, there was no non-controlling interests material to the Group.

* All entities incorporated in PRC are identified as “limited liability company”.

36. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	<i>Note</i>	As at 31 March 2016	2015
ASSETS			
Non-current assets			
Investments in subsidiaries		1,245,085	1,245,085
Current assets			
Trade and other receivables		1,134,002	498
Amounts due from subsidiaries		1,695,577	1,804,735
Cash and cash equivalents		224,460	15,705
		<u>3,054,039</u>	<u>1,820,938</u>
Total assets		<u>4,299,124</u>	<u>3,066,023</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		310,666	310,432
Reserves	<i>(a)</i>	804,508	792,485
Retained earnings		2,792,250	1,015,756
		<u>3,907,424</u>	<u>2,118,673</u>
Total equity		<u>3,907,424</u>	<u>2,118,673</u>
LIABILITIES			
Current liabilities			
Borrowings		–	735,128
Amounts due to subsidiaries		390,440	209,192
Trade and other payables		1,260	3,030
		<u>391,700</u>	<u>947,350</u>
Total liabilities		<u>391,700</u>	<u>947,350</u>
Total equity and liabilities		<u>4,299,124</u>	<u>3,066,023</u>

Note (a) Reserve movement of the Company

	Contributed surplus	Share premium	Capital reserve	Capital redemption reserve	Share-based compensation reserve	Total
At 1 April 2014	288,191	445,977	1,677	5,853	41,817	783,515
Employee share option scheme						
– Issue of shares upon exercise of share options	–	10,181	–	–	(1,211)	8,970
At 31 March 2015	<u>288,191</u>	<u>456,158</u>	<u>1,677</u>	<u>5,853</u>	<u>40,606</u>	<u>792,485</u>
At 1 April 2015	288,191	456,158	1,677	5,853	40,606	792,485
Share-based payment	–	–	–	–	2,392	2,392
Employee share option scheme						
– Issue of shares upon exercise of share options	–	12,093	–	–	(2,462)	9,631
At 31 March 2016	<u>288,191</u>	<u>468,251</u>	<u>1,677</u>	<u>5,853</u>	<u>40,536</u>	<u>804,508</u>

37. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director and chief executive of the Company for the year ended 31 March 2016 and 2015 are set out below:

Name of directors	Note	2016					2015				
		Fees	Salaries	Bonus	Employer's contribution to pension scheme	Total	Fees	Salaries	Bonus	Employer's contribution to pension scheme	Total
Executive directors:											
Ms. Chu Lam Yiu	(a)	10,290	–	–	–	10,290	10,290	–	4,000	–	14,290
Mr. Poon Chiu Kwok		–	2,628	–	390	3,018	–	2,449	–	216	2,665
Mr. Wang Guang Yu	(b)	845	362	–	55	1,262	1,335	556	–	79	1,970
Mr. Xia Li Qun		–	6,000	4,000	18	10,018	–	4,600	–	18	4,618
Mr. Lam Ka Yu	(c)	448	–	–	–	448	–	–	–	–	–
Non-executive directors:											
Mr. Lam Ka Yu	(c)	–	–	–	–	–	240	–	–	–	240
Independent non-executive directors:											
Dr. Ding Ningning		240	–	–	–	240	240	–	–	–	240
Mr. Lee Luk Shiu		240	–	–	–	240	240	–	–	–	240
Ms. Ma Yun Yan		240	–	–	–	240	240	–	–	–	240
Mr. Wu Chi Keung		240	–	–	–	240	240	–	–	–	240
		<u>12,543</u>	<u>8,990</u>	<u>4,000</u>	<u>463</u>	<u>25,996</u>	<u>12,825</u>	<u>7,605</u>	<u>4,000</u>	<u>313</u>	<u>24,743</u>

- (a) Ms. Chu Lam Yiu is also the chief executive officer of the Company.
- (b) Ceased to act on 18 November 2015.
- (c) Re-designated as Executive Director on 4 March 2016.

No directors waived any emoluments during the years ended 31 March 2016 and 2015.

During the years ended 31 March 2016 and 2015, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(b) Directors' retirement benefit

During the year ended 31 March 2016 and 2015, no retirement benefits paid to the directors of the Company by a defined benefit pension plan operated by the Group in respect of the director's services as a director of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) Directors' termination benefit

During the years ended 31 March 2016 and 2015, no payments to the directors of the Company as compensation for the early termination of the appointment.

(d) Consideration provided to third parties for making available directors' services

During the years ended 31 March 2016 and 2015, the Company did not provide to any third party for making available director's services.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the years ended 31 March 2016 and 2015, no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors.

(f) Directors' material interests in transactions, arrangements or contracts

During the years ended 31 March 2016 and 2015, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

Set out below are the Group's unaudited consolidated financial statements for the six months ended 30 September 2016 which were published in the Company's interim report issued on 28 November 2016.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Notes</i>	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Assets			
Non-current assets			
Property, plant and equipment	7	1,212,216	1,307,819
Land use rights	7	177,863	185,688
Intangible assets	7	3,132,511	3,261,635
Investments in associates	8	363,535	337,616
Available-for-sale financial assets	5	263,514	222,488
Deferred income tax assets	9	74,429	79,788
		<u>5,224,068</u>	<u>5,395,034</u>
Current assets			
Inventories		834,821	834,024
Trade and other receivables	10	1,585,665	1,440,690
Financial assets at fair value through profit or loss	11	221,740	229,149
Available-for-sale financial assets		–	165,617
Restricted bank deposit		–	117,130
Short-term time deposits		64,562	220,527
Cash and cash equivalents		4,746,692	3,184,051
		<u>7,453,480</u>	<u>6,191,188</u>
Total assets		<u>12,677,548</u>	<u>11,586,222</u>
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	310,666	310,666
Reserves	14	876,882	813,203
Retained earnings		9,549,617	9,063,371
		<u>10,737,165</u>	<u>10,187,240</u>
Non-controlling interests		<u>1,051,134</u>	<u>343,178</u>
Total equity		<u>11,788,299</u>	<u>10,530,418</u>

	<i>Notes</i>	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	<i>9</i>	78,543	85,329
Trade and other payables	<i>16</i>	<u>35,155</u>	<u>38,441</u>
		<u>113,698</u>	<u>123,770</u>
Current liabilities			
Borrowings	<i>15</i>	87,692	18,002
Trade and other payables	<i>16</i>	541,353	794,679
Current income tax liabilities		<u>146,506</u>	<u>119,353</u>
		<u>775,551</u>	<u>932,034</u>
Total liabilities		<u><u>889,249</u></u>	<u><u>1,055,804</u></u>
Total equity and liabilities		<u><u>12,677,548</u></u>	<u><u>11,586,222</u></u>

The notes on pages II-71 to II-89 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

		Unaudited	
		For the Six months ended	
		30 September	
	<i>Notes</i>	2016	2015
Sales	6	1,859,477	1,693,019
Cost of goods sold		<u>(648,634)</u>	<u>(521,283)</u>
Gross profit		1,210,843	1,171,736
Other income and other gains – net	17	138,922	70,215
Selling and marketing expenses		(154,069)	(118,603)
Administrative expenses		<u>(533,141)</u>	<u>(389,539)</u>
Operating profit		662,555	733,809
Finance income		24,577	34,668
Finance costs		(2,605)	(6,948)
Finance income – net		21,972	27,720
Share of profit/(loss) of associates and a jointly controlled entity		<u>1,970</u>	<u>(1,239)</u>
Profit before income tax		686,497	760,290
Income tax expense	19	<u>(139,806)</u>	<u>(187,318)</u>
Profit for the period		<u>546,691</u>	<u>572,972</u>
Attributable to:			
Equity holders of the Company		557,753	565,340
Non-controlling interests		<u>(11,062)</u>	<u>7,632</u>
		<u>546,691</u>	<u>572,972</u>
Earnings per share for profit attributable to the Company's equity holders for the period			
Basic (HK cents)	20(a)	17.95	18.20
Diluted (HK cents)	20(b)	<u>17.95</u>	<u>18.18</u>

The notes on pages II–71 to II–89 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Unaudited	
	For the Six months ended	
	30 September	
	2016	2015
Profit for the period	546,691	572,972
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Fair value changes on available-for-sale financial assets, net of tax	937	(12,472)
Currency translation difference on foreign operations	<u>(271,157)</u>	<u>(334,641)</u>
Other comprehensive loss for the period, net of tax	<u>(270,220)</u>	<u>(347,113)</u>
Total comprehensive income for the period, net of tax	<u>276,471</u>	<u>225,859</u>
Total comprehensive income attributable to:		
Equity holders of the Company	295,755	226,645
Non-controlling interests	<u>(19,284)</u>	<u>(786)</u>
	<u>276,471</u>	<u>225,859</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

Notes	Unaudited Attributable to equity holders of the Company			Total	Non- Controlling interests	Total equity
	Share capital	Reserves	Retained earnings			
Balance at 1 April 2015	310,432	1,188,606	7,670,008	9,169,046	234,796	9,403,842
Total comprehensive income for the six months ended 30 September 2015	–	(338,695)	565,340	226,645	(786)	225,859
Transactions with owners in their capacity as owners:						
Dividends paid and payable to non-controlling interests	–	–	–	–	(10,977)	(10,977)
Appropriation from net profit	–	46,700	(46,700)	–	–	–
Employee share option scheme – Issue of shares upon exercise of share options	234	9,631	–	9,865	–	9,865
Total transactions with owners	234	56,331	(46,700)	9,865	(10,977)	(1,112)
Balance at 30 September 2015	<u>310,666</u>	<u>906,242</u>	<u>8,188,648</u>	<u>9,405,556</u>	<u>223,033</u>	<u>9,628,589</u>
Balance at 1 April 2016	310,666	813,203	9,063,371	10,187,240	343,178	10,530,418
Total comprehensive income for the six months ended 30 September 2016	–	(261,998)	557,753	295,755	(19,284)	276,471
Transactions with owners in their capacity as owners:						
Dividends paid and payable to non-controlling interests	–	–	–	–	(3,472)	(3,472)
Appropriation from net profit	–	71,507	(71,507)	–	–	–
Additional investment in a non-wholly owned subsidiary	22(a)	(9,371)	–	(9,371)	9,371	–
Issue of new shares by a subsidiary to non-controlling interests	22(b)	262,345	–	262,345	721,341	983,686
Share-based payment – Value of consultancy service	–	1,196	–	1,196	–	1,196
Total transactions with owners	–	325,677	(71,507)	254,170	727,240	981,410
Balance at 30 September 2016	<u>310,666</u>	<u>876,882</u>	<u>9,549,617</u>	<u>10,737,165</u>	<u>1,051,134</u>	<u>11,788,299</u>

The notes on pages II–71 to II–89 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Unaudited	
	For the six months ended	
	30 September	
	2016	2015
Cash flows from operating activities		
Cash generated from operations	451,377	713,829
Income tax paid	(114,396)	(195,053)
	<u>336,981</u>	<u>518,776</u>
Net cash generated from operating activities		
Cash flows from investing activities		
Acquisitions of associates	(148,470)	(101,890)
Proceeds from disposal of a jointly controlled entity	–	6,434
Additions to available-for-sale financial assets	(160,391)	(21,617)
Proceeds from disposals of available-for-sale financial assets	282,926	–
Purchases of financial assets at fair value through profit or loss	–	(330,162)
Proceeds from disposal of financial assets at fair value through profit or loss	–	218,729
Purchases of property, plant and equipment, land use right and intangible assets	(30,339)	(50,864)
Proceeds from disposal of property, plant and equipment	189	300
Release/(increase) in restricted bank deposit	117,130	(114,104)
Short-term time deposits released/(placed)	148,865	(3,195)
Dividend received	10,343	20,805
Interest received	15,221	44,914
	<u>235,474</u>	<u>(330,650)</u>
Net cash generated from/(used in) investing activities		

	Unaudited	
	For the six months ended	
	30 September	
	2016	2015
Cash flows from financing activities		
Dividends paid to non-controlling interests	(11,152)	(7,992)
Receipts from the issue of new shares to non-controlling interests	983,686	–
Proceeds from issue of shares upon exercise of share options	–	9,865
New short-term bank borrowings	94,661	–
Repayment of short-term bank borrowings	(24,971)	(154,120)
Interest paid	(2,591)	(7,216)
	<u>1,039,633</u>	<u>(159,463)</u>
Net cash generated from/(used in) financing activities		
	1,612,088	28,663
Net increase in cash and cash equivalents		
Cash and cash equivalents at 1 April	3,184,051	2,674,289
Effects of currency translation on cash and cash equivalents	(49,447)	(120,028)
	<u>4,746,692</u>	<u>2,582,924</u>
Cash and cash equivalents at 30 September		

The notes on pages II-71 to II-89 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in HK dollar thousands unless otherwise stated)

1. GENERAL INFORMATION

Huabao International Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (the “Group”) are mainly engaged in the research and development, production, distribution and sale of flavours and fragrances, tobacco raw materials, aroma raw materials and innovative tobacco products in the People’s Republic of China (the “PRC”). Ms. Chu Lam Yiu, who is the Chairwoman of the Board of Directors, holds approximately 41% beneficial equity interest in the Company as at 30 September 2016, and is the single largest shareholder of the Company.

This condensed consolidated interim financial information is presented in thousands of units of HK dollars (“HKD’000”) unless otherwise stated and it has been approved for issue by the Board of Directors on 17 November 2016.

This condensed consolidated interim financial information has been reviewed and has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2016, as described in those financial statements.

- (a) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.
- (b) There are no other standards or interpretations that are effective for the first time for this interim period that has a material impact on the Group.
- (c) The following new standards and amendments to standards have been issued but are not yet effective and have not been early adopted by the Group:

	Effective for annual periods beginning on or after
HKAS 12 (Amendment) “Income Taxes”	1 January 2017
HKAS 7 (Amendment) “Statement of Cash Flows”	1 January 2017
HKFRS 15 “Revenue from contracts with customers”	1 January 2017
HKFRS 9 “Financial instruments”	1 January 2018
HKFRS 16 “Leases”	1 January 2019
HKFRS 10 and HKAS 28 (Amendments) “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be confirmed

Management is currently assessing the impact of the above new and amended standards to the Group’s consolidated financial statements.

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2016.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2016.

There have been no changes in the risk management policies since 31 March 2016.

5.2 Liquidity risk

As at 30 September 2016, the Group's net debt is zero (31 March 2016: zero), which is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents.

5.3 Fair value estimation

The following categorises financial instruments carried at fair value based on the level of inputs to valuation techniques within a fair value hierarchy. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Included in level 1 within the fair value hierarchy as at 30 September 2016 and 31 March 2016 were those listed equity securities that were classified as the financial assets at fair value through profit or loss. The fair values of these financial instruments traded in active markets were based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

Included in level 3 within the fair value hierarchy as at 30 September 2016 and 31 March 2016 were the available-for-sale financial assets. There were no transfers into or out of level 3.

There are no other financial instruments that were measured at fair value as at 30 September 2016 and 31 March 2016.

The Group has adopted the market approach in valuing available-for-sale financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets.

5.4 Fair value measurements using significant unobservable inputs (Level 3)

	Available-for-sale financial assets
At 1 April 2016	388,105
Additions	160,391
Disposals	(282,926)
Fair value change, before tax	1,855
Currency translation differences	(3,911)
	<hr/>
At 30 September 2016	<u>263,514</u>

There were no changes in valuation techniques during the period.

5.5 Group's valuation processes

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and the valuation team at least once every half a year, in line with the Group's reporting dates.

5.6 Fair value of financial assets and liabilities measured at amortised cost

The fair value of financial assets and financial liabilities measured at amortised cost approximate their carrying amounts.

6. TURNOVER AND SEGMENT INFORMATION

The Group has organised its operations into four main operating segments:

- Flavours and fragrances;
- Tobacco raw materials;
- Aroma raw materials; and
- Innovative tobacco products.

The chief operating decision-makers have been identified as the executive directors (the "Executive Directors"). The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

During current reporting period, the Group conducted an internal organizational restructuring. As a result of the restructuring, the operating segments changed in response to the change in internal reporting. The original flavours segment and fragrances segment were combined into a new segment – flavours and fragrances segment. Reconstituted tobacco leaves segment and new materials segment were combined into a new segment – tobacco raw materials segment. In addition, VMR Products, LLC and its subsidiaries ("VMR"), the subsidiary acquired in last financial year, together with other existing entities with similar business formed a new segment – innovative tobacco products segment. Aroma raw materials segment remains unchanged. The comparative figures of last corresponding period have been restated according to the new segment information.

The Executive Directors consider the business from the operation's perspective and assess the performance of flavours and fragrances, tobacco raw materials, aroma raw materials and innovative tobacco products segments:

- (1) Flavours and fragrances segment includes research and development, production and sale of flavours and fragrances products.
- (2) Tobacco raw materials segment includes research and development, production and sale of paper-making reconstituted tobacco leaves and new materials products that are innovative, functional and applicable to tobacco industry.

The segment information for the six months ended 30 September 2015 is presented below:

	Unaudited (restated)					Total
	For the six months ended 30 September 2015					
	Flavours and fragrances	Tobacco raw materials	Aroma raw materials	Innovative tobacco products	Others	
Total turnover	1,258,838	320,930	139,144	1,649	5,822	1,726,383
Inter-segment sales	(8,839)	(22,066)	(2,457)	(2)	–	(33,364)
Segment turnover – net	<u>1,249,999</u>	<u>298,864</u>	<u>136,687</u>	<u>1,647</u>	<u>5,822</u>	<u>1,693,019</u>
Segment result	680,522	106,181	29,826	(40,368)	(42,352)	733,809
Finance income						34,668
Finance costs						(6,948)
Finance income – net						27,720
Share of loss of associates and a jointly controlled entity						(1,239)
Profit before income tax						760,290
Income tax expense						(187,318)
Profit for the period						<u>572,972</u>
Depreciation	<u>24,678</u>	<u>49,565</u>	<u>4,165</u>	<u>235</u>	<u>137</u>	<u>78,780</u>
Amortisation	<u>13,286</u>	<u>5,720</u>	<u>1,603</u>	<u>5</u>	<u>122</u>	<u>20,736</u>

The segment assets as at 31 March 2016 are presented below:

	Audited (restated)					Total
	As at 31 March 2016					
	Flavours and fragrances	Tobacco raw materials	Aroma raw materials	Innovative tobacco products	Others	
Segment assets	<u>5,415,740</u>	<u>2,545,688</u>	<u>777,189</u>	<u>450,826</u>	<u>2,396,779</u>	<u>11,586,222</u>

Segment result represents the profit earned by each segment without inclusion of unallocated expenses, finance costs, finance income and share of results of associates and a jointly controlled entity. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

Non-current assets other than financial instruments and deferred tax assets of the Group as at 30 September 2016 and 31 March 2016 are mainly located in the PRC.

Revenues from external customers are derived from the sales of flavours and fragrances, tobacco raw materials and aroma raw materials to customers mainly located in the PRC, and the sales of innovative tobacco products to customers mainly located in the U.S..

Revenue derived from sales made to one single largest external customer for the six months ended 30 September 2016 amounted to 13% (30 September 2015: 18%) of the Group's total revenue. These revenues are attributable to flavours and fragrances segment.

7. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

		Unaudited						
	Notes	Property, plant and equipment (excluding construction in progress)	Construction in progress	Total property, plant and equipment	Land use rights	Goodwill	Other intangible assets	Total intangible assets
For the six months ended 30 September 2015								
At 1 April 2015		1,264,575	140,920	1,405,495	194,060	2,735,468	161,899	2,897,367
Additions		18,670	20,082	38,752	771	–	579	579
Transfers		80,296	(80,296)	–	–	–	–	–
Disposals		(369)	–	(369)	–	–	–	–
Depreciation and amortisation	18	(78,780)	–	(78,780)	(3,185)	–	(17,551)	(17,551)
Currency translation differences		(43,328)	(3,106)	(46,434)	(6,041)	(89,617)	(2,599)	(92,216)
At 30 September 2015		<u>1,241,064</u>	<u>77,600</u>	<u>1,318,664</u>	<u>185,605</u>	<u>2,645,851</u>	<u>142,328</u>	<u>2,788,179</u>
For the six months ended 30 September 2016								
At 1 April 2016		1,264,490	43,329	1,307,819	185,688	2,743,476	518,159	3,261,635
Additions		15,461	8,311	23,772	488	–	1,511	1,511
Transfers		24,454	(24,906)	(452)	–	–	452	452
Disposals		(2,482)	–	(2,482)	–	–	(63)	(63)
Provisions for impairment		–	(1,111)	(1,111)	–	–	–	–
Depreciation and amortisation	18	(79,109)	–	(79,109)	(3,044)	–	(44,388)	(44,388)
Currency translation differences		(30,489)	(5,732)	(36,221)	(5,269)	(81,226)	(5,410)	(86,636)
At 30 September 2016		<u>1,192,325</u>	<u>19,891</u>	<u>1,212,216</u>	<u>177,863</u>	<u>2,662,250</u>	<u>470,261</u>	<u>3,132,511</u>

8. INVESTMENTS IN ASSOCIATES

The Group has interests in three individually immaterial associates as at 30 September 2016. The following table analyses, in aggregate, the movements of the carrying amount of the Group's investments in these associates, and its share of results of these associates.

An analysis of the movements of equity investments in associates is as follows:

	<i>Note</i>	Unaudited For the six months ended 30 September 2016
At 1 April		337,616
Share of profit of associates		1,970
Acquisition of equity interest in Beijing Yunjiwuyu Technology Co. Ltd. ("Yunjiwuyu")	<i>(b)</i>	35,425
Currency translation differences		<u>(11,476)</u>
At 30 September 2016		<u><u>363,535</u></u>

(a) As at 30 September 2016, the Group had interests in the following associates:

Name	Country of incorporation	% of ownership interests	Principal activities
Guizhou Huangguoshu Golden Leaf Technology Co., Ltd. ("Huangguoshu Golden Leaf")	PRC	40%	Pre-operating
Yunnan Hongta Blue Eagle Paper Co., Ltd.	PRC	25.1%	Manufacture and sales of cigarette paper and auxiliary products
Yunjiwuyu	PRC	20%	Provision of software development services and sales of self-developed softwares

(b) In May 2016, the Group purchased 20% of the equity interest in Yunjiwuyu at a consideration of RMB30,000,000 (equivalent to approximately HKD35,425,000).

9. DEFERRED INCOME TAX ASSETS/LIABILITIES

The movements in the deferred income tax are as follows:

		Unaudited						
		Deferred income tax assets			Deferred income tax liabilities			
		Unrealised profits arising from intra-group sales	Recoverable tax loss	Others	Total	Valuation surplus of assets and recognition of intangible assets	Withholding income tax on dividends expected to be remitted from group entities incorporated in the PRC	Total
Notes								
	At 1 April 2015	65,194	–	–	65,194	65,877	6,730	72,607
	Recognised in other comprehensive income	–	–	–	–	(4,758)	–	(4,758)
	Recognised in the income statement	8,250	–	–	8,250	7,077	(6,730)	347
	Currency translation differences	(2,501)	–	–	(2,501)	(1,371)	–	(1,371)
	At 30 September 2015	70,943	–	–	70,943	66,825	–	66,825
	At 1 April 2016	70,583	6,991	2,214	79,788	85,329	–	85,329
	Recognised in other comprehensive income	–	–	–	–	918	–	918
	Recognised in the income statement	(2,910)	–	1,085	(1,825)	(4,687)	–	(4,687)
	Currency translation differences	(3,224)	(225)	(85)	(3,534)	(3,017)	–	(3,017)
	At 30 September 2016	64,449	6,766	3,214	74,429	78,543	–	78,543

Deferred income tax assets are recognised for temporary differences mainly arising from unrealised profits from intra-group sales, and calculated under the liability method using the tax rate which are enacted or substantively enacted by the balance sheet date.

Deferred income tax liabilities arose from the valuation surplus of property, plant and equipment, land use rights, intangible assets, available-for-sale financial assets; recognition of intangible assets as a result of acquisition of subsidiaries; changes in fair value of financial assets at fair value through profit or loss and withholding income tax on dividends expected to be remitted abroad by group entities incorporated in the PRC.

Pursuant to the Corporate Income Tax Laws of the PRC approved by the National People's Congress on 16 March 2007, a 10% withholding tax is levied on dividends remitted from the PRC entities to overseas investors with effect from 1 January 2008. A lower withholding tax rate of 5% is applied to Hong Kong investors as there is a tax treaty between the PRC and Hong Kong. However, the 5% treaty rate is not automatically granted. The taxpayer needs to apply to the relevant tax bureau for an approval for the treaty rate. The Directors estimated that a portion of profits generated by the PRC subsidiaries would be distributed to their Hong Kong immediate parent companies and the

approval for the treaty rate will be obtained. Therefore, deferred income tax liabilities had been provided based on 5% or 10% of the estimated profits to be remitted to Hong Kong. The Directors of the Company will review the funding requirements of the Group and revise the dividend distribution policy of its subsidiaries as appropriate.

As at 30 September 2016, deferred income tax liabilities of HKD343,151,000 (31 March 2016: HKD343,470,000) have not been recognised for the withholding tax that would otherwise be payable on the undistributed profits of certain PRC subsidiaries.

10. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Trade receivables	(a)	1,216,993	994,949
Less: Provision for impairment of receivables		<u>(20,131)</u>	<u>(13,763)</u>
Trade receivables – net		1,196,862	981,186
Notes receivable		86,305	192,647
Prepayments and other receivables		285,954	231,930
Advances to staff		9,815	15,054
Others		<u>6,729</u>	<u>19,873</u>
		<u><u>1,585,665</u></u>	<u><u>1,440,690</u></u>

Except for prepayments of HKD69,690,000 (31 March 2016: HKD44,028,000), trade and other receivables balances are financial assets categorised under “loans and receivables”. All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of the trade and other receivables approximate their carrying amounts.

- (a) The credit period granted to customers generally ranges from 0 to 180 days. At 30 September 2016 and 31 March 2016, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on the invoice date was as follows:

	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
0 – 90 days	1,067,782	869,233
91 – 180 days	77,397	55,538
181 – 360 days	33,141	41,803
Over 360 days	<u>38,673</u>	<u>28,375</u>
	<u><u>1,216,993</u></u>	<u><u>994,949</u></u>

As at 30 September 2016, unbilled trade receivables of HKD594,090,000 (31 March 2016: HKD371,792,000) was categorised in the aging of 0-90 days.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Listed equity securities, PRC, at market value, denominated in RMB	221,740	229,149

Changes in fair values of financial assets at fair value through profit or loss are recorded in “other income and other gains – net” in the consolidated income statement (Note 17).

The fair values of all equity securities are based on their current bid prices in an active market, and they are categorised within level 1 of fair value hierarchy.

12. SHARE CAPITAL

		Unaudited Ordinary shares of HKD0.10 each	
	<i>Note</i>	<i>Number of</i> <i>shares</i>	<i>HKD'000</i>
Issued and fully paid:			
At 1 April 2015		3,104,317,961	310,432
Issue of shares upon exercise of share options	13	2,340,000	234
At 30 September 2015, 1 April 2016 and 30 September 2016		3,106,657,961	310,666

13. SHARE-BASED PAYMENT

Movements in the number of shares under share-based payment outstanding during the period are set out below:

		Unaudited For the six months ended 30 September	
	<i>Notes</i>	2016 <i>Number of</i> <i>share options</i> <i>('000)</i>	2015 <i>Number of</i> <i>share options</i> <i>('000)</i>
Share option			
At 1 April	(a i)	15,250	17,590
Exercised	(a ii)	–	(2,340)
Lapsed	(a iii)	(1,800)	–
Sub-total	(a iv)	13,450	15,250
Share award			
At 1 April and 30 September	(b)	4,350	–
Total		17,800	15,250

(a) Share option scheme

On 10 October 2006 and 25 October 2006, the Group granted 97,200,000 and 30,400,000 share options with an exercise price of HKD3.09 per share and vesting periods of 0 to 3 years to employees and directors respectively. On 17 October 2007, the Group granted 13,900,000 and 3,600,000 share options with an exercise price of HKD6.65 per share and vesting periods of 0.5 to 3 years to employees and a director respectively. On 14 April 2008, the Group granted 10,400,000 share options to two directors with an exercise price of HKD6.39 per share and vesting periods of 0 to 3 years. The options have a contractual option term of 10 years. The Group has no legal or contractual obligation to repurchase or settle the options in cash. The fair value of the share options at the grant date was determined using the Black-Scholes valuation model.

- (i) The weighted average exercise prices per share are HKD5.02 and HKD4.91 as at 1 April 2016 and 2015.
- (ii) During the period ended 30 September 2015, the weighted average market share price of the exercised 2,340,000 share options before the share option exercise date and the weighted average exercise prices per share were HKD8.20 and HKD4.22 respectively.
- (iii) Share options lapsed was due to resignation of an employee. The weighted average exercise price per share is HKD6.65 for the share options lapsed during the period ended 30 September 2016.
- (iv) The weighted average exercise prices per share are HKD4.80 and HKD5.02 as at 30 September 2016 and 2015 respectively.

Share options outstanding as at 30 September 2016 are analysed as follows:

Grantee	Exercise price in HKD per share	Number of share options ('000)	Expiry date
Directors	3.09	900	24 October 2016
Employees	3.09	6,100	9 October 2016
Employees	6.65	6,450	16 October 2017
At 30 September 2016		<u>13,450</u>	

All share options outstanding as at 30 September 2016 and 2015 are currently exercisable.

(b) Share award

On 30 December 2015, the Company granted not more than 4,349,717 awarded shares to a consultant ("Consultant") for payment of service fee to the Consultant on full completion of services ("Services") by the consultant, or such lesser amount representing the part of Services completed by the Consultant pursuant to a service contract ("Service Contract"). It is considered as an equity-settled share-based payment and accounted for as restricted share award. As such, the services received are measured and accounted for at their fair values, which amounted to RMB10,000,000 (approximately HKD11,960,000) and expensed over the vesting period on a straight-line basis. The corresponding equity for the settlement of payment is also increased by the fair value of the services received.

As at 30 September 2016 which being the expiry date of the Service Contract, the fair value of the part of Services completed under the Service Contract by the Consultant was RMB3,000,000 (approximately HKD3,588,000). Based on the Service completed, the Consultant would be entitled to 1,304,915 awarded shares and the remaining 3,044,802 awarded shares to which the Consultant was not entitled would be cancelled before 31 December 2016.

Apart from the above, no shares outstanding are currently exercisable as at 30 September 2016.

(c) Share option scheme of VMR

VMR, a non-wholly owned subsidiary of the Group, has operated a share option scheme which over 80,000 shares were authorised to be issued. All options vest over a three year period and expire five years from the date of grant. The fair value of the share options at the grant date was determined using the Black-Scholes valuation model.

Movements in the number of shares options outstanding during the period ended 30 September 2016 and their related weighted average exercise prices are set out below:

	Unaudited	
	For the six months ended	
	30 September 2016	
	Weighted average exercise price in HKD per share	Number of share options ('000)
At 1 April 2016	219.72	66,094
Lapsed	196.97	(10,500)
	<hr/>	<hr/>
At 30 September 2016	<u>224.08</u>	<u>55,594</u>

Share options outstanding as at 30 September 2016 and their related weighted average exercise prices are set out below:

Grantee	Exercise price in HKD per share	Number of share options ('000)	Expiry date
Employees	165.02	12,100	3 December 2017
Employees	165.02	7,350	14 September 2018
Employees	752.50	7,000	1 July 2019
Employees	165.02	5,500	5 July 2020
Employees	129.96	23,644	17 December 2020
		<hr/>	
At 30 September 2016		<u>55,594</u>	

19,450 share options out of total outstanding options as at 30 September 2016 are currently exercisable.

14. RESERVES

	Unaudited								
	Contributed surplus	Merger reserve	Share premium	Capital reserve	Capital redemption reserve	Share-based compensation reserve	Currency translation reserve	Other reserves	Total
At 1 April 2015	288,191	(617,160)	456,158	1,677	5,853	40,606	711,805	301,476	1,188,606
Fair value changes on available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	(12,472)	(12,472)
Appropriation from net profit	-	-	-	-	-	-	-	46,700	46,700
Employee share option scheme – issue of shares upon exercise of share options	-	-	12,093	-	-	(2,462)	-	-	9,631
Currency translation differences	-	-	-	-	-	-	(326,223)	-	(326,223)
At 30 September 2015	<u>288,191</u>	<u>(617,160)</u>	<u>468,251</u>	<u>1,677</u>	<u>5,853</u>	<u>38,144</u>	<u>385,582</u>	<u>335,704</u>	<u>906,242</u>
At 1 April 2016	288,191	(617,160)	468,251	1,677	5,853	40,536	250,547	375,308	813,203
Fair value changes on available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	937	937
Appropriation from net profit	-	-	-	-	-	-	-	71,507	71,507
Additional investment in a non-wholly-owned subsidiary	-	-	-	-	-	-	-	(9,371)	(9,371)
Issue of new shares by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	262,345	262,345
Share-based payment – value of consultancy services	-	-	-	-	-	1,196	-	-	1,196
Currency translation differences	-	-	-	-	-	-	(262,935)	-	(262,935)
At 30 September 2016	<u>288,191</u>	<u>(617,160)</u>	<u>468,251</u>	<u>1,677</u>	<u>5,853</u>	<u>41,732</u>	<u>(12,388)</u>	<u>700,726</u>	<u>876,882</u>

15. BORROWINGS

	<i>Notes</i>	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Current			
– Secured bank borrowings	(a)	–	13,201
– Unsecured bank borrowings	(b)	87,692	4,801
		<u>87,692</u>	<u>18,002</u>
Total borrowings		<u>87,692</u>	<u>18,002</u>

(a) The bank borrowings were secured by a pledge of land and buildings located in Jiangsu Province owned by a subsidiary, Yancheng City Chunzhu Aroma Co., Ltd. The borrowings were denominated in RMB, repayable within one year and had been fully repaid before 30 September 2016. During the period, the average interest rate of secured bank borrowings was 6.48% per annum (30 September 2015: 6.30%).

(b) The unsecured bank borrowings are repayable within one year. During the period, the average interest rate was 4.05% (30 September 2015: 1.86%) per annum.

Borrowings are financial liabilities categorised under “financial liabilities measured at amortised cost”. The fair values of the Group’s borrowings approximate their carrying amounts.

Interest expense on bank borrowings for the six months ended 30 September 2016 amounted to HKD1,120,000 (30 September 2015: HKD6,948,000).

16. TRADE AND OTHER PAYABLES

	<i>Note</i>	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Trade payables	(a)	324,075	371,263
Dividends payable		978	8,947
Wages payable		35,836	52,659
Other taxes payable		52,780	77,004
Accruals for expenses		38,111	75,452
Advances from customers		21,710	7,124
Payable for acquisition of an associate		–	116,806
Payable for licence fee		35,155	43,462
Other payables		67,863	80,403
		<u>576,508</u>	<u>833,120</u>

Except for other taxes payable of HKD52,780,000 (31 March 2016: HKD77,004,000), wages payable of HKD35,836,000 (31 March 2016: HKD52,659,000) and advances from customers of HKD21,710,000 (31 March 2016: HKD7,124,000), trade and other payables balances are financial liabilities categorised under “financial liabilities measured at amortised cost”. The fair values of trade and other payables approximate their carrying amounts.

- (a) As at 30 September 2016 and 31 March 2016, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on the invoice dates was as follows:

	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
0 – 90 days	255,913	289,879
91 – 180 days	46,395	56,234
181 – 360 days	7,398	6,546
Over 360 days	14,369	18,604
	<u>324,075</u>	<u>371,263</u>

17. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended 30 September	
	2016	2015
Changes in fair value of financial assets at fair value through profit or loss	(5,985)	47,317
Profit/(loss) on disposal of financial assets at fair value through profit or loss	65,952	(7,270)
Government grants	85,555	61,395
Currency exchange loss – net	(6,145)	(31,366)
Others	(455)	139
	<u>138,922</u>	<u>70,215</u>

18. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analysed according to their nature (with the exception of “research and development expenses” which are shown as a single item and analysed according to their nature in note (a) below) as follows:

		Unaudited For the six months ended 30 September	
	Notes	2016	2015
Depreciation	7	66,391	65,063
Amortisation	7	45,966	20,686
Employee benefit expenses		227,956	161,056
Research and development expenses	(a)	130,496	111,250
Lease rentals		25,290	20,118
Travelling expenses		55,865	39,745
Utility expenses		36,420	37,510
Delivery expenses		22,311	18,616
		<u>666,235</u>	<u>616,249</u>

- (a) Depreciation, amortisation and employee benefit expenses included in research and development expenses are set out below:

		Unaudited	
		For the six months ended	
		30 September	
	<i>Notes</i>	2016	2015
Depreciation	7	12,718	13,717
Amortisation	7	1,466	50
Employee benefit expenses		47,669	46,698
		<u>47,669</u>	<u>46,698</u>

19. INCOME TAX EXPENSE

		Unaudited	
		For the six months ended	
		30 September	
	<i>Notes</i>	2016	2015
Current income tax:			
– Hong Kong profits tax	<i>(a)</i>	4,661	4,657
– PRC corporate income tax	<i>(b)</i>	137,280	189,652
– Germany company income tax	<i>(c)</i>	125	125
– Botswana company income tax	<i>(d)</i>	602	787
Deferred income tax	9	(2,862)	(7,903)
		<u>139,806</u>	<u>187,318</u>

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the period.
- (b) PRC corporate income tax has been calculated on the estimated assessable profit for the period at the tax rates applicable to respective companies of the Group.
- (c) Germany company income tax has been provided at the rate of 15% (2015: 15%) on the estimated assessable profit for the period.
- (d) Botswana company income tax has been provided at the rate of 15% (2015: 15%) on the estimated assessable profit for the period.
- (e) The subsidiary in the U.S. is a limited partnership and does not chargeable to income tax at partnership level. The corporate owners of the partnership pay tax on its share of the partnership's taxable income at the rate of 35% for the period.
- (f) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions during the period.

20. EARNINGS PER SHARE**(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited For the six months ended 30 September	
	2016	2015
Profit attributable to equity holders of the Company	557,753	565,340
Weighted average number of ordinary shares in issue ('000)	3,106,658	3,106,211
Basic earnings per share (HK cents per share)	<u>17.95</u>	<u>18.20</u>

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the period ended 30 September 2016, the awarded shares granted by the Company have potential dilutive effect on the earnings per share.

The weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised and awarded shares were granted. The number of shares that could have been issued upon the exercise of all dilutive share options and awarded share less the number of shares that could have been issued at fair value (determined as the Company's average share price for the period) for the same total proceeds is added to the denominator. No adjustment is made to the net profit.

	Unaudited For the six months ended 30 September	
	2016	2015
Profit attributable to equity holders of the Company	557,753	565,340
Weighted average number of ordinary shares used to calculate basic earnings per share ('000)	3,106,658	3,106,211
Adjustment for:		
– Exercise of share options ('000)	–	2,957
– Grant of awarded shares ('000)	88	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>3,106,746</u>	<u>3,109,168</u>
Diluted earnings per share (HK cents per share)	<u>17.95</u>	<u>18.18</u>

21. DIVIDENDS

No interim dividend (2015:Nil) is proposed at the meeting of the Board held on 17 November 2016.

22. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL**(a) Additional investment in VMR**

In June 2016, High Praise Enterprises Limited, a wholly owned subsidiary, increased its investment in VMR at a consideration of USD9,080,000 (equivalent to approximately HKD70,720,000). After completion of additional investment, the Group's shareholding in VMR increased from 51.50% to 61.30% and the Group recognised an increase in non-controlling interests of approximately HKD9,371,000.

(b) Issue of new shares to non-controlling interests by Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours")

On 9 September 2016, Smart Sino International Investment Holding (China) Co., Ltd, Shanghai Sunway Industrial Co., Ltd and Huabao Flavours (all being indirectly wholly owned subsidiaries of the Company) entered into an agreement with independent third parties ("investors") pursuant to which Huabao Flavours agreed to issue new shares (representing approximately 9.79% of total issued shares of Huabao Flavours as enlarged by the capital increase) at a total consideration of RMB846,924,000 (equivalent to approximately HKD983,686,000). Upon completion of the capital increase, the shareholdings of the Company (through its subsidiaries) in Huabao Flavours decreased from 100% to approximately 90.21%. The effect of change in ownership interest in Huabao Flavours on the equity attributable to owners of the Company during the period is summarised as follows:

	Amount
Consideration received from non-controlling interests	983,686
Net assets attributable to non-controlling interests	<u>(721,341)</u>
Consideration received in excess of net assets value attributable to non-controlling interests recognised in equity	<u><u>262,345</u></u>

The Group recognised an increase in non-controlling interests of HKD721,341,000.

23. COMMITMENTS**(a) Capital commitments**

Capital expenditure authorised but not contracted for, and contracted for but not yet incurred at the end of balance sheet date are as follows:

	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Authorised but not contracted for:		
Property, plant and equipment	10,676	11,031
Contracted but not provided for:		
Property, plant and equipment	27,345	36,594
Available-for-sale financial assets	<u>102,901</u>	<u>130,120</u>
	<u><u>140,922</u></u>	<u><u>177,745</u></u>

(b) Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases at the closing date are as follows:

	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
Land and buildings:		
Not later than 1 year	32,107	30,946
Later than 1 year and not later than 5 years	72,719	56,805
Later than 5 years	31,909	10,474
	<u>136,735</u>	<u>98,225</u>

24 RELATED PARTY TRANSACTIONS**(a) Name and relationship with related parties**

Name	Relationship
Huangguoshu Golden Leaf	An associate indirectly held by the Company

(b) Balances with a related party

	As at 30 September 2016 Unaudited	As at 31 March 2016 Audited
<i>Balances due from a related party:</i>		
– Huangguoshu Golden Leaf		
– other receivables	56	17
	<u>56</u>	<u>17</u>

The balance with a related party was unsecured, interest-free and repayable on demand.

(c) Key management compensation

Key management includes directors (executive, non-executive and independent non-executive) and senior management. The amounts of compensation paid and payable to key management for employee services during the six months ended 30 September 2016 and 2015 are shown below:

	Unaudited For the six months ended 30 September 2016	2015
Fees, salaries and bonus	27,120	24,477
Employer's contributions to retirement benefit scheme	462	488
	<u>27,582</u>	<u>24,965</u>

4. INDEBTEDNESS

As at the close of business on 30 September 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Composite Document, the Group had outstanding unsecured bank loans of approximately HK\$87.7 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 30 September 2016 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that there had been no material changes to the Group's indebtedness and contingent liabilities since 30 September 2016 and up to the Latest Practicable Date.

5. MATERIAL CHANGES

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group for the period commencing from 31 March 2016 (the date to which the latest audited financial statements of the Group were made up) up to the Latest Practicable save and except for:

- (a) a discloseable transaction regarding a deemed disposal of the equity interest of Huabao Flavours & Fragrances Co., Ltd. (華寶香精股份有限公司) (formerly known as Huabao Food Flavour & Fragrance (Shanghai) Co., Ltd. (華寶食用香精香料(上海)有限公司)) (“**Huabao F&F**”), a then indirect wholly-owned subsidiary of the Company, as disclosed in the Company's announcement dated 9 September 2016;
- (b) the proposed spin-off and listing of Huabao F&F by way of a separate A shares listing on a stock exchange in the PRC, which was approved by the Stock Exchange on 27 October 2016 while the said proposed A shares listing is subject to, among others, obtaining approval(s) from the relevant PRC regulators (including the China Securities Regulatory Commission) and the fulfilment of other relevant conditions as disclosed in the Company's announcements dated 19 August 2016 and 31 October 2016;

- (c) the unaudited interim results of the Group for the six months ended 30 September 2016 as disclosed in the Company's announcement dated 17 November 2016 and its interim report as published on 28 November 2016 (the "**2017 Interim Report**"), in particular:
- (i) according to the "Industry Review" section of the 2017 Interim Report, tobacco sales growth had slowed down in the PRC. Factors including continuing downward trend of the macro economy in the PRC, tobacco control becoming more stringent and tobacco consumption reaching a turning point had posed sustained pressure on the cigarettes sales in the PRC;
 - (ii) for the six month ended 30 September 2016, both the sales and operating profit of the Group's flavours and fragrance segment (which was the Group's largest segment) declined. This was due to the slowdown of the macroeconomic growth, the sluggish tobacco industry, high inventory level of tobacco products and the decrease in both production and sales volumes. On the other hand, both the sales and operating profit of the Group's tobacco raw material segment (which was the Group's second largest segment) increased due to the increase in sales volume after clearing the reconstituted tobacco leaves inventory of the tobacco industry. With the above combined operating fluctuations for the two largest business segments, the Group's total sales increased by approximately 9.83%, operating profit decreased by approximately 9.71% and profit decreased by approximately 4.59% as compared to the same period in 2015; and
- (d) the announcement regarding the Offers jointly issued by the Joint Offerors and the Company dated 23 November 2016.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offers, the Joint Offerors and the Company.

The information contained in this Composite Document relating to the Joint Offerors and the Concert Parties has been supplied by the Joint Offerors. The issue of this Composite Document has been approved by the directors of the Raise Sino, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to Resourceful Link and/or the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by Resourceful Link and/or the Board) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

The issue of this Composite Document has been approved by the sole director of Resourceful Link, who accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to Raise Sino and/or the Group) and confirms, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this Composite Document (other than those expressed by Raise Sino and/or the Board) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

The information contained in this Composite Document relating to the Group has been supplied by the Company. The issue of this Composite Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Joint Offerors and the Concert Parties, the terms and conditions of the Offers and intentions of the Joint Offerors in relation to the Group) in relation to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Joint Offerors and the Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

2. MARKET PRICES OF SHARES

- (a) During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.30 on 25 November 2016, 28 November 2016 and 16 December 2016 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$2.71 on 24 June 2016.
- (b) The table below shows the closing prices of the Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Date; and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
31 May 2016	3.01
30 June 2016	2.75
29 July 2016	2.78
31 August 2016	2.99
30 September 2016	2.98
31 October 2016	2.91
18 November 2016 (Last Trading Date)	3.02
30 November 2016	3.28
19 December 2016 (Latest Practicable Date)	3.29

3. INFORMATION REGARDING THE SHARE CAPITAL OF THE COMPANY

- (a) As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital	HK\$
5,000,000,000 Shares	500,000,000.00
350,000,000 Class 1 preference shares	35,000,000.00
50,000,000 Class 2 preference shares	50,000,000.00
526,900,000 new preference shares	52,690,000.00
2,500,000,000 convertible preference shares	250,000,000.00
Issued and fully paid-up share capital	HK\$
3,107,962,876 Shares	310,796,287.60

- (b) Each of the Shares ranks *pari passu* in all respects with each other, including as to dividends, voting rights and capital. The Shares are listed on the Main Board of the Stock Exchange and no Shares are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

- (c) Save for the allotment of 1,304,915 Shares pursuant to the exercise of certain Share Options on 2 December 2016, since 31 March 2016, being the end of the last audited financial year of the Company, and up to the Latest Practicable Date, the Company had not issued any new Shares.
- (d) As at the Latest Practicable Date, there were 6,450,000 outstanding Options granted under the Share Option Scheme, entitling the Optionholders to subscribe for an aggregate of 6,450,000 Shares at an exercise price of HK\$6.65 per Share.

4. DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares and debentures of the Company (within the meaning of Part XV of the SFO) which were required 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 were taken or deemed to have under the provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of Director	Capacity and nature of interest	Number of Shares held	Approx. % of shareholding
Ms. CHU	Held through controlled corporations	1,279,262,415 (Note 1)	41.16
XIA Li Qun	Beneficial owner	5,250,000	0.17
POON Chiu Kwok	Beneficial owner	3,000,000	0.10
LEE Luk Shiu	Beneficial owner	100,000	0.00

Note:

- For details, please refer to “3. Shareholding Structure of the Company” in the “Letter from BNPP Securities” in this Composite Document.

The number of Shares in respect of which Options had been granted and remained outstanding under the Share Option Scheme was 6,450,000, representing 0.21% of the Shares in issue as at the Latest Practicable Date.

The exercise period in which the Options are exercisable are as follows:

Number of Options	Exercise price	Exercise period
6,450,000	HK\$6.65	17 April 2008 to 16 October 2017

No Options were held by the Directors as at the Latest Practicable Date.

(b) Interests of the Joint Offerors and the Concert Parties in the Company

Shares

As at the Latest Practicable Date, the Joint Offerors and the Concert Parties owned or controlled or had interest in Shares as follows:

Name of Shareholder	No. of Shares held	Approx. % of issued Shares
Raise Sino	32,134,000	1.03
Resourceful Link	627,180,526	20.18
Mogul Enterprises (<i>Note</i>)	131,367,889	4.23
Jumbo Elite (<i>Note</i>)	149,000,000	4.79
Real Elite (<i>Note</i>)	149,000,000	4.79
Power Nation (<i>Note</i>)	<u>190,580,000</u>	<u>6.14</u>
Aggregate number of Shares held by Joint Offerors and Concert Parties	1,279,262,415	41.16

Note: Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation are solely owned by Ms. CHU, director and the sole shareholder of each of the Joint Offerors, and therefore deemed Concert Parties.

(c) Interests and dealings in the Shares and Options

- (i) Save as aforesaid, as at the Latest Practicable Date, none of the directors of the Joint Offerors were interested in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (ii) Save as aforesaid, as at the Latest Practicable Date, the Joint Offerors and the Concert Parties (save for those members of the group of companies of BNPP Securities that are conducting exempt principal trader activities or exempt fund manager activities) did not own or control any other Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (iii) The Joint Offerors and the directors of the Joint Offerors and the Concert Parties (save for those members of the group of companies of BNPP Securities that are conducting exempt principal trader activities or exempt fund manager activities) had not dealt in the Shares or convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.
- (iv) No subsidiary of the Company or pension fund of the Company or any of its subsidiaries or advisor of the Company as specified in class (2) of the definition of “associate” in the Takeovers Code (but excluding exempt principal traders) owned

or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Offer Period up to and including the Latest Practicable Date.

- (v) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of “associate” in the Takeovers Code.
- (vi) Save as aforesaid, no Director owned or controlled and no Director had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.
- (vii) No Shares or convertible securities, warrants, options or derivatives in respect of the Shares was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and no fund managers (other than exempt fund managers) connected with the Company had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Offer Period up to and including the Latest Practicable Date.
- (viii) As at the Latest Practicable Date, none of the Company and the Directors had borrowed or lent any Shares.

(d) Interests and dealings in the shares of the Joint Offerors

As at the Latest Practicable Date, Ms. CHU was the sole shareholder of the Joint Offerors. Other than Ms. CHU, neither the Directors nor the Company had any interest in the shares or any convertible securities, warrants, options or derivatives in respect of the shares in the Joint Offerors and neither the Directors nor the Company had dealt for value in any such shares, convertible securities, warrants, options or derivatives during the Relevant Period.

(e) Arrangements with the Joint Offerors and the Concert Parties in respect of the Offers

As at the Latest Practicable Date:

- (i) the Joint Offerors and the Concert Parties (save for those members of the group of companies of BNPP Securities that were conducting exempt principal trader activities or exempt fund manager activities) had not received any irrevocable commitment to accept any of the Offers;
- (ii) there were no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares or other securities of the Joint Offerors or the Company and which might be material to any of the Offers;

- (iii) save as aforesaid, there were no agreements, arrangements or any understanding between the Joint Offerors and any other person in relation to the transfer, charge or pledge of the Shares acquired in pursuance of the Offers;
- (iv) save as aforesaid, there were no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Joint Offerors, any of the Concert Parties and any other person; and
- (v) the Joint Offerors and the Concert Parties (save for those members of the group of companies of BNPP Securities that are conducting exempt principal trader activities or exempt fund manager activities) had not borrowed or lent any Shares.

(f) Other interests

As at the Latest Practicable Date:

- (i) none of the Directors would be given any benefit as compensation for loss of office or otherwise in connection with the Offers;
- (ii) there were no material contracts entered into by the Joint Offerors in which any Director (other than Ms. CHU) had a material personal interest;
- (iii) save as disclosed above, there was no agreement or arrangement or understanding (including any compensation arrangement) existed between the Joint Offerors or the Concert Parties and any Directors (other than Ms. CHU), recent directors of the Company, Shareholders or recent Shareholders having any connection with or dependence upon the Offers;
- (iv) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and
- (v) there was no agreement or arrangement to which the Joint Offerors were parties which related to the circumstances in which they may or may not invoke or seek to invoke a condition to the Offers.

5. LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or arbitration or claim of material importance pending or threatened by or against any member of the Group.

6. MATERIAL CONTRACTS

Set out below are the contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) entered into by any member of the Group within two years immediately preceding the date of the Joint Announcement and up to and including the Latest Practicable Date that are or may be material:

- (i) the agreement dated 9 September 2016 and entered into among:
 - (a) Smart Sino International Investment Holding (China) Co., Ltd (華烽國際投資控股(中國)有限公司);
 - (b) Shanghai Sunway Industrial Co., Ltd (上海香悅科技發展有限公司);
 - (c) Huabao Flavours & Fragrances Co., Ltd. (華寶香精股份有限公司) (formerly known as Huabao Food Flavour & Fragrance (Shanghai) Co., Ltd. (華寶食用香精香料(上海)有限公司)) (“**Huabao Flavours**”);
 - (d) Gongqingcheng Orient Securities Tianxin Investment Management Partnership (Limited Partnership) (共青城東證田鑫投資管理合夥企業(有限合夥)) (“**GQC Orient Securities**”);
 - (e) Gongqingcheng S-Land Investment Management Partnership (Limited Partnership) (共青城南土投資管理合夥企業(有限合夥)) (“**GQC S-Land Investment**”); and
 - (f) Qushui Innovation Development Co., Ltd. (曲水創新發展有限公司) (“**Qushui Innovation**”, together with GQC Orient Securities and GQC S-Land Investment, the “**Investors**”),

in relation to the increase in the registered capital of Huabao Flavours by way of issue of 54,290,000 new shares in Huabao Flavours to the Investors at a total consideration of RMB846.924 million; and

- (ii) the unit purchase agreement dated 9 December 2015 entered into between VMR Products, LLC (“**VMR Products**”) and High Praise Enterprises Limited (“**High Praise Enterprises**”, an indirect wholly-owned subsidiary of the Company) in relation to the subscription (the “**First Subscription**”) of 22.22% of the issued share

capital of VMR Products (on a fully diluted basis) by High Praise Enterprises at a consideration of US\$10 million, with an option to further subscribe, within five years after completion of the First Subscription, for 51% (including the shares subscribed for under the First Subscription) of the issued share capital of VMR Products (on a fully diluted basis) at a consideration of US\$12.95 million.

7. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any of its subsidiaries or associated companies which are fixed term contracts with more than 12 months to run irrespective of notice period, or which have been entered into and amended during the Relevant Period, or which are continuous contracts with a notice period of 12 months or more.

8. EXPERTS

The following are the qualifications of each of the experts who have been named in this Composite Document or who have given their opinion or advice, which is contained in this Composite Document:

Name	Qualification
BNPP Securities	a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
VMS	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

9. CONSENTS

Each of BNPP Securities and VMS has given and has not withdrawn its consents to the issue of this Composite Document with the inclusion in this Composite Document of the text of its letters, reports and references to its name in the form and context in which its name is included.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the websites of the Company (www.hbglobal.com) and the SFC (<http://www.sfc.hk>); and (ii) at the principal place of business of the Company in Hong Kong at Suite 3008, 30/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) from the date of this Composite Document until the Closing Date or the date on which the Offers are withdrawn or lapse, whichever is the earliest:

- (a) the respective memorandum and articles of association of the Joint Offerors;
- (b) the bye-laws of the Company;
- (c) the annual reports of the Company for the two years ended 31 March 2016 and the interim report of the Company for the six months ended 30 September 2016;
- (d) the letter from BNPP Securities, the text of which is set out on pages 7 to 17 of this Composite Document;
- (e) the letter from the Board, the text of which is set out on pages 18 to 23 of this Composite Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this Composite Document;
- (g) the letter from VMS, the text of which is set out on pages 26 to 47 of this Composite Document;
- (h) the written consents from each of the parties listed in the section headed “9. Consents” in this Appendix;
- (i) the material contracts referred to in the section headed “6. Material contracts” in this Appendix; and
- (j) the facility agreement entered into between the Hong Kong branch of Minsheng Bank as the lender and Mogul Enterprises, Real Elite, Power Nation, Jumbo Elite and the Joint Offerors as the borrowers on 12 December 2016 and as referred to in the section headed “2.6 Confirmation of financial resources” of the “Letter from BNPP Securities”.

11. GENERAL

- (a) The directors of Raise Sino are Ms. CHU and Ms. MO Shu Zhen.
- (b) The sole director of Resourceful Link is Ms. CHU.
- (c) The directors of the Company are Ms. CHU, Mr. XIA Li Qun, Mr. POON Chiu Kwok, Mr. LAM Ka Yu, Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung.
- (d) The principal members of the parties acting in concert with the Joint Offerors are (i) the Joint Offerors; (ii) Ms. CHU; (iii) Mogul Enterprises; (iv) Jumbo Elite; (v) Real Elite; (vi) Power Nation; (vii) Mr. LAM Ka Yu (the son of Ms. CHU); (viii) Ms. MO Shu Zhen; and (ix) Mr. LAM Kwok Man (the spouse of Ms. CHU).
- (e) The registered offices of the Joint Offerors, Mogul Enterprises, Jumbo Elite, Real Elite and Power Nation are at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (f) The correspondence addresses of Ms. CHU, Ms. MO Shu Zhen, Mr. LAM Ka Yu and Mr. LAM Kwok Man are Suite 3007, 30/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (g) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business in Hong Kong of the Company is at Suite 3008, 30/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (h) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited which is situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (i) The principal place of business of BNPP Securities, being the financial adviser to the Joint Offerors and the agent making the Offers on behalf of the Joint Offerors, is at 59th to 63rd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (j) The principal place of business of VMS, being the independent financial adviser to the Independent Board Committee, is at 49/F One Exchange Square, 8 Connaught Place, Central, Hong Kong.
- (k) The English text of this Composite Document and the Forms of Acceptance shall prevail over the Chinese text in case of inconsistencies.