
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Huabao International Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was affected for transmission to the purchaser or transferee.

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

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE FLAVOURS AND FRAGRANCES BUSINESS BY WAY OF
PROPOSED A SHARE LISTING OF THE SPIN-OFF COMPANY
ON THE SHENZHEN STOCK EXCHANGE
AND
DEEMED DISPOSAL AND MAJOR TRANSACTION**

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



A letter from the Independent Board Committee is set out on page 20 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Shareholders is set out on pages 21 to 32 of this circular.

Notice convening the SGM to be held on 10 April 2017 at 9:30 a.m. at Suite 3008, 30th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete the proxy form enclosed with the notice of the SGM in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the proxy form will not prevent the Shareholders from attending and voting in person at the SGM (or any adjournment thereof) should they so wish.

* *for identification purposes only*

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	20
Letter from Gram Capital	21
Appendix I – Financial Information of the Group	App I-1
Appendix II – General Information	App II-1
Notice of SGM	SGM-1

DEFINITIONS

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

“Board”	the board of Directors
“Business Day”	means a day on which the Stock Exchange is opened for the transaction of business
“Bye-laws”	the bye-laws of the Company, as amended, supplemented or modified from time to time
“Company”	Huabao International Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Main Board of the Stock Exchange
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Flavours and Fragrances Business”	the flavours and fragrances business owned and operated by the Spin-off Group, details of which are set out in the paragraph headed “Information of the Spin-off Group”
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent board committee of the Company comprising all independent non-executive Directors, namely Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung, established to advise the Shareholders in respect of the terms of the Proposed Spin-off
“Latest Practicable Date”	20 March 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Options”	the outstanding options granted by the Company pursuant to the Share Option Scheme
“PN15”	Practice Note 15 of the Listing Rules
“PRC” or “China”	the People’s Republic of China, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Proposed A Share Listing”	the proposed listing of the securities of the Spin-off Company on the Shenzhen Stock Exchange
“Proposed Spin-off”	the proposed spin-off of the shares of Huabao Flavours for listing on the Shenzhen Stock Exchange
“Remaining Group”	the Group, excluding the Spin-off Group
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM” or “Meeting”	the special general meeting of the Company to be convened and held on 10 April 2017 for the purpose of considering and, if thought fit, approving the Proposed Spin-off. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at or after 7:30 a.m. on 10 April 2017 and/or the Hong Kong Observatory has announced at or before 7:30 a.m. on 10 April 2017 that either of the above mentioned warnings is to be issued within the next two hours, the special general meeting shall automatically be postponed to the next Business Day on which no “black” rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted between the hours from 7:30 a.m. to 9:30 a.m. and in such case the special general meeting shall be held at 9:30 a.m. on that Business Day at Suite 3008, 30th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company

DEFINITIONS

“Share Option Scheme”	collectively, the share option scheme adopted by the Company on 22 September 2006 and the new share option scheme adopted by the Company on 9 August 2016
“Shareholder(s)”	holder(s) of Shares
“Shenzhen Stock Exchange”	Shenzhen Stock Exchange
“Smart Sino”	Smart Sino International Investment Holding (China) Co., Ltd.
“Spin-off Company” or “Huabao Flavours”	Huabao Flavours & Fragrances Co., Ltd., a joint stock limited company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company
“Spin-off Group”	the Spin-off Company and its subsidiaries from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunway Industrial”	Shanghai Sunway Industrial Co., Ltd.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

In this circular, the English names of the PRC entities are transliteration of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

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 (*Vice Chairman*)
Mr. POON Chiu Kwok
Mr. XIONG Qing
Mr. LAM Ka Yu

Independent Non-executive Directors:

Dr. DING Ningning
Mr. LEE Luk Shiu
Ms. MA Yun Yan
Mr. WU Chi Keung

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Principal place of
business in Hong Kong:*

Suite 3008
30th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

23 March 2017

To the Shareholders

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE FLAVOURS AND FRAGRANCES BUSINESS BY WAY OF
PROPOSED A SHARE LISTING OF THE SPIN-OFF COMPANY
ON THE SHENZHEN STOCK EXCHANGE
AND
DEEMED DISPOSAL AND MAJOR TRANSACTION**

INTRODUCTION

Reference is made to the announcements of the Company dated 19 August 2016, 31 October 2016 and 20 March 2017 in respect of the Proposed Spin-off.

The Company has submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange also granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under the Proposed Spin-off as required by paragraph 3(f) of PN15. As at the Latest Practicable Date, no formal application for the Proposed A Share Listing has been filed with the relevant regulatory authorities in the PRC.

* *for identification purposes only*

LETTER FROM THE BOARD

In compliance with relevant laws and regulations of the PRC and following consultation with the CSRC by the sponsor acting for the Spin-off Company in relation to the Proposed A Share Listing, the Company has been informed that approval(s) regarding the Proposed Spin-off and the Proposed A Share Listing are required to be obtained at the general meeting of the Company.

In addition, the Proposed Spin-off constitutes a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Spin-off is expected to be higher than 25% but less than 75%, the Proposed Spin-off, if proceed, may constitute a possible major transaction under Chapter 14 of the Listing Rules. The Company therefore convenes the SGM to obtain the approval of Shareholders regarding the Proposed Spin-off as required under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) information on the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of Gram Capital regarding the Proposed Spin-off as required under paragraph 3(e) of PN15; and (iii) a notice of the SGM.

THE PROPOSED SPIN-OFF AND THE PROPOSED A SHARE LISTING

Subject to approvals by the Shareholders and the relevant PRC regulators, it is currently proposed that the Spin-off Company will issue A shares on the Shenzhen Stock Exchange by way of initial public offering to public investors in the market, or other methods as requested or agreed by the CSRC. Immediately before the Proposed Spin-off and the Proposed A Share Listing, the equity interest in the Spin-off Company is held as to 90.21% by the Company indirectly.

It is proposed that the Spin-off Company will offer not more than 61,590,000 new shares but should be no less than 10% of the total share capital after completion of the Proposed A Share Listing of the Spin-off Company (the “**Offer Shares**”).

The number of the Offer Shares held by the public, in any event, will represent not more than 25% of the total issued share capital of the Spin-off Company as enlarged by the Proposed A Share Listing. The actual number of Offer Shares to be offered by the Company will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will have an indirect interest of approximately 81% to 82%, i.e. not less than 50% in the Spin-off Company and therefore the Spin-off Company will remain as an indirect non-wholly owned subsidiary of the Company.

LETTER FROM THE BOARD

As required by the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange relevant to the Proposed A Share Listing, among others,

1. each of Ms. CHU Lam Yiu (the Chairwoman, executive director and the controlling shareholder of the Company), Smart Sino and Sunway Industrial will undertake to the Spin-off Company that within 36 months from the listing date of the A shares of the Spin-off Company on the Shenzhen Stock Exchange by way of an initial public offering (“**A Share IPO**”), they will not transfer or entrust others to manage their shares of the Spin-off Company, and will not allow the Spin-off Company to repurchase any of said shares of the Spin-off Company, issued before the A Share IPO which are directly or indirectly owned by the Company (excluding the shares issued in the A Share IPO). If they reduce their holdings in the Spin-off Company within 2 years after the lock-up period aforesaid, the price for such shareholding reduction shall be no less than the offering price in the A Share IPO. If the closing price of the shares of the Spin-off Company is lower than the offering price in twenty consecutive trading days within 6 months after the listing of the shares of the Spin-off company, or the closing price at the end of the 6 months after listing is lower than the offering price, the lock-up period for the shares of the Spin-off Company will be extended for another 6 months automatically. In case of any ex-right and ex-dividend event, the above-mentioned offering price will be adjusted correspondingly; and
2. each of Ms. CHU Lam Yiu, the Company, Smart Sino and Sunway Industrial will execute commitment letter(s) (the “**Commitment Letters**”) in favour of the Spin-off Company to, among others, avoid business competition with the Spin-off Group, to regulate and reduce related party transaction with the Spin-off Group and to maintain independence of the Spin-off Group. The undertaking to be provided by each of Ms. Chu, the Company, Smart Sino and Sunway Industrial should include the controlled entities (present or future) of each of Ms. Chu, the Company, Smart Sino and Sunway Industrial.

Whilst the Company has no present intention to dispose of the shares in the Spin-off Company upon and immediately after the A Share IPO, the Directors believe that, notwithstanding the lock-up requirement as mentioned above, the Proposed Spin-off will be beneficial to the Company and Shareholders in the long run as the A Share IPO will render the Group’s investment in the Spin-off Group a publicly tradable asset, as a result of which the Group will be able to trade the shares of the Spin-off Company through an open trading platform as it sees fit in the future.

In addition, given that:

- (a) the Spin-off Group and the Remaining Group, whether before or after the A Share IPO, have separate and independent management teams to conduct their respective business;
- (b) the Spin-off Group has already established its own financial and management information system, which is independent from that of the Remaining Group; and

LETTER FROM THE BOARD

- (c) there is sufficient delineation in terms of business, director and management, purchase and sales function, finance and operation, between the Spin-off Group and the Remaining Group,

the Directors believe that the Commitment Letters are not expected to have any material adverse impact on the operations and business of the Remaining Group following completion of the Proposed A Share Listing.

As at the Latest Practicable Date, the Spin-off Company had an aggregate of 554,290,000 issued shares. However, where there is any unforeseen changes in the offering proposal or other circumstances and the Spin-off Company will cease to be a subsidiary of the Company and the financial information of the Spin-off Company will cease to be consolidated in the Group's financial statements upon the completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will re-comply with the requirements for notifiable transaction in accordance with Chapter 14 of the Listing Rules.

No formal application for the Proposed A Share Listing has been filed yet. Despite the large amount of paper work and financial audit work relating to the Proposed Spin-off and the large number of applications for A share listing, the management of the Spin-off Company is striving for an earliest time for listing of the shares of the Spin-off Company on the Shenzhen Stock Exchange in or around 2018.

Proceeds to be raised from the Proposed A Share Listing

The Company estimates the gross proceeds to be raised from the Proposed A Share Listing will be no more than RMB2,420 million, which is determined with reference to the following factors:

- (a) the number of A shares to be issued by the Spin-off Company under the Proposed A Share Listing and the offer price per A share. Based on the expected maximum proceeds of RMB2,420 million to be raised from the Proposed A Share Listing and the maximum number of 61,590,000 A shares to be offered by the Spin-off Company, and having regard to the estimated performance of the Spin-off Company, the view of the sponsor acting for the Spin-off Company in relation to the Proposed A Share Listing, the expected issuing condition of the A share market, it is expected that the indicative offer price of the Spin-off Company will be approximately RMB40 per A share. The indicative offer price per A share of the Spin-off Company, however, will depend on the conditions of the PRC domestic market at the time of the Proposed A Share Listing and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Company, the sponsor and the lead underwriter(s).

LETTER FROM THE BOARD

- (b) the capital needs of the projects of the Spin-off Company to be financed from the proceeds of initial public offering. It is expected that the proceeds to be raised from the Proposed A Share Listing will be used for (1) the construction of the food flavour and food ingredient production facility project of Jiangxi H&K Food Science and Technology Development Limited, a wholly-owned subsidiary of the Spin-off Company; (2) further improvement of the quality of the tobacco flavours and consolidate the leading position in the tobacco flavour area of the Spin-off Group through the flavour project of Jiangsu Huabao Flavors & Fragrances Limited, a wholly-owned subsidiary of the Spin-off Company, with an annual production of 5,500 tonnes; (3) the construction of the food flavour and food technology research and development project of Shanghai H&K Flavors & Fragrances Co., Ltd., a wholly-owned subsidiary of the Spin-off Company; (4) expansion of the business scope of and create new source of profit growth for the Spin-off Company through the pure land health food project (including food for special medical purpose) of Lhasa Huabao Food Co., Ltd., a wholly-owned subsidiary of the Spin-off Company, and (5) the replenishment of working capital of the Spin-off Company. Taking into account the proposed scale of the projects, it is estimated that the capital needs will not exceed RMB2,420 million. Pursuant to the regulations of the CSRC, the amount of proceeds to be raised from initial public offering shall not exceed the capital needs of the projects to be financed from the proceeds of initial public offering of the applicant. Therefore, it is expected that the proceeds to be raised from the Proposed A Share Listing will be no more than RMB2,420 million, which is the estimated aggregate amount of capital needs of the projects of the Spin-off Company to be financed from the proceeds of the Proposed A Share Listing.

The actual amount of proceeds to be raised from the Proposed A Share Listing is subject to the listing application documents to be submitted by the Spin-off Company to the CSRC.

Intended use of proceeds

The Spin-off Company has formulated specific plans for the proceeds from the Proposed A Share Listing, which will improve its industrial chain and product mix. Once the projects are put into production, it is expected that the Spin-off Company will have a more diversified product offering and that its industry competitiveness and profitability will be further enhanced.

LETTER FROM THE BOARD

The Spin-off Company intends to apply the proceeds (after deduction of the issue and related expenses) from the Proposed A Share Listing in the following projects:

Name of project or proposed usage	Total amount of investment (RMB billion)	Amount to be financed with the proceeds to be raised (RMB billion)
Food flavour and food ingredient production facility (through the construction of the food flavour and food ingredient production facility project of Jiangxi H&K Food Science and Technology Development Limited)	0.91	0.91
Flavour project of Jiangsu Huabao Flavors & Fragrances Limited with annual production capacity of 5,500 tonnes	0.33	0.33
Food flavour and food technology research and development project (through the construction of the food flavour and food technology research and development project of Shanghai H&K Flavors & Fragrances Co., Ltd.)	0.17	0.17
Development of the food market for special medical purposes (through the pure land health food project of Lhasa Huabao Food Co., Ltd.)	0.51	0.51
Replenishment of working capital	0.50	0.50
Total (approximately)	<u>2.42</u>	<u>2.42</u>

The Company anticipates that the proceeds to be raised under the Proposed A Share Listing will provide strong financial support for the Spin-off Company and accelerate its development; will enhance the Spin-off Company's influence and market reputation and promote its market development; will enable the Spin-off Company to optimise its corporate governance structure and improve its decision-making and management; and will enable the Spin-off Company to attract more skilled talents to support its healthy and rapid development.

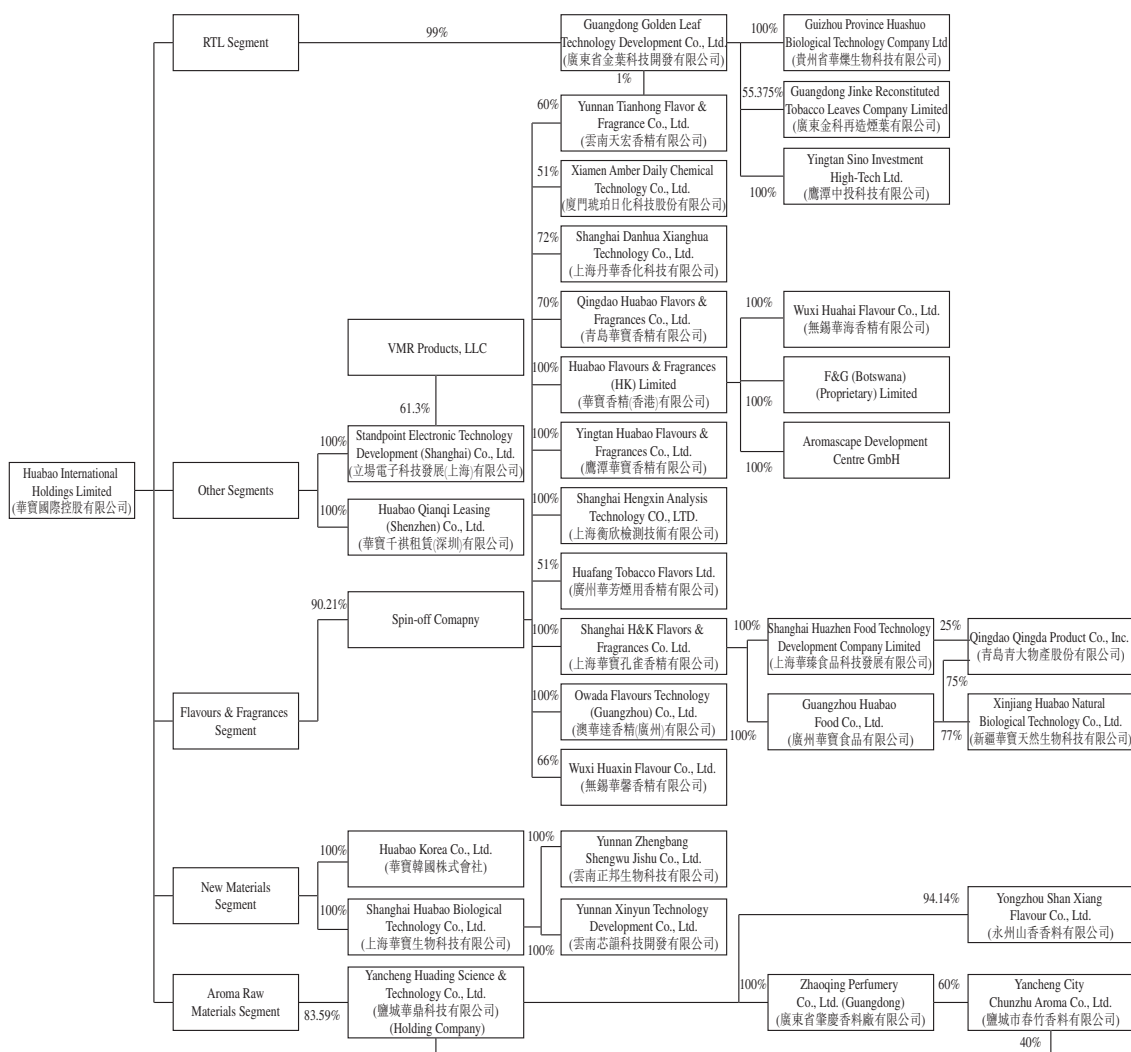
LETTER FROM THE BOARD

The management of the Spin-off Company is striving for an earliest time for the completion of the Proposed Spin-off and the Proposed A Share Listing in or around 2018. If the Proposed Spin-off is postponed, terminated or lapsed, the Spin-off Company will use its best endeavours to finance the aforesaid projects with its own funds or funds to be raised by other financing method(s), which will include, among others, bank borrowings. In view of the large capital needs of the above projects, raising funds by financing methods other than issuance of equities will significantly increase the debt-to-assets ratio of the Spin-off Company. As at the Latest Practicable Date, the Company does not have any concrete plan for fund raising which will involve issuance of Shares of the Company for the purpose of raising the required amount of fund if the Proposed Spin-off is postponed, terminated or lapsed. However, depending on the actual circumstances, if there is a need for other forms of fund raising which will involve issuance of Shares of the Company in the future (with may or may not be related to the capital needs of the Spin-off Company), the Company will obtain all the necessary approval and authorization and comply with the requirements under the applicable laws and regulations (including but not limited to the Listing Rules) in respect of such proposed share issuance.

LETTER FROM THE BOARD

The simplified corporate structure of the Group as at the Latest Practicable Date and immediately after the completion of the Proposed Spin-off and the Proposed A Share Listing are illustrated as below:

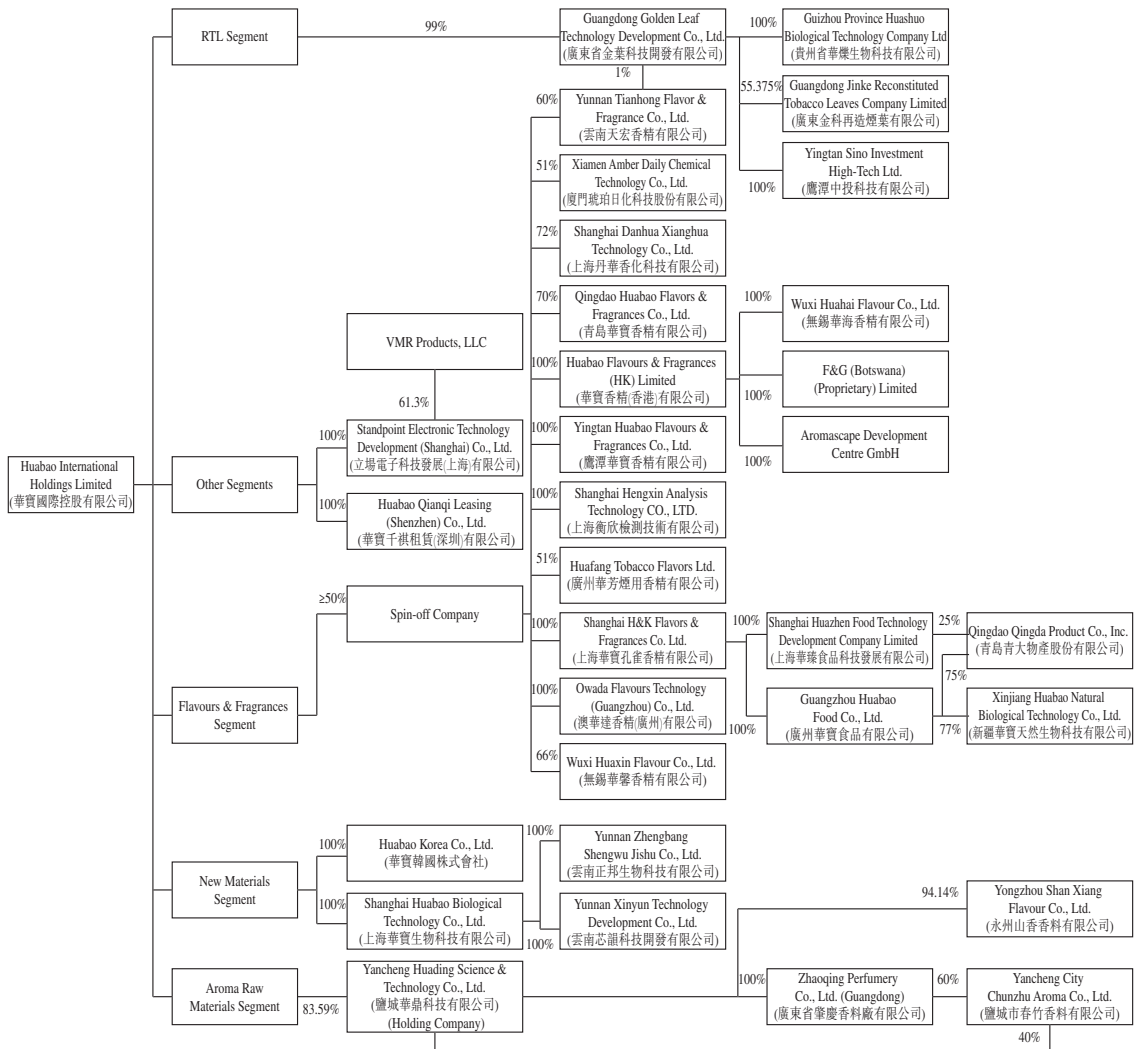
Simplified corporate structure of the Group as at the Latest Practicable Date



Note: All companies listed in the above chart are subsidiaries of the Company.

LETTER FROM THE BOARD

Simplified corporate structure of the Group immediately after completion of the Proposed Spin-off and the Proposed A Share Listing



Note: All companies listed in the above chart are subsidiaries of the Company.

LETTER FROM THE BOARD

CONDITIONS

Based on the information available to the Directors, the Proposed Spin-off and the Proposed A Share Listing will be conditional upon, among other things, the following:

- (a) the approval of the CSRC, the Shenzhen Stock Exchange and other authorized approving authorities in relation to the Proposed A Share Listing;
- (b) approval by the Shareholders of the Proposed Spin-off at the SGM; and
- (c) any other PRC regulatory approvals for the listing of and permission to deal in the A shares to be issued by the Spin-off Company.

If any of the above conditions is not fulfilled, the Proposed Spin-off and the Proposed A Share Listing will not proceed and an announcement will be published by the Company as soon as practicable.

Further, as required under paragraph 3(c) of PN15, the Company will only proceed with the Proposed Spin-off and the Proposed A Share Listing if the Remaining Group meets the requirements under paragraph 3(c) of PN15 for the three financial years preceding the completion of the Proposed Spin-off and the Proposed A Share Listing.

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 sales of flavours and fragrances, tobacco raw materials (comprising the reconstituted tobacco leaves (“**RTL**”) and new material products applicable for tobacco industry) (“**Tobacco Raw Materials**”), aroma raw materials (“**Aroma Raw Materials**”) and innovative tobacco products.

INFORMATION ON SMART SINO AND SUNWAY INDUSTRIAL

Smart Sino is a limited liability company incorporated in the PRC and is an indirectly wholly owned subsidiary of the Company. The principal business of Smart Sino is investment holding. As at the Latest Practicable Date, Smart Sino holds 90.1153% interest in Huabao Flavours.

Sunway Industrial is a limited liability company incorporated in the PRC and is an indirectly wholly owned subsidiary of the Company. The principal business of Shanghai Sunway is investment holding. As at the Latest Practicable Date, Sunway Industrial holds 0.0902% interest in Huabao Flavours.

LETTER FROM THE BOARD

INFORMATION OF THE SPIN-OFF GROUP

The Spin-off Company is a joint stock limited company established in the PRC with limited liability. The Spin-off Group is principally engaged in Flavours and Fragrances Business in the PRC.

(a) Flavours

Flavours refers to absorption of different kinds of flavours with natural flavours which are especially created by blending natural aroma raw materials and synthetic aroma materials with reference to the flavours of natural food through oral cavity, taste and smell.

(b) Fragrances

Fragrances is adding sense of smell into perfumes, cosmetics and cleaning supplies.

The fragrances business is primarily operated by the Spin-off Group in the PRC through Xiamen Amber Daily Chemical Technology Co., Ltd., the shares of which are listed on the National Equities Exchange and Quotation System of the PRC.

Immediately before the completion of the Proposed Spin-off and the Proposed A Share Listing, the equity interests of the Spin-off Company is indirectly held as to 90.21% by the Company. The remaining 9.79% of the equity interests of the Spin-off Company is held by 3 other shareholders. Please refer to the announcement of the Company dated 9 September 2016 for details.

LETTER FROM THE BOARD

Set out below is certain key financial information of the Spin-off Group based on the unaudited consolidated financial statements for the two years ended 31 March 2016 and the nine months ended 31 December 2016 prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”):

	<i>(unaudited)</i>		
	For the year ended 31 March 2015 (HK\$'000)	For the year ended 31 March 2016 (HK\$'000)	For the nine months ended 31 December 2016 (HK\$'000)
Revenue	3,022,775	2,717,657	1,842,512
Net profit (before tax and extraordinary items) ^{Note}	2,070,548	1,760,960	2,048,419
Net profit (after tax and extraordinary items) ^{Note}	1,760,515	1,458,027	1,843,623
	As at 31 March 2015 (HK\$'000)	As at 31 March 2016 (HK\$'000)	As at 31 December 2016 (HK\$'000)
Total assets	9,388,791	8,531,602	6,033,788
Net assets	8,036,184	7,640,172	5,627,794

Note: Net profit included dividend income distributed from the Remaining Group of HK\$8.38 million for the year ended 31 March 2016 and HK\$950.5 million for the nine months ended 31 December 2016.

INFORMATION OF THE REMAINING GROUP

After completion of the Proposed Spin-off and the Proposed A Share Listing, the Spin-off Company remains to be an indirect non-wholly owned subsidiary of the Company, and except for the Spin-off Group, the Remaining Group will continue to engage principally in the Tobacco Raw Materials, Aroma Raw Materials and other segments (including e-cigarettes and financial investment):

(a) Tobacco Raw Materials

(i) RTL

RTL is mainly used to substitute the original tobacco leave used in the cigarette in order to reduce the usage of original tobacco leaves and adjust the tar content of the cigarettes.

LETTER FROM THE BOARD

(ii) New materials applicable to tobacco industry

New materials applicable to tobacco industry consists of cigarette filters, capsules, wired conductor and other auxiliary materials, which are used to drive lower tar/carbon monoxide/nicotine while enhancing the taste and quality of the product for tobacco companies.

The Remaining Group primarily operates the Tobacco Raw Materials in the PRC through Guangdong Golden Leaf Technology Development Co., Ltd..

(b) Aroma Raw Materials

Aroma raw materials are primarily applied in the blending of flavours and fragrances and part of which can be applied directly in food processing.

The Remaining Group primarily operates the Aroma Raw Materials business in the PRC through Zhaoqing Perfumery Co., Ltd. (Guangdong), Yancheng City Chunzhu Aroma Co., Ltd. and Yongzhou Shanxiang Flavour Co., Ltd.

(c) Other segments (including innovative tobacco products and financial investment)

Other segments consist mainly of e-cigarettes and financial investment. In terms of financial investment, the Group has invested in a high-tech venture investment fund in Israel, among other projects. With respect to e-cigarettes, the Remaining Group, through VMR Products, LLC (“VMR”), an indirect non-wholly owned subsidiary of the Group, is engaged in the design, marketing and sales of electronic cigarettes.

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF AND THE PROPOSED A SHARE LISTING

The Directors consider that the Proposed Spin-off and the Proposed A Share Listing will be beneficial to both the Group and the Spin-off Group for the following reasons:

- (a) the Proposed Spin-off and the Proposed A Share Listing will enhance the liquidity and value of the shares of the Spin-off Company;
- (b) the Proposed A Share Listing will bring market-oriented valuation to the Spin-off Company. It is expected that the Proposed A Share Listing will obtain a higher asset premium, thus the Proposed Spin-off and the Proposed A Share Listing will also create and unlock the shareholders’ value of the shares of the Spin-off Company held by the Company;
- (c) the Proposed Spin-off will provide separate fund-raising platforms for the Remaining Group and the Spin-off Group with respect to their respective operations and future expansion. In particular, after completion of the Proposed Spin-off and

LETTER FROM THE BOARD

the Proposed A Share Listing, the Spin-off Group will have an independent listing platform which will enable it to have a direct access to the PRC capital market and to enhance the possibility of exploring new financing and fund raising channels for the development of its business;

- (d) the proceeds from the Proposed A Share Listing is intended to be used to expand the production capacity of flavours and food ingredients related businesses, for construction of a production base for nutrition and health products, for construction of a research and development centre of flavours and food ingredients, and for the replenishment of working capital of the Spin-off Company;
- (e) the Remaining Group and Spin-off Group, operating in different business segments, are believed to have different growth paths and different business strategies. By delineating clearly between the products of the Remaining Group and the Spin-off Group, the Proposed Spin-off and the Proposed A Share Listing will allow separate platforms for the businesses of the two groups and provide greater transparency and business coherence; and
- (f) after completion of the Proposed Spin-off and the Proposed A Share Listing, the Company remains to be the ultimate controlling shareholder of the Spin-off Company and will continue to consolidate the financial statements of the Spin-off Group. It would continue to enjoy the benefits arising from the future business development and growth of the Spin-off Group.

By building up a new financing platform in the PRC as a result of the Proposed Spin-off and the Proposed A Share Listing, it is expected that, among others, the corporate governance structure of the Group will be further enhanced and strengthened.

Having considered the above, the Directors (including the Independent Non-executive Directors) are of the view that the Proposed Spin-off and the Proposed A Share Listing are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

ASSURED ENTITLEMENT

As mentioned in the announcement (the “**Announcement**”) published by the Company on 31 October 2016, the Stock Exchange, on 27 October 2016 granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under paragraph 3(f) of PN15 (the “**Waiver**”) on the condition that the Company would include in an announcement: (i) the reasons for not providing its shareholders with assured entitlements to the shares in the Spin-off Company under paragraph 3(f) of Practice Note 15 in relation to the Proposed Spin-off and the Proposed A Share Listing; (ii) the legal restriction under the PRC laws and regulations on the provision of assured entitlement; and (iii) the view of the Board on the implications of not providing its shareholders with the assured entitlements, and whether the Proposed Spin-off, the Proposed A Share Listing and the Waiver are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

It had been mentioned in the Announcement that as part of the Proposed Spin-off and the Proposed A Share Listing, there would be issue of new shares of the Spin-off Company and such shares will only be issued in the PRC. As advised by the PRC legal advisers of the Spin-off Company, under the relevant securities laws and other relevant regulations currently in force, other than (1) foreign investors approved by the relevant PRC authorities; (2) foreign strategic investors approved by the Department of Commerce of the PRC; (3) Qualified Foreign Institutional Investor; (4) RMB Qualified Foreign Institutional Investor; (5) residents of Hong Kong, Taiwan and Macao working and residing in the PRC; and (6) foreign citizens having a permanent residency in the PRC ((1) to (6) are collectively referred to as the “**qualified foreign investors**”), non-PRC citizens would not be permitted under the PRC laws and regulations to acquire the shares issued by the Spin-off Company in connection with the Proposed Spin-off and the Proposed A Share Listing.

Based on the information available from the Company’s branch share registrar in Hong Kong, a majority of the Shareholders of the Company are not considered as qualified foreign investors. Accordingly, it would be practically difficult, unduly burdensome and not commercially feasible for the Company to comply with the assured entitlement in the shares of the Spin-off Company under paragraph 3(f) of Practice Note 15 in relation to the Proposed Spin-off and the Proposed A Share Listing.

Having considered the above and the reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing under the section headed “REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF AND THE PROPOSED A SHARE LISTING”, the Board is of the view that the Proposed Spin-off, the Proposed A Share Listing and the Waiver are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. Ma Yun Yan and Mr. Wu Chi Keung, being all independent non-executive Directors, has been established to advise the Shareholders in respect of the terms of the Proposed Spin-off. The letter from the Independent Board Committee is set out on page 20 of this circular.

The Company has also appointed Gram Capital as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off. The letter from Gram Capital is set out on pages 21 to 32 of this circular.

SGM

The SGM will be convened by the Company at Suite 3008, 30th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 10 April 2017, at 9:30 a.m., at which a resolution will be proposed to consider and, if thought fit, approve the Proposed Spin-off. Notice convening the SGM is set out on pages SGM-1 to SGM-2 of this circular.

LETTER FROM THE BOARD

If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at or after 7:30 a.m. on 10 April 2017 and/or the Hong Kong Observatory has announced at or before 7:30 a.m. on 10 April 2017 that either of the above mentioned warnings is to be issued within the next two hours, the SGM shall automatically be postponed to the next Business Day on which no “black” rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted between the hours from 7:30 a.m. to 9:30 a.m. and in such case the SGM shall be held at 9:30 a.m. on that Business Day at Suite 3008, 30th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

To the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, no Shareholder is required to abstain from voting at the SGM.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of Shareholders to attend and vote at the SGM, the register of members of the Company will be closed from 5 April 2017 to 10 April 2017, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 3 April 2017. Shareholders whose names are recorded in the register of members of the Company on 10 April 2017 are entitled to attend and vote at the SGM.

RECOMMENDATION

The Directors, including the independent non-executive Directors after taking into account the advice of Gram Capital, consider that the terms of the Proposed Spin-off are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Spin-off.

ADDITIONAL INFORMATION

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

Shareholders and potential investors should note that the Proposed Spin-off and the Proposed A Share Listing are subject to, among other things, approvals by the Shareholders and the relevant PRC regulators, including the Shenzhen Stock Exchange. There is no assurance that the Proposed Spin-off will proceed. Accordingly, Shareholders and potential investors are reminded to exercise caution when dealing with the Shares of the Company.

By order of the Board
Huabao International Holdings Limited
POON Chiu Kwok
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)

23 March 2017

To the Shareholders

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE FLAVOURS AND FRAGRANCES BUSINESS BY WAY OF
PROPOSED A SHARES LISTING OF THE SPIN-OFF COMPANY
ON THE SHENZHEN STOCK EXCHANGE
AND
DEEMED DISPOSAL AND MAJOR TRANSACTION**

We refer to the circular of the Company dated 23 March 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of the terms of the Proposed Spin-off, details of which are set out in the letter from the Board in the Circular.

Having taken into account of the advice of Gram Capital, we consider that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and the terms of the Proposed Spin-off is fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Shareholders to vote in favour of the resolution at the SGM to approve the Proposed Spin-off at the SGM.

Yours faithfully,
**Independent Board Committee of
Huabao International Holdings Limited**
Dr. DING Ningning
Mr. LEE Luk Shiu
Ms. MA Yun Yan and
Mr. WU Chi Keung
Independent Non-Executive Directors

* *for identification purposes only*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

23 March 2017

*To: The independent board committee and the shareholders of
Huabao International Holdings Ltd.*

Dear Sirs,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
THE FLAVOURS AND FRAGRANCES BUSINESS BY WAY OF
PROPOSED A SHARE LISTING OF THE SPIN-OFF COMPANY
ON THE SHENZHEN STOCK EXCHANGE
AND
DEEMED DISPOSAL AND MAJOR TRANSACTION**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 23 March 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company has submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. The Stock Exchange also granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under the Proposed Spin-off as required by paragraph 3(f) of PN15 (the “**Waiver**”). As at the Latest Practicable Date, no formal application for the Proposed A Share Listing has been filed with the relevant regulatory authorities in the PRC.

In compliance with relevant laws and regulations of the PRC and following consultation with the CSRC by the sponsor acting for the Spin-off Company in relation to the Proposed A Share Listing, the Company has been informed that approval(s) regarding the Proposed Spin-off and the Proposed A Share Listing are required to be obtained at the general meeting of the Company.

LETTER FROM GRAM CAPITAL

The Proposed Spin-off constitutes a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Spin-off is expected to be higher than 25% but less than 75%, the Proposed Spin-off, if proceed, may constitute a possible major transaction under Chapter 14 of the Listing Rules. The Company therefore convenes the SGM to obtain the approval of Shareholders regarding the Proposed Spin-off as required under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The Independent Board Committee comprising Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung (all being independent non-executive Directors) has been established to advise the Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Shareholders should vote in respect of the resolution(s) to approve the Proposed Spin-off at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors and management of the Company (the “**Management**”), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors’ and the Management’s representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Spin-off. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

LETTER FROM GRAM CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Spin-off Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons:

Background of the Proposed Spin-off

1. Business and financial information of the Group

With reference to the Board Letter, 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 sales of flavours and fragrances, Tobacco Raw Materials (comprising the reconstituted tobacco leaves and new material products applicable for tobacco industry), Aroma Raw Materials and innovative tobacco products.

LETTER FROM GRAM CAPITAL

Set out below are the consolidated financial results of the Group for the six months ended 30 September 2016 and the two years ended 31 March 2016 as extracted from the Company's interim report for the six months ended 30 September 2016 (the "2016/17 Interim Report") and the annual report for the year ended 31 March 2016 (the "2015/16 Annual Report"):

	For the year ended 31 March 2015 ("FY2015") <i>HK\$ in million (audited)</i>	For the year ended 31 March 2016 ("FY2016") <i>HK\$ in million (audited)</i>	Change from FY2015 to FY2016 %	For the six months ended 30 September 2016 <i>HK\$ in million (unaudited)</i>
Revenue	4,326	3,928	(9.20)	1,859
Gross profit	3,025	2,705	(10.58)	1,211
Operating profit	2,320	1,748	(24.66)	663
Profit attributable to the equity holders of the Company for the period/year	1,987	1,450	(27.03)	558
			Change from 31 March 2015 to 31 March 2016 %	
	As at 31 March 2015 <i>HK\$ in million (audited)</i>	As at 31 March 2016 <i>HK\$ in million (audited)</i>		As at 30 September 2016 <i>HK\$ in million (unaudited)</i>
Total assets	10,901	11,586	6.28	12,678
Net assets	9,404	10,530	11.97	11,788

As depicted in the above table, the Group's revenue and gross profit decreased in FY2016 as compared to FY2015. The Group's operating profit and the profit attributable to the equity holders of the Company also decreased by approximately 24.66% and 27.03% respectively in FY2016 as compared to FY2015.

With reference to the 2015/16 Annual Report and as confirmed by the Directors, the aforesaid decrease in operating profit was mainly attributable to the decrease of sales revenue and other income, and the increase of marketing promotion expenses and travelling expenses. The decrease in the Group's operating profit in FY2016 as compared to FY2015 also led to the decrease in the profit attributable to the equity holders of the Company.

With reference to the 2016/17 Interim Report, although the domestic and overseas economic and operating environment remains complicated, the management of the Company is still cautiously optimistic about the business outlook for the full year. The management of the Company believes that, with the inventory backlog of tobacco leaves and cigarettes further cleared, the Group's business will continue to develop steadily in the second half of the financial year ending 31 March 2017. In respect of capital operations, the Group believes that it is very important for the Group to build multiple capital platforms in order to develop itself into an investment holding group.

LETTER FROM GRAM CAPITAL

2. *Business and financial information of the Spin-off Group*

With reference to the Board Letter, the Spin-off Company is a joint stock limited company established in the PRC with limited liability. The Spin-off Group is principally engaged in Flavours and Fragrances Business in the PRC. Regarding the Flavours and Fragrances Business, (i) flavours refers to absorption of different kinds of flavours with natural flavours which are especially created by blending natural aroma raw materials and synthetic aroma new materials with reference to the flavours of natural food through oral cavity, taste and smell; and (ii) fragrances is adding sense of smell into perfumes, cosmetics and cleaning supplies.

The fragrances business is primarily operated by the Spin-off Group in the PRC through Xiamen Amber Daily Chemical Technology Co., Ltd., the shares of which are listed on the National Equities Exchange and Quotation System of the PRC.

Immediately before the completion of the Proposed Spin-off and the Proposed A Share Listing, the equity interests of the Spin-off Company is indirectly held as to 90.21% by the Company. The remaining 9.79% of the equity interests of the Spin-off Company is held by three other shareholders.

Set out below is certain key financial information of the Spin-off Group based on the unaudited consolidated financial statements for the two years ended 31 March 2016 and the nine months ended 31 December 2016 prepared in accordance with the HKFRS:

	For the year ended 31 March 2015 HK\$'000	For the year ended 31 March 2016 HK\$'000	Change from FY2015 to FY2016 %	For the nine months ended 31 December 2016 HK\$'000
Revenue	3,022,775	2,717,657	(10.09)	1,842,512
Net profit (before tax and extraordinary items) (Note)	2,070,548	1,760,960	(14.95)	2,048,419
Net profit (after tax and extraordinary items) (Note)	1,760,515	1,458,027	(17.18)	1,843,623
			Change from 31 March 2015 to 31 March 2016 %	
	As at 31 March 2015 HK\$'000	As at 31 March 2016 HK\$'000		As at 31 December 2016 HK\$'000
Total assets	9,388,791	8,531,602	(9.13)	6,033,788
Net assets	8,036,184	7,640,172	(4.93)	5,627,794

Note: Net profit included dividend income distributed from the Remaining Group of HK\$8.38 million for FY2016 and HK\$950.5 million for the nine months ended 31 December 2016.

LETTER FROM GRAM CAPITAL

3. Information of the Remaining Group

With reference to the Board Letter, after completion of the Proposed Spin-off and the Proposed A Share Listing, the Spin-off Company remains to be an indirect non-wholly owned subsidiary of the Company, and except for the Spin-off Group, the Remaining Group will continue to engage principally in the Tobacco Raw Materials, Aroma Raw Materials and other segments (including e-cigarettes and financial investment).

The Proposed Spin-off and the Proposed A Share Listing

Percentage of A shares to be issued

Subject to approvals by the Shareholders and the relevant PRC regulators, it is currently proposed that the Spin-off Company will issue A shares on the Shenzhen Stock Exchange by way of initial public offering to public investors in the market, or other methods as requested or agreed by the CSRC. Immediately before the Proposed Spin-off and the Proposed A Share Listing, the equity interest in the Spin-off Company is held as to 90.21% by the Company indirectly.

It is proposed that the Spin-off Company will offer not more than 61,590,000 Offer Shares but should be no less than 10% of the total share capital after completion of the Proposed A Share Listing of the Spin-off Company.

The number of the Offer Shares held by the public, in any event, will represent not more than 25% of the total issued share capital of the Spin-off Company as enlarged by the Proposed A Share Listing. The actual number of Offer Shares to be offered by the Company will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time.

It is expected that immediately upon completion of the Proposed Spin-off and the Proposed A Share Listing, the Company will have an indirect interest of approximately 81% to 82% (i.e. not less than 50%) in the Spin-off Company and therefore the Spin-off Company will remain as an indirect non-wholly owned subsidiary of the Company.

Lock-up requirement and other commitment

With reference to the Board Letter, each of (i) Ms. CHU Lam Yiu (the Chairwoman, executive director and the controlling shareholder of the Company); (ii) Smart Sino (an indirectly wholly owned subsidiary of the Company which holds 90.1153% interest in the Spin-off Company as at the Latest Practicable Date); and (iii) Sunway Industrial (an indirectly wholly owned subsidiary of the Company which holds 0.0902% interest in the Spin-off Company as at the Latest Practicable Date), will provide certain lock-up undertakings in respect of the shareholding of the Spin-off Company as required by the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange relevant to the Proposed A Share Listing (the “**Lock-up Requirement**”).

LETTER FROM GRAM CAPITAL

We understand from the Management that the Company has no present intention to dispose of the shares in the Spin-off Company upon and immediately after the A Share IPO. As such, notwithstanding the Lock-up Requirement as mentioned above, the Proposed Spin-off will be beneficial to the Company and Shareholders in the long run as the A Share IPO will render the Group's investment in the Spin-off Group a publicly tradable asset, as a result of which the Group will be able to trade the shares of the Spin-off Company through an open trading platform as it sees fit in the future.

As also required by the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange relevant to the Proposed A Share Listing, among others, each of Ms. CHU Lam Yiu, the Company, Smart Sino and Sunway Industrial will execute the Commitment Letters in favour of the Spin-off Company to, among others, avoid business competition with the Spin-off Group, to regulate and reduce related party transaction with the Spin-off Group and to maintain independence of the Spin-off Group.

With reference to the Board Letter,

- (a) the Spin-off Group and the Remaining Group, whether before or after the A Share IPO, have separate and independent management teams to conduct their respective business;
- (b) the Spin-off Group has already established its own financial and management information system, which is independent from that of the Remaining Group; and
- (c) there is sufficient delineation in terms of business, director and management, purchase and sales function, finance and operation, between the Spin-off Group and the Remaining Group.

Given the above, we concur with the Directors that the Commitment Letters are not expected to have any material adverse impact on the operations and business of the Remaining Group following completion of the Proposed A Share Listing.

Offer price

The offer price per A share of the Spin-off Company will depend on the conditions of the PRC domestic market at the time of the Proposed A Share Listing and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Company and the lead underwriter(s).

With reference to the Board Letter, having regard to the estimated performance of the Spin-off Company, the view of the sponsor acting for the Spin-off Company in relation to the Proposed A Share Listing, the expected issuing condition of the A share market, it is expected that the indicative offer price of the Spin-off Company will be approximately RMB40 per A share.

LETTER FROM GRAM CAPITAL

The indicative offer price per A share of the Spin-off Company, however, will depend on the conditions of the PRC domestic market at the time of the Proposed A Share Listing and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Company, the sponsor and the lead underwriter(s). We consider the aforesaid basis of the A share offer price to be reasonable.

Use of proceeds

The Company estimates the gross proceeds to be raised from the Proposed A Share Listing will be no more than RMB2.42 billion (the “**Expected Proceeds**”), which is determined with reference to the factors set out under the section headed “Proceeds to be raised from the Proposed A Share Listing” of the Board Letter. The actual amount of proceeds to be raised from the Proposed A Share Listing is subject to the listing application documents to be submitted by the Spin-off Company to the CSRC.

The Spin-off Company has formulated specific plans for the proceeds from the Proposed A Share Listing, which will improve its industrial chain and product mix. Once the projects are put into production, it is expected that the Spin-off Company will have a more diversified product offering and that its industry competitiveness and profitability will be further enhanced.

According to the Board Letter, the Spin-off Company intends to apply the proceeds (after deduction of the issue and related expenses) from the Proposed A Share Listing in the following projects:

Name of project or proposed usage	Total amount of investment (RMB billion)	Amount to be financed with the proceeds to be raised (RMB billion)
Food flavour and food ingredient production facility (through the construction of the food flavour and food ingredient production facility project of Jiangxi H&K Food Science and Technology Development Limited)	0.91	0.91
New flavour project of Jiangsu Huabao Flavors & Fragrances Limited with annual production capacity of 5,500 tonnes	0.33	0.33
Food flavour and food technology research and development project (through the construction of the food flavour and food technology research and development project of Shanghai H&K Flavors & Fragrances Co., Ltd.)	0.17	0.17
Development of the food market for special medical purposes (through the pure land health food project of Lhasa Huabao Food Co., Ltd.)	0.51	0.51
Replenishment of working capital	0.50	0.50
Total (approximately)	<u>2.42</u>	<u>2.42</u>

For our due diligence purpose, we have obtained the plans of the aforesaid projects.

LETTER FROM GRAM CAPITAL

The Company anticipates that the proceeds to be raised under the Proposed A Share Listing will provide strong financial support for the Spin-off Company and accelerate its development; will enhance the Spin-off Company's influence and market reputation and promote its market development; will enable the Spin-off Company to optimise its corporate governance structure and improve its decision-making and management; and will enable the Spin-off Company to attract more skilled talents to support its healthy and rapid development. Given the above, we consider the intended use of proceeds from the Proposed A Share Listing to be reasonable.

Reasons for and benefits of the Proposed Spin-off

With reference to the Board Letter, the Directors consider that the Proposed Spin-off and the Proposed A Share Listing will be beneficial to both the Group and the Spin-off Group for the following reasons:

- (a) the Proposed Spin-off and the Proposed A Share Listing will enhance the liquidity and value of the shares of the Spin-off Company;
- (b) the Proposed A Share Listing will bring market-oriented valuation to the Spin-off Company. It is expected that the Proposed A Share Listing will obtain a higher asset premium, thus the Proposed Spin-off and the Proposed A Share Listing will also create and unlock the shareholders' value of the shares of the Spin-off Company held by the Company ("**Value Benefit**");
- (c) the Proposed Spin-off will provide separate fund-raising platforms for the Remaining Group and the Spin-off Group with respect to their respective operations and future expansion. In particular, after completion of the Proposed Spin-off and the Proposed A Share Listing, the Spin-off Group will have an independent listing platform which will enable it to have a direct access to the PRC capital market and to enhance the possibility of exploring new financing and fund raising channels for the development of its business;
- (d) the proceeds from the Proposed A Share Listing is intended to be used to expand the production capacity of flavours and food ingredients related businesses, for construction of a production base for nutrition and health products, for construction of a research and development centre of flavours and food ingredients, and for the replenishment of working capital of the Spin-off Company;
- (e) the Remaining Group and Spin-off Group, operating in different business segments, are believed to have different growth paths and different business strategies. By delineating clearly between the products of the Remaining Group and the Spin-off Group, the Proposed Spin-off and the Proposed A Share Listing will allow separate platforms for the businesses of the two groups and provide greater transparency and business coherence; and
- (f) after completion of the Proposed Spin-off and the Proposed A Share Listing, the Company remains to be the ultimate controlling shareholder of the Spin-off

LETTER FROM GRAM CAPITAL

Company and will continue to consolidate the financial statements of the Spin-off Group. It would continue to enjoy the benefits arising from the future business development and growth of the Spin-off Group.

Having considered (i) the reasons for and benefits of the Proposed Spin-off and the Proposed A Share Listing; (ii) the Company will continue to consolidate the financial statements of the Spin-off Group and it would continue to enjoy the benefits arising from the future business development and growth of the Spin-off Group; and (iii) the Proposed Spin-off and the Proposed A Share Listing are in-line with the Group's strategy to build multiple capital platforms in order to develop itself into an investment holding group, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Trading multiples analysis

We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”), is a commonly adopted valuation method in the market. For this reason, we have performed the trading multiple analysis as below. We have researched for PRC listed companies which have substantial involvement in the flavours/fragrance business (the “**Comparables**”). Given that the operations, financial positions, market capitalisation, product mix and prospects of the Comparables are not the same as the Group or the Spin-off Group, the below trading multiple analysis is set out for general reference only.

The following table sets out the PER and PBR of the Comparables based on their market capitalisation as at 28 February 2017 and their latest published financial information:

Company name (Stock code)	Principal business	Year end date	PER (Note 1)	PBR (Note 2)
Guangdong Jialong Food Co., Ltd. (SZ002495)	Research, development, production and sales of chicken powder and chicken essence in the PRC.	31 December	168.41	4.88
Chenguang Biotech Group Co., Ltd. (SZ300138)	Produces, develops and markets red pepper essence, lutein (marigold extract), capsicum oleoresin, lycopene and other natural plant extracts.	31 December	51.49	3.33
Lotus Health Group Company (SH600186)	Produces and markets monosodium glutamate, flours, fertilizers, and other related products.	31 December	N/A (Note 3)	115.15

LETTER FROM GRAM CAPITAL

Company name (Stock code)	Principal business	Year end date	PER (Note 1)	PBR (Note 2)
Apple Flavor and Fragrance Group Co., Ltd. (SH603020)	Produces flavorings for various beverages and fragrances for various personal and home care products.	31 December	35.31	3.51
The Company		31 March	8.94	1.21
The Spin-off Group		31 March	18.59 (Note 4)	4.82 (Note 4)

Notes:

1. The PERs of the Company and the Comparables were calculated based on (i) their respective market capitalisation as at 28 February 2017; and (ii) their latest full year profit as per their respective latest published annual results.
2. The PBRs of the Comparables were calculated based on (i) their respective market capitalisation as at 28 February 2017; and (ii) their latest net assets value as per their respective latest published financial statements.
3. The selected Comparable was loss-making for its latest financial year.
4. The PER/PBR of the Spin-off Group calculated based on (i) the expected market capitalisation of RMB24.2 billion of the Spin-off Group as derived from the Expected Proceeds of RMB2.42 billion times 10 (RMB2.42 billion to be raised from the maximum number of 61,590,000 A shares to be offered, representing approximately 10% of the issued share capital of the Spin-off Company to be enlarged by the Proposed A Share Listing); and (ii) its net profit (after tax and extraordinary items) for FY2016/net assets as at 31 December 2016.

Sources: Bloomberg's website, the Stock Exchange's website and 巨潮資訊網 (Cninfo, www.cninfo.com.cn, being a website designated by CSRC for the purpose of information disclosure)*

As depicted from the above table, the Company's PER and PBR are lower than both the Comparables' and the Spin-off Group's PERs and PBRs. Accordingly, the Proposed Spin-off is likely to unlock the value of the Spin-off Group and attain higher market value based on PER/PBR in the PRC stock markets. The above findings are also consistent with the Directors' view on the Value Benefit as mentioned above.

Taking into account the principal factors as discussed above, we consider that the terms of the Proposed Spin-off are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Possible financial effects

With reference to the Appendix I to the Circular, the Spin-off Company will continue to be an indirect non-wholly owned subsidiary of the Company upon the completion of the Proposed Spin-off and the Proposed A Share Listing. Accordingly, the operating results of the Spin-off Company will be consolidated into the financial statements of the Company.

LETTER FROM GRAM CAPITAL

The Proposed A Share Listing will increase the number of shares of the Spin-off Company and raise corresponding funds. The net proceeds of the Proposed A Share Listing will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly. The Proposed Spin-off will not affect the liabilities of the Group.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off and the Proposed A Share Listing.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned; and (ii) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Proposed Spin-off and the transactions contemplated thereunder and we recommend the Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

INDEBTEDNESS STATEMENT**Borrowings**

As at the close of business on 28 February 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had total borrowings of HK\$85,233,687.

Contingent liabilities

As at the close of business on 28 February 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had no material contingent liabilities.

STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

Taking into account the expected financial resources available to the Group including the internally generated funds, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

The Spin-off Company will continue to be an indirect non-wholly owned subsidiary of the Company upon the completion of the Proposed Spin-off and the Proposed A Share Listing. Accordingly, the operating results of the Spin-off Company will be consolidated into the financial statements of the Company. The following is the expected financial impact of the Proposed Spin-off on the Group:

Earnings

The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in the Spin-off Company. It is expected that there would be no expected gain or loss on the deemed disposal credited to the Company's consolidated income statement as gain or loss upon the completion of the Proposed Spin-off and the Proposed A Share Listing in accordance with HKFRS 10. The difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration received will be recorded in equity attributed to the shareholders of the Company. In addition, as the proportion of the Company's shareholding in the Spin-off Company will be diluted to not less than 50% immediately after the completion of the Proposed Spin-off and the Proposed A Share Listing, it is expected that the earnings attributable to controlling shareholders of the Company contributed by the Spin-off Company will decrease while the earnings attributable to non-controlling interests of the Company will increase.

Assets and Liabilities

The Proposed A Share Listing will increase the number of shares of the Spin-off Company and raise corresponding funds. The net proceeds of the Proposed A Share Listing will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly. The Proposed Spin-off will not affect the liabilities of the Group. However, the Proposed A Share Listing will raise funds and further improve the structure of the Group's assets and liabilities.

Financial and Operational Prospects of the Group

The global economic situation remains unclear, China's economy has slowed down while its structural adjustment is still in progress. Confronted with the complicated domestic and international economic situation, the management is cautiously optimistic about the Group's operational prospects. The management believes that, with the rise of the Chinese economy and the steady progress of RMB internalization, China's capital market will play an even more important role in the world. The Proposed Spin-off plan will bring new opportunities, with which the management wishes to set up a new financing platform, so that the flavours and fragrances segment will be able to operate more independently and professionally in the future.

(a) The Spin-off Group

Upon completion of the Proposed Spin-off, the flavours and fragrances segment will remain one of the Group's major subsidiaries. As a domestic leader in the flavours and fragrances industry in China, the Group will continue to be a "leader to a better life" and stay customer-oriented, so as to improve its competitiveness in the areas of food flavour and food ingredient while consolidating its leadership in the tobacco flavours market. Riding on the success of the flavours and fragrances segment, the Group will also strive to extend its reach to the end-user sectors, such as food industry, and build a generalized healthy food division.

Even though the tobacco industry suffered continuous sales decline high inventory due to the combined effect of macroeconomic downturn, tax-induced price hike for cigarettes and tightened efforts in smoking control, the tobacco industry continued to make a large contribution to the fiscal revenue of China, and realizing total profit taxes over RMB1 trillion. Facing the difficult operating environment, the Group will work together to deal with. Meanwhile, we will cater for young smokers and help tobacco enterprises to develop cigarette products suitable for the youth by introducing various youth-oriented design elements. The flavours and fragrances industry has been developing rapidly in recent years while the trend of consumption upgrade has never stopped. The Group will, under the guidance of national industrial policies with the actual circumstances taken into account, expand its business scope and improve its product quality so as to meet the domestic and international market demand for high quality products.

(b) The Remaining Group

Due to the impact of the production decline of tobacco industry, high inventory of tobacco leaves and the emerging of extra RTL capacities in some provinces, the RTL industry faces severe situation. However, from a global RTL industry development perspective, the adoption rate of RTL in China is still lower than the international level. With the continuous consumption of the cigarette inventory, the management believes that there will still be much room for the development of RTL industry. The Group will adopt certain measures to ensure the healthy and stable development of its RTL business while striving to improve product quality.

The aroma raw materials sector belongs to the fine chemical industry, which is experiencing a rapid growth driven by the downstream end consumer products and flavours industry. The Group will seize the opportunity of industry consolidation and reinforce its efforts to develop the aroma raw materials business, and plans to build a professional aroma raw material production base with an annual production capacity of more than 10,000 tons, which will integrate the upstream and downstream industry chains, diversify product lines and create greater profit margins.

In summary, the Group will focus on its diversification strategy and carry out persistent researches on the upstream and downstream industry chains and related technologies with a forward-looking strategic vision, and will strive to improve the core competitiveness of its products through investments in technology, industrial upgrade and new industry incubation. Meanwhile, the Group will continue to strengthen its exchanges and cooperation with domestic and foreign institutions and establish an strategic industry alliance to maximize its overall profits, and strive to enhance the Group's international competitiveness through the the way of Proposed A Share Listing, mergers and acquisitions as well as industrial integration.

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTEREST**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
CHU Lam Yiu	Held through controlled corporations	2,287,578,900 (<i>Note 1</i>)	73.60%
XIONG Qing	Beneficial Owner	3,720,000	0.12%

Note:

1. 2,287,578,900 ordinary shares of the Company were held by Mogul Enterprises Limited, Resourceful Link International Limited, Power Nation International Limited, Jumbo Elite Limited, Raise Sino Investments Limited and Real Elite Investments Limited, respectively. Ms. CHU Lam Yiu is the sole beneficial owner of the aforesaid six companies.

The number of Shares in respect of which Options had been granted and remained outstanding under the Share Option Scheme was 2,600,000, representing 0.08% 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
2,600,000	HK\$6.65	17 April 2008 to 16 October 2017

No Options were held by the Directors as at the Latest Practicable Date.

Interests in the Group's Assets or Contracts or Arrangements Significant to the Group

As at the Latest Practicable Date, none of the Directors of the Company had any interest in any asset which have been, since 31 March 2016 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

Service Contracts

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) between any of the Directors or supervisors of the Company and any member of the Group.

Competing Interests

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete either directly or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

Material Adverse Changes

As disclosed in (i) the composite offer and response document issued by, among others, the Company on 22 December 2016, and (ii) the unaudited interim results of the Group for the six months ended 30 September 2016 (please refer to the Company's announcement dated 17 November 2016 and its interim report as published on 28 November 2016 (the "**2016 Interim Report**")), in particular:

- (i) according to the "Industry Review" section of the 2016 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; and

- (ii) for the six months ended 30 September 2016, both the sales and operating profit of the flavours and fragrance segment of the Spin-off Group 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 tobacco raw material segment (the Remaining Group) 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.

Save as disclosed above, the Directors confirm that there was no material adverse changes in the financial or trading position of the Group since 31 March 2016 (being the date to which the latest published audited accounts of the Company were made up).

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.

Material Contracts

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular:

- (i) the agreement dated 9 September 2016 and entered into among:
- (a) Smart Sino International Investment Holding (China) Co., Ltd;
 - (b) Shanghai Sunway Industrial Co., Ltd;
 - (c) Huabao Flavours;
 - (d) Gongqingcheng Orient Securities Tianxin Investment Management Partnership (Limited Partnership) ("**GQC Orient Securities**");
 - (e) Gongqingcheng S-Land Investment Management Partnership (Limited Partnership) ("**GQC S-Land Investment**"); and

(f) Qushui Innovation Development Co., Ltd. (“**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.

Expert

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

- (b) Gram Capital Limited has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it appears.
- (c) As at the Latest Practicable Date, Gram Capital Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (d) As at the Latest Practicable Date, Gram Capital Limited had no interest in any asset which have been since 31 March 2016 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

MISCELLANEOUS

- (a) Mr. POON Chiu Kwok is the company secretary of the Company.
- (b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The principal place of business in Hong Kong of the Company is situated at Suite 3008, 30/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (d) 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.

Saved as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suite 3008, 30/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to 14 days thereafter:

- (i) the bye-laws of the Company;
- (ii) the letter from the Board, the text of which is set out on pages 4 to 19 of this circular;
- (iii) the letter from the Independent Board Committee, the text of which is set out on page 20 of this circular;
- (iv) the letter from Gram Capital, the text of which is set out on pages 21 to 32 of this circular;
- (v) the written consent of the expert referred to in the paragraph headed "Expert" in this appendix;
- (vi) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (vii) the annual reports of the Company for each of the years ended 31 March 2015 and 2016; and
- (viii) this circular.

NOTICE OF SGM



HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Huabao International Holdings Limited (the “**Company**”) will be held at Suite 3008, 30th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 10 April 2017, at 9:30 a.m. for the purposes of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

1. “**THAT**

- (a) the spin-off of Huabao Flavours & Fragrances Co., Ltd. (the “**Spin-off Company**”), a 90.21% indirect non-wholly owned subsidiary of the Company, and a separate listing of the shares of the Spin-off Company on The Shenzhen Stock Exchange (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) any one director of the Company be and is hereby authorised on behalf of the Company to do all such acts and sign all such documents and to enter into all such transactions and arrangements as may be necessary or expedient in order to ensure smooth implementation of and to give effect to the Proposed Spin-off.”

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

Hong Kong, 23 March 2017

* *for identification purposes only*

NOTICE OF SGM

Notes:

1. A shareholder of the Company entitled to attend and vote at the Meeting (or at any adjournment thereof) is entitled to appoint another person as his/her/its proxy to attend and vote in his/her/its stead in accordance with the bye-laws of the Company. A proxy need not be a shareholder of the Company.
2. A form of proxy for use at the Meeting is enclosed.
3. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified true copy thereof must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (or any adjourned meeting thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the Meeting (or any adjourned meeting thereof) should they so wish.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of such shares.
5. In order to determine the entitlement of shareholders to attend and vote at the Meeting, the register of members of the Company will be closed from 5 April 2017 to 10 April 2017, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 3 April 2017. Shareholders whose names are recorded in the register of members of the Company on 10 April 2017 are entitled to attend and vote at the Meeting.
6. Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all resolution(s) set out in this notice will be decided by poll at the Meeting.
7. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at or after 7:30 a.m. on 10 April 2017 and/or the Hong Kong Observatory has announced at or before 7:30 a.m. on 10 April 2017 that either of the above mentioned warnings is to be issued within the next two hours, the Meeting shall automatically be postponed to the next Business Day on which no "black" rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted between the hours from 7:30 a.m. to 9:30 a.m. and in such case the Meeting shall be held at 9:30 a.m. on that Business Day at **Suite 3008, 30th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong**. "Business Day", in this context, shall mean a day (not being a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are open for general banking business.

As at the date of this notice, the Board comprises five executive directors, namely Ms. CHU Lam Yiu (Chairwoman and CEO), Messrs. XIA Li Qun, POON Chiu Kwok, XIONG Qing and LAM Ka Yu and four independent non-executive directors, namely Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung.