HUABAO INTERNATIONAL HOLDINGS LIMITED
華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 00336)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2011

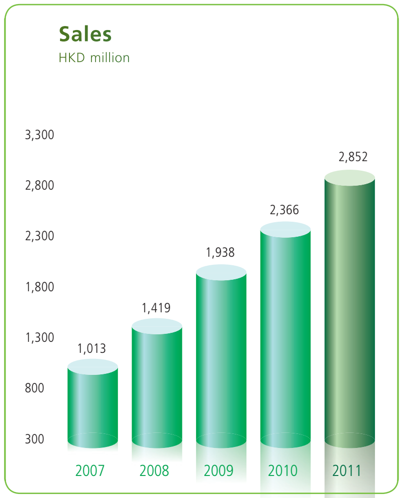
FINANCIAL HIGHLIGHTS

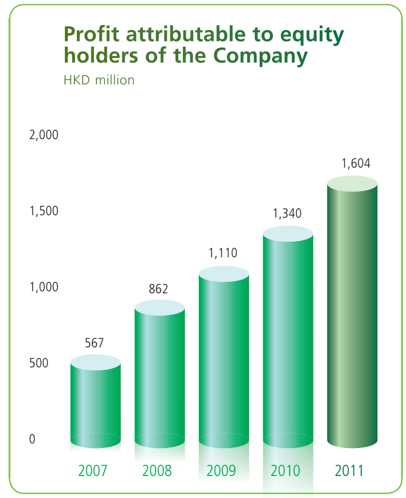
- Sales increased by approximately 20.5% to HK$2,852,173,000
- Operating profit increased by approximately 23.4% to HK$1,871,706,000
- Profit attributable to the equity holders of the Company increased by approximately 19.7% to HK$1,604,400,000
- Proposed final dividend of HK7.98 cents per share and total dividend distribution for the whole year amounts to HK15.18 cents per share. Dividend payout ratio at about 30%

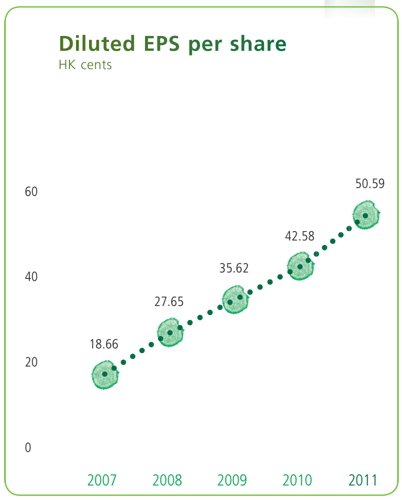
The Group has achieved outstanding results in the past five years:

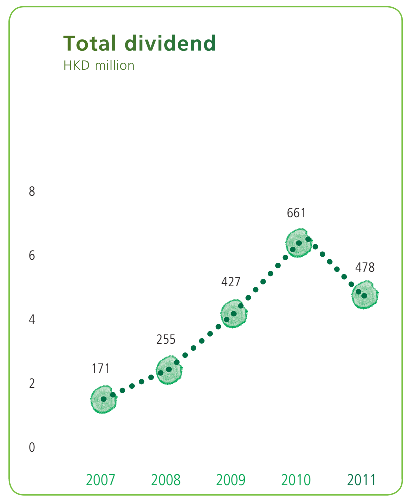
- Sales increased to HK$2,852 million for the current year from HK$1,013 million for the year ended 31 March 2007 with a compound annual growth rate ('CAGR') of approximately 29.5%
- Profit attributable to the equity holders of the Company increased to HK$1,604 million for the current year from HK$567 million for the year ended 31 March 2007 with a CAGR of approximately 29.7%
- Diluted earnings per share increased to HK50.59 cents for the current year from HK18.66 cents for the year ended 31 March 2007 with a CAGR of approximately 28.3%
- Dividend per share increased to HK15.18 cents per share for the current year from HK5.6 cents per share for the year ended 31 March 2007. Since listing of the Company's flavours and fragrances business, the accumulated dividend reached approximately HK2 billion (including the final dividend proposed for the current year). The CAGR of annual total dividend reached approximately 29.3%

* *For identification purpose only*









	For the year ended 31 March		
HK$'000	**2011**	2010	Growth
Sales	**2,852,173**	2,366,403	+20.5%
Gross profit	**2,120,459**	1,786,835	+18.7%
Operating profit	**1,871,706**	1,516,689	+23.4%
EBIT ratio	**65.6%**	64.1%	
Profit before income tax	**1,881,114**	1,531,649	+22.8%
Profit attributable to the equity holders of the Company	**1,604,400**	1,340,085	+19.7%
Net cash generated from operating activities	**1,406,330**	1,385,960	+1.5%
Earnings per share			
– Basic	**51.01 HK cents**	43.15 HK cents	+18.2%
– Diluted	**50.59 HK cents**	42.58 HK cents	+18.8%
Interim and final dividends per share *(note 8)*	**15.18 HK cents**	12.78 HK cents	+18.8%
Special dividend per share for the whole year	**Nil**	8.3 HK cents	N/A
Dividend payout ratio	**30%**	49%	

The board of directors (the 'Board') of Huabao International Holdings Limited (the 'Company' or 'Huabao') is pleased to announce the audited annual results of the Company and its subsidiaries (collectively, the 'Group') for the year ended 31 March 2011 with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Note	**Year ended 31 March 2011** *HK$'000*	2010 *HK$'000*
Sales	*2*	**2,852,173**	2,366,403
Cost of goods sold	*3*	**(731,714)**	(579,568)
Gross profit		**2,120,459**	1,786,835
Other income	*4*	**122,675**	36,237
Selling and marketing expenses	*3*	**(81,040)**	(73,057)
Administrative expenses	*3*	**(290,388)**	(233,326)
Operating profit		**1,871,706**	1,516,689
Finance income		**24,692**	15,761
Finance costs		**(14,029)**	(1,508)
Finance income – net	*5*	**10,663**	14,253
Share of (loss)/profit of associates		**(1,255)**	707
Profit before income tax		**1,881,114**	1,531,649
Income tax expense	*6*	**(249,256)**	(162,236)
Profit for the year		**1,631,858**	1,369,413
Attributable to:			
Equity holders of the Company		**1,604,400**	1,340,085
Non-controlling interests		**27,458**	29,328
		1,631,858	1,369,413
Earnings per share for profit attributable to the Company's equity holders for the year (expressed in HK cents per share)			
– Basic	*7(a)*	**51.01**	43.15
– Diluted	*7(b)*	**50.59**	42.58
Interim and final dividends	*8*	**478,163**	400,662
Special dividends	*8*	**–**	260,429
		478,163	661,091

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Profit for the year	**1,631,858**	1,369,413
Other comprehensive income:		
Fair value gains on available-for-sale financial assets	**755**	–
Exchange differences on translating foreign operations	**175,417**	13,174
Other comprehensive income for the year, net of tax	**176,172**	13,174
Total comprehensive income for the year, net of tax	**1,808,030**	1,382,587
Total comprehensive income attributable to:		
Equity holders of the Company	**1,773,599**	1,352,907
Non-controlling interests	**34,431**	29,680
	1,808,030	1,382,587

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2011	2010
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**536,373**	301,798
Land use rights		**194,697**	67,684
Intangible assets		**2,879,958**	1,602,659
Investments in associates		**61,009**	6,236
Available-for-sale financial assets		**38,067**	–
Deferred income tax assets		**42,800**	50,544
		3,752,904	2,028,921
Current assets			
Inventories		**467,961**	235,294
Trade and other receivables	*9*	**1,030,565**	660,117
Short-term time deposits		**–**	230,886
Cash and cash equivalents		**1,676,410**	1,678,640
		3,174,936	2,804,937
Total assets		**6,927,840**	4,833,858
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**315,005**	312,882
Reserves		**677,318**	410,403
Retained earnings			
– Proposed final dividend		**251,374**	213,193
– Proposed special dividend		**–**	172,944
– Others		**3,796,953**	2,680,682
		5,040,650	3,790,104
Non-controlling interests		**255,213**	128,103
Total equity		**5,295,863**	3,918,207
LIABILITIES			
Non-current liabilities			
Borrowings		**3,562**	–
Deferred income tax liabilities		**102,830**	108,870
		106,392	108,870
Current liabilities			
Borrowings		**740,000**	250,236
Trade and other payables	*10*	**688,276**	486,242
Current income tax liabilities		**97,309**	70,303
		1,525,585	806,781
Total liabilities		**1,631,977**	915,651
Total equity and liabilities		**6,927,840**	4,833,858
Net current assets		**1,649,351**	1,998,156
Total assets less current liabilities		**5,402,255**	4,027,077

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRS') issued by the Hong Kong Institute of Certified Public Accountants (the 'HKICPA'). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets.

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2010 and are relevant to the Group:

HKAS 17 (amendment)	'Lease'
HKAS 36 (amendment)	'Impairment of assets'
HKAS 38 (amendment)	'Intangible assets'
HKFRS 3 (revised)	'Business combinations'

(b) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 April 2010, but are not currently relevant or do not have significant impact to the Group's operations (although they may affect the accounting for future transactions and events):

HK(IFRIC) 17	'Distribution of Non-Cash Assets to owners', effective from 1 July 2009.
HKAS 1 (amendment)	'Presentation of financial statements', effective from 1 January 2010.
HKAS 39 (amendment)	'Financial instruments: Recognition and measurement', 'Eligible hedge items', effective from 1 July 2009.
HK-Int 5	'Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause'
HKFRS 1 (revised)	'First-time adoption of HKFRSs', effective from 1 July 2009.
HKFRS 2 (amendment)	'Group cash-settled share-based payment transactions', effective from 1 January 2010.

First annual improvements project (2008) published in October 2008 by the HKICPA

•	HKFRS 5	'Non-current assets held for sale and discontinued operations', and consequential amendment to HKFRS 1.

Second annual improvements project (2009) published in May 2009 by the HKICPA

•	HKFRS 5	'Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations'.
•	HKAS 39	'Financial instruments: Recognition and measurement'.
•	HK(IFRIC) 16	'Hedges of a net investment in a foreign operation'.
•	HKFRS 2	'Group cash-settled share-based payment transactions', and consequential amendments to HKFRS 3.
•	HK(IFRIC) – Int 9	'Reassessment of embedded derivatives and consequential amendments to HKFRS 3.
•	HKFRS 8	'Disclosure of information about segment assets'.
•	HKAS 1	'Presentation of financial statements'.
•	HKAS 7	'Cash flow statement'.
•	HK(IFRIC) 18	'Transfers of assets from customers'.

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

HKAS 12 (amendment)	'Deferred tax: Recovery of underlying assets', effective from 1 January 2012.
HKAS 24 (revised)	'Related party disclosures', effective from 1 January 2011.
HKAS 32 (amendment)	'Classification of rights issues', effective from 1 February 2010.
HKFRS 1	'Presentation of financial statements' and 'Clarifications of disclosures' (amendment to HKFRS 7). The amendment applies to annual periods beginning on or after 1 July 2010
HKFRS 9	'Financial instruments', effective from 1 January 2013.
HK(IFRIC) – Int 14 (amendment)	'Prepayments of a minimum funding requirement', effective from 1 January 2011.
HK(IFRIC) – Int 19	'Extinguishing financial liabilities with equity instruments', effective from 1 July 2010.

Third annual improvements project (2010) published in May 2010 by the HKICPA

- HKFRS 3 — 'Business combinations'
- HKFRS 1 — 'First time adoption of Hong Kong Financial Reporting Standards'
- HKFRS 7 — 'Financial instruments: disclosures'
- HKAS 1 — 'Presentation of financial statements'
- HKAS 27 — 'Consolidated and separate financial statements'
- HKAS 34 — 'Interim financial reporting'
- HK(IFRIC) – Int 13 — 'Customer loyalty programmes'

2. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours;

(2) Fragrances; and

(3) Reconstituted tobacco leaves.

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

The Executive Directors consider the business from the operation perspective and assess the performance of flavours, fragrances and reconstituted tobacco leaves segments. Flavours include research and development, production and sale of flavours products. Fragrances include research and development, production and sale of fragrances products. Reconstituted tobacco leaves include research and development, production and sale of reconstituted tobacco leaves. The Executive Directors assesses the performance of the operating segments based on a measure of operating profit.

The segment information for the year ended 31 March 2011 is presented below:

	Year ended 31 March 2011					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Total turnover	**2,609,161**	**160,362**	**86,759**	**2,856,282**	**–**	**2,856,282**
Inter-segment sales	**(4,099)**	**(10)**	**–**	**(4,109)**	**–**	**(4,109)**
Net turnover/segment sales	**2,605,062**	**160,352**	**86,759**	**2,852,173**	**–**	**2,852,173**
Segment result	**1,837,579**	**30,632**	**14,905**	**1,883,116**	**(11,410)**	**1,871,706**
Finance income						**24,692**
Finance costs						**(14,029)**
Finance income – net						**10,663**
Share of loss of associates						**(1,255)**
Profit before income tax						**1,881,114**
Income tax expense						**(249,256)**
Profit for the year						**1,631,858**

	As at 31 March 2011					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Segment assets	**4,695,066**	**237,689**	**1,980,688**	**6,913,443**	**14,397**	**6,927,840**

The segment information for the year ended 31 March 2010 is presented below:

	Year ended 31 March 2010					
	Flavours *HK$'000*	Fragrances *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Total turnover	2,291,077	75,499	–	2,366,576	–	2,366,576
Inter-segment sales	(167)	(6)	–	(173)	–	(173)
Net turnover/Segment sales	2,290,910	75,493	–	2,366,403	–	2,366,403
Segment result	1,519,994	18,669	–	1,538,663	(21,974)	1,516,689
Finance income						15,761
Finance costs						(1,508)
Finance income – net						14,253
Share of profits of associates						707
Profit before income tax						1,531,649
Income tax expense						(162,236)
Profit for the year						1,369,413

	As at 31 March 2010					
	Flavours *HK$'000*	Fragrances *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Segment assets	4,638,964	156,316	–	4,795,280	38,578	4,833,858

3. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analyzed as follows:

	Year ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Depreciation, excluding amounts included in research and development	**35,540**	25,417
Amortization	**36,001**	28,049
Changes in inventories of finished goods and work in progress	**7,324**	(7,860)
Raw materials and consumables used	**629,495**	527,615
Provision for impairment on trade receivables	**1,192**	119
Lease rentals	**10,669**	6,638
Auditor's remuneration	**6,728**	5,457
Travelling expenses	**22,046**	20,060
Entertainment expenses	**17,183**	19,401
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	**103,923**	83,063
Share option compensation expenses	**4,123**	12,605
Research and development		
– Employee benefit expenses	**41,036**	32,829
– Depreciation	**6,880**	6,044
– Others	**73,626**	44,198
Delivery expenses	**23,552**	18,743
Utilities	**21,687**	13,309
Motor vehicle expenses	**9,809**	8,016
Others	**52,328**	42,248
Total cost of goods sold, selling and marketing expenses and administrative expenses	**1,103,142**	885,951

4. OTHER INCOME

	Year ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Sales of raw materials	**1,522**	808
Government grants	**59,901**	30,751
Exchange gain – net	**56,150**	1,924
Gain on disposal of an associate	**–**	740
Others	**5,102**	2,014
	122,675	36,237

5. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Financial income:		
Interest income on bank deposits	**24,692**	15,761
Financial cost:		
Interest expenses – bank borrowings	**(13,734)**	(1,508)
Bank guarantee charge on bank borrowings	**(2,510)**	–
Less: amounts capitalized on qualifying assets	**2,215**	–
	(14,029)	(1,508)
Finance income -net	**10,663**	14,253

6. INCOME TAX EXPENSE

		Year ended 31 March	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Current income tax			
– Hong Kong profits tax	*6(a)*	**13,364**	13,742
– PRC corporate income tax	*6(b)*	**252,306**	159,965
– Botswana company income tax	*6(c)*	**426**	532
Deferred income tax assets		**10,496**	(19,341)
Deferred income tax liabilities		**(27,336)**	7,338
		249,256	162,236

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year.

(b) PRC corporate income tax has been calculated on the estimated assessable profit for the year at the tax rates applicable to respective companies of the Group.

(c) Botswana company income tax has been provided at the rate of 15% (2010: 15%) on the estimated assessable profit for the year.

(d) No provision for income tax in other jurisdictions has been made as the Group has no assessable profit in those jurisdictions during the year.

7. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 March	
	2011	2010
Profit attributable to equity holders of the Company *(HK$'000)*	**1,604,400**	1,340,085
Weighted average number of ordinary shares in issue *('000)*	**3,145,299**	3,105,873
Basic earnings per share *(HK cents per share)*	**51.01**	43.15

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. For the year ended 31 March 2011, the Company has one type of dilutive potential ordinary shares i.e. share options.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 March	
	2011	2010
Profit attributable to equity holders of the Company *(HK$'000)*	**1,604,400**	1,340,085
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,145,299**	3,105,873
Adjustment for – exercise of share options *('000)*	**26,085**	41,250
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,171,384**	3,147,123
Diluted earnings per share *(HK cents per share)*	**50.59**	42.58

8. DIVIDENDS

	Year ended 31 March	
	2011	2010
	HK$'000	*HK$'000*
Interim dividend paid of HK7.2 cents (2010: HK6.0 cents) per share	**226,789**	187,469
Proposed final dividend of HK7.98 cents (2010: HK6.78 cents) per share	**251,374**	213,193
	478,163	400,662
Special dividend paid per share: nil (2010: HK8.3 cents)	**–**	260,429
	478,163	661,091

During the year ended 31 March 2011, an interim dividend of HK$226,789,000 (HK7.2 cents per share) (2010: HK6.0 cents per share) have been paid by the Company. A final dividend of HK7.98 cents per share (2010: HK6.78 cents per share), HK$251,374,000 in aggregate (2010: HK$213,193,000), are proposed at the meeting of the Board held on 17 June 2011 which is subject to the shareholders' approval in the forthcoming annual general meeting. These consolidated financial statements do not reflect these dividends payable. The aggregate amounts of the dividends paid and proposed during 2011 and 2010 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

9. TRADE AND OTHER RECEIVABLES

		As at 31 March	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Trade receivables	*9(b)*	**653,504**	519,895
Less: Provision for impairment of receivables		**(3,407)**	(2,215)
Trade receivables – net		**650,097**	517,680
Note receivables		**175,304**	89,487
Prepayments and other receivables		**192,139**	36,727
Advances to staff		**3,519**	4,404
Others		**9,506**	11,819
		1,030,565	660,117

(a) All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of trade and other receivables approximate to their carrying values.

(b) The credit period generally granted to customers ranges from 0 to 180 days. The ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) from invoice dates as at the balance sheet dates is as follows:

	As at 31 March	
	2011	2010
	HK$'000	*HK$'000*
0 – 90 days	**592,568**	457,936
91 – 180 days	**39,637**	44,546
181 – 360 days	**10,863**	10,535
Over 360 days	**10,436**	6,878
	653,504	519,895

10. TRADE AND OTHER PAYABLES

	Note	As at 31 March **2011** ***HK$'000***	 2010 *HK$'000*
Trade payables	*10(a)*	**303,913**	237,303
Non-trade payables to related parties		**123,985**	133,985
Wages payable		**11,984**	8,913
Other taxes payable		**51,350**	42,153
Accrued expenses		**8,995**	4,732
Advances from customers		**4,122**	1,915
Other payables		**183,927**	57,241
		688,276	486,242

The fair values of trade and other payables approximate their carrying values.

(a) The ageing analyses of the trade payables as at the balance sheet dates are as follows:

	As at 31 March **2011** ***HK$'000***	 2010 *HK$'000*
0 – 90 days	**211,891**	185,073
91 – 180 days	**62,177**	33,744
181 – 360 days	**7,664**	1,094
Over 360 days	**22,181**	17,392
	303,913	237,303

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 March 2011, sales revenue of the Group increased by approximately 20.5% to approximately HK$2,852 million, out-performing the expected growth target. Gross profit margin at approximately 74.3%, and EBIT margin reached approximately 65.6%, which further elevated from approximately 64.1% of last year. Profit attributable to the equity holders was approximately HK$1,604 million, representing an increase of approximately 19.7% year-on-year; and basic earnings per share was HK51.01 cents, representing an increase of about 18.2% year-on-year. All of these represent excellent operating results.

MERGER AND ACQUISITION ('M&A')

Acquisition of Yunnan Hua Xiang Yuan Flavours Limited ('Yunnan Huaxiangyuan') – to develop characteristic aromatic raw materials business and construct an integrated core value chain

In September 2010, the Group entered into an agreement with independent third parties, pursuant to which the Group subscribed for 60% equity interest in Yunnan Huaxiangyuan at a consideration of approximately HK$4,314,000 by way of capital injection. In October 2010, the Group further proportionally injected approximately HK$9,250,000 for expanding its production scale and to elevate its production capacity. Yunnan Huaxiangyuan is an enterprise incorporated in the People's Republic of China ('PRC') mainly engaged in the production of natural flavouring oils, including eucalyptus oil, citronella oil, wintergreen oil and geranium oil, etc, which are among commonly used raw materials in the fragrances business. Yunnan province is considered to be a main producer of these aromatic raw materials in China and globally, it has its advantages in resources. Its founding team has many years of extensive experience in the industry. The acquisition of Yunnan Huaxiangyuan is in line with Huabao's core strategies of 'multi-pronged, focus growth' and the construction of an integrated core value chain, Xiamen Amber Fragrances Company Limited ('Xiamen Amber') will then form a structure of upstream-downstream alliance by utilizing combinations of natural aromatic raw materials and products, which will greatly improve the competitiveness and realizing rapid development in the fragrances business.

Completed the acquisition of Guangdong Province Jinye Reconstituted Tobacco Leaves Technology Development Company Limited and its subsidiaries and affiliated companies ('Guangdong Jinye Group') – practically entered the reconstituted tobacco leaves ('RTL') business

In November 2010, the Group entered into an acquisition agreement with independent third parties and acquired 100% equity interest in Guangdong Jinye Group at a consideration of HK$1,329,763,000. The Group obtained control of Guangdong Jinye Group on 1 November 2010 and the acquisition was subsequently completed in January 2011. Guangdong Jinye Group is one of the limited designated production bases authorized by the State Tobacco Monopoly Administration specializing in the manufacturing of RTL and is also one of the largest RTL manufacturers in the PRC. Established in 1999, Guangdong Jinye Group is one of the first enterprises that engaged in the research and development ('R&D'), production and sale of RTL. Guangdong Jinye Group is also a recognized enterprise technology centre in Guangdong Province, it has accumulated and is in the process of applying for over 10 patents. Currently it enjoys a comparative technological and qualitative advantage in the R&D and manufacturing of RTL in the PRC. Guangdong Jinye Group established strategic partnerships with other leading tobacco groups in the PRC by way of joint venture, and own a major market share in the domestic RTL market.

Establishment of Yongzhou Shan Xiang Flavour Company Limited ('Yongzhou Shanxiang') – another strategic disposition for developing the upstream aromatic raw materials business

In April 2011, the Group through its subsidiary established Yongzhou Shanxiang with an independent third party, which the Group holds 67.1% of equity interest. Yongzhou, located in the southwest of Hunan Province with favourable natural condition, is very suitable for the growth of litsea cubeba, a natural aromatic raw material, and is the main producing area of litsea cubeba oil, where its output accounts for a leading position globally. In 2010, General Administration of Quality Supervision, Inspection and Quarantine of the PRC implemented the geographical indications protection on litsea cubeba oil in Yongzhou, further strengthened the advantageous position of litsea cubeba industry in Yongzhou.

Yongzhou Shanxiang's management team has extensive experience in the industry and its target end users include globally leading food and beverage enterprises. Establishment of Yongzhou Shanxiang is another strategic deployment of the Group in building an integrated core value chain. The new company will rely on the resources of Yongzhou, fully capitalize our existing advantages in capital, technology, market and brand, and gradually increase the efforts in purchasing litsea cubeba oil. The new company will be committed to technology development and products upgrade, and focus on fine and further processing technology. It will also actively develop key customer relationships and enhance the proportion of direct sales. By utilizing the geographic advantages of Yongzhou, it will further enhance the advantages of natural aromatic raw materials business in the district and become an international sizable natural aromatic raw materials enterprise.

BUSINESS REVIEW

Review of Flavours Business

1. ***Review of operating results***

For the year ended 31 March 2011, sales revenue of the flavours business amounted to HK$2,605,062,000, representing an increase of about 13.7% from the corresponding period last year. The EBIT ratio of the flavours segment was approximately 70.5%, representing an increase of approximately 4.2 percentage points as compared to approximately 66.3% for the corresponding period last year; EBITDA ratio increased from 68.8% for the corresponding period last year to 72.9% this year. The growth rate in the flavours business has slowed compared with last year, this was mainly attributable to certain negative effects of the industry and to the increasing base factor in the tobacco sector revenue. Despite the above factors, the operating margin and EBITDA margin of the segment still realized apparent growth, representing an outstanding business operation.

In respect of the tobacco business, as the tobacco industry entered into the post-consolidation era, cross-provincial consolidation progress was slowed, and the growth of major brands started to slow down due to a larger base. Adhering to the strategy of 'Big Customers, Big Brands', the Group has still achieved a growth rate higher than that of the tobacco industry, with its market position further strengthened. In respect of the food and beverage business, the Group adhered to the development of natural and healthy products that fitted local tastes, and provided product quality and taste solutions for local major customers; moreover, it continued to implement an overall strategy by fully leveraging its strengths in having a nationwide network for the heavy development of local small- and medium-sized customers and helping them to constantly improve product quality. After several years of rapid development, the Group has become one of the largest local flavours and fragrances providers in China. The acquisition of Qingdao Qingda Product Company Limited ('Qingdao

Qingda') in last year not only has extended the Group's production chain, provided quality upstream natural aromatic raw materials for food and beverage products to successfully cope with the inflationary pressures, but also has accelerated their development through integrating natural raw materials and flavours and fragrances. During the year, a series of safety incidents regarding Chinese food and beverages has brought a negative impact on the food additives industry. The Group calmly dealt with the crisis by leveraging the strict quality control system that it has established with efforts for many years, won a good reputation in the industry and once again achieved a sound growth.

To cope with the Group's rapid growth in business, since last year, the Group has been considering to set up a comprehensive production and R&D base in Jiangxi province to further enhance its efficiency, reduce management costs and to improve business efficiency. In April 2011, the Group has decided on Yingtan city of Jiangxi province after extensive due diligence and negotiation. The establishment of such comprehensive base will help lay a solid foundation towards rapid growth of the Group in the next round of business development.

Last year was the first year of the Group's era of innovation and the Group achieved wonderful results with each of its subsidiaries proactively launching innovative activities as well as their good daily operations. Hua Fang Tobacco Flavors Limited and Owada Flavours Technology (Guangzhou) Limited obtained the self-innovation award of Guangzhou and held the first seminar on the project of standards in the tobacco flavours sector, also Yunnan Tianhong Flavour & Fragrance Company Limited Technology Center was recognized as a provincial technology center of Yunnan Province. Wuxi Jiahua Flavour & Fragrance Company Limited and Wuxi Fuhua Flavour & Fragrance Company Limited both obtained innovation and excellent product awards. Inventions of Huabao Food Flavours & Fragrances (Shanghai) Company Limited ('Huabao Shanghai'), 'Preparation method of cacao flavor, resulting products and their appplication', 'Cellulose mint derivates and its preparation method and applications', 'Preparation method for black tea flavour using black tea as the raw material, black tea flavour obtained hereby and its use in cigarettes' and 'Nano-microcapsule emulsion of lycorine hydrochloride and its preparation method' were admitted as state patents. Huabao Shanghai also won the fifth Shanghai incubated Enterprise Innovation award, the silver prize of advanced manufacturers in Jiading District, Shanghai, and the second prize of technology progress award for 2010. At the Ringier Technology Innovation Awards of the food and beverage industry for 2010 convened in Shanghai, the cream flavouring agent developed by Shanghai H&K Flavours & Fragrances Company Limited ('Huabao Kongque') won the technological award for flavours enhancer of food and beverage ingredients. In September, Huabao Kongque was once again awarded as one of the 'Dinye Cup 2009-10 Top Ten of China Food Industry' of China. The brand 'Xinghu' of Guangdong Zhaoqing Fragrances Limited ('Guangdong Zhaoqing') continued to be recognized as a 'Guangdong Famous Trademark'. Qingdao Qingda obtained high-tech certification. Wuxi Huaxin Flavour & Fragrance Company Limited was awarded in the first batch of 'Quality Credit Enterprise Grade A' in Jiangxu.

2. *Recent developments and prospects of the downstream sectors*

a. *Recent developments in the tobacco industry*

We note that China is the world's largest cigarette consuming country, accounting for approximately one-third of the total annual consumption in the world. China has approximately 350 million smokers, consuming over 2.2 trillion sticks of cigarettes each year. In recent years, China's tobacco industry has been growing steadily and reflected several characteristics:

Firstly, the total sales volume of the tobacco industry has maintained a steady growth at an annual CAGR of around 3-4% since 2002;

Secondly, Chinese style cigarettes made up a substantial proportion of the total consumption, while imported cigarettes only accounted for approximately 0.1% of the market share in the PRC over the previous years (Source: Euromonitor);

Thirdly, with the steady improvement in the living standards of Chinese residents, the demand for high-end consumer products has been growing gradually, CAGR of sales in the tobacco industry has remained at approximately 7-8% since 2002. Of these sales, there is a rapid increase in the demand for middle to high-end premium cigarettes; and

Fourthly, the tobacco industry continues to play a significant role in the Chinese economy, contributing industrial and commercial profit tax of approximately RMB604.6 billion in 2010, and representing an increase of approximately 17.8% from RMB513.1 billion of the previous year. (Source: TobaccoChina Online)

b. *Tobacco industry will enter the post-consolidation era, consolidation has gradually slowed down*

The Chinese tobacco industry has entered into the era of consolidation since 2005. In 2008, the consolidation evolved into a new stage in which cross-provincial and large scale industrial restructuring took place and cigarette brand concentration enhanced substantially. The market share of the top ten cigarette brands in terms of sales volume has increased by more than 50% over the course of 'The Eleventh Five-Year Plan', and the top ten cigarette brands in terms of sales revenue have posted a rapid double-digit growth in CAGR.

The China National Tobacco Corporation has proposed that the quality of cigarettes must attain a higher standard in 2010 and that key brands will be further cultivated. The '532' and '461' targets were set as the direction of development for tobacco brands under the current 'Twelfth Five-Year Plan'. Looking back to 2010, the premium brands of cigarettes continue to prevail in the market and sustained a sound growth momentum, despite the gaining of market share of the top ten cigarette brands has slowed and as far as we are aware, there has not been a case of cross-provincial consolidation in the past year. Based on the above, we believe that China's tobacco industry will enter into a post-consolidation era, continuously giving rise to higher degrees of concentration and trading up of brands in the industry, though the consolidation speed has been slowing down due to the increasing base and slowing down in progress of cross-provincial consolidation.

c. *The Chinese government strengthened the regulation of the tobacco industry*

The management noticed that the Chinese government introduced a series of new smoking control measures, including the strengthen control of smoking areas, boosting tar and harm reduction, and implemented new standards including maximum tar content. According to 'The Twelfth Five-Year Plan' for the tobacco industry, in the next few years, regulation on the new tar content will continue to be the major trend in the tobacco industry. In view of international economically-developed countries, smoking control may impose its effect on spending behaviour in a long run. The Group has established a very good reputation in the domestic tobacco industry and has been paying close attention to related regulatory matters, and proactively complementing the government's policy with respect to the direction of regulations going forward. During the year, the Group was host to a series of industry-related seminars; in the future, the management will continue to pay close attention on the latest developments in this area and capture development opportunities.

d. *The food and beverage industry enters consolidation and adjustment stage*

Since the previous year, the food and beverage industry is shocked by its numerous safety incidents and problems, which has caused great concern from society as well as the regulating bodies and sparked another round of industry integration. Some small and medium food and beverage enterprises are forced to withdraw from the market, imposing negative impact on related industry chains. On the other hand, during this disturbance, the food additives industry has taken a toll to a certain extent. As a result, growth in flavours and fragrances industry has slowed down. The management considered that such unfavourable factor, in near future, will linger and will also cast negative impact on the Group. However, in the longer prospect, this is a stage to endure before the whole industry becomes more centralized and more sophisticated. As such, it will not affect management's optimistic view about the Chinese food and beverage industry in the long run.

3. Development strategy for the flavours business

a. *Tobacco sector*

- To speed up the construction of the comprehensive production and R&D base in Jiangxi province, to further elevate operation efficiency;

- To continuously pursue the 'Big Customers, Big Brands' development strategy and capitalize on the industry consolidation to capture greater market share; and

- To fully utilize joint laboratories setup with major customers, and step up in comprehensive and technological cooperation with leading players in the tobacco industry, in continuously discovering new growth points.

b. *Food and beverage sector*

- To continue to expand into upstream natural aromatic raw material business in order to construct an integrated core value chain: on one hand, to strengthen raw material suppliers network, gradually establish pricing power on certain special and premium quality raw materials; on the other hand to fully leverage on the Group's advantages in technology, further expand its refining capability, and increase its product quality;

- To fully utilize the market recognition and network advantages of the brand, utilizing the upstream advantages of Qingdao Qingda and Yongzhou Shanxiang, to provide our local customers with comprehensive product solutions using premium natural aromatic raw materials complement by personalized flavours products, realizing rapid growth;

- To speed up the capacity expansion of Guangdong Zhaoqing and Qingdao Qingda, securing the next stage of development;

- To increase spending on R&D and bring in international top-notch R&D personnel to continuously upgrade the R&D standards of our products; and

- To ensure food safety and prevent food hazards by focusing on food security, and to seize business opportunities in this aspect.

Review of Fragrances Business

1. Review of operating results

For the year ended 31 March 2011, sales revenue of the fragrances business amounted to HK$160,352,000, increased by approximately 112.4% from the previous year, and operating profit amounted to HK$30,632,000, increased by approximately 64.1% from the previous year. EBIT margin reached approximately 19.1%, which recorded a rebound from approximately 16.9% from first half this year. Since the acquisition of Xiamen Amber by the Group in May 2008, the fragrances sector has achieved gradual improvement in both revenue and operating efficiency for three consecutive years, fully displaying the Group's effective integration synergy of Xiamen Amber.

Xiamen Amber acquired controlling interests in Yunnan Huaxiangyuan by way of capital injection in September 2010. Yunnan Huaxiangyuan is an enterprise incorporated in the PRC and mainly engaged in the production of natural flavouring oils, including eucalyptus oil, citronella oil, wintergreen oil, and geranium oil, etc., which are among commonly used raw materials in the fragrances business. Yunnan province is considered to be one of the main producers of these raw materials in China and globally, it has its advantages in resources. Its founding team has many years of extensive experience in the industry. The acquisition of Yunnan Huaxiangyuan is in line with Huabao's core strategies of 'multi-pronged, focus growth' and the construction of an integrated core value chain, it will team up with Xiamen Amber to form an upstream-downstream alliance, utilizing combinations of raw materials and products, which will greatly improve the competitiveness and speed of development in the fragrances business. During the year, Xiamen Amber garnered numerous awards and recognitions with its outstanding operating results. In April 2011, Xiamen Amber won the title of the Most Potential Small and Medium-sized Entity for the third straight year.

2. Development strategy for the fragrances business

- To fully utilize Xiamen Amber as a platform and the robust composite R&D capability of the Group's State-recognized technology centre and overseas R&D centre, specializing in expanding and developing localized products and business, continue to heavily develop in the field of aromatic and detergent products, and step up the development of new products such as shampoo, foam bath and air fresheners as well as the penetration of new customers;

- To establish a fragrances pavilion, combining culture, trend, meaning and profile into products, realizing Huabao's design rationale, enlightening new path in development for customers;

- To capitalize on the upstream advantages of Yunnan Huaxiangyuan, to further explore the market with comprehensive quality solutions using premium natural aromatic raw materials complemented by personalized flavours products;

- To seek opportunities for M&As and identify the right opportunity to acquire and merge with those enterprises whose products and markets are complementary with the Group, to further explore and increase development in the upstream aromatic raw materials business and premium fragrances products.

Review of RTL Business

1. Review of operating results

For the five months ended 31 March 2011, the Group's RTL sales revenue reached HK$86,759,000, with EBIT ratio reached approximately 17.2%, EBITDA ratio reached approximately 33.5%, which are in line with management's target. In November 2010, the Group entered into an acquisition agreement with independent third parties and acquired 100% equity interest in Guangdong Jinye Group at a consideration of HK$1,329,763,000. The Group obtained control of Guangdong Jinye Group on 1 November 2010 and the acquisition was subsequently completed in January 2011. Guangdong Jinye Group is one of the limited designated production bases authorized by the State Tobacco Monopoly Administration specializing in the manufacturing of RTL and is also one of the largest RTL manufacturers in the PRC. Currently it enjoys a comparative technological and qualitative advantage in the R&D and manufacturing of RTL in the PRC.

Chinese style cigarettes contain an apparently higher level of tar content than the standards prescribed by developed countries. In 2010, the average tar content per cigarette in China was approximately 11.7 mg, while the tar content of major cigarette brands in Europe and US was normally below 8 mg per cigarette and that of major cigarette brands in Japan was below 5 mg per cigarette. The Chinese Government introduced new regulations governing tar content in 2010, pursuant to which the tar content per cigarette shall not exceed 12 mg from 1 January 2011, and the tar content per cigarette shall be further reduced to less than 10 mg from 1 January 2015 (sources: Tobacco Science & Technology). The application of RTL not only can effectively lower the tar content, it also helps to sustain the original taste profile of the brand. Although the application of RTL has been widely used by international tobacco industry, there is still gap in the application of RTL produced within the domestic industry and those of international competitors due to the overall technical constraint as it was introduced to the Chinese market relatively recently. The State Tobacco Monopoly Administration has placed the development of RTL into its 'Twelfth Five-Year Plan' among others. The above mentioned new industry measures including the development plan from the government have greatly clarified the development of RTL and sped up its timetable. The Management believes the China RTL industry will be entering a robust development stage in the next few years.

Guangdong Jinye Group holds a substantial share in the current domestic RTL market. Its major cooperation partners – Tobacco Groups, are also key customers of the Group's flavours and fragrances business. The manufacturing and raw material procurement of RTL requires a special license, thus raising the industry entry barrier. The main reasons for this acquisition are to provide the Group with a strategic platform of the new materials for cigarettes, substantially promote the development of the RTL project, and grasp the business opportunity brought by the implementation of low tar content and less harmful standards in the PRC tobacco industry.

The integration following the acquisition is running smoothly. The 10,000-ton production line of Guangdong Jinke Reconstituted Tobacco Leaves Company Limited is currently undergoing technical upgrade, which shall greatly improve product quality and customer foundations. The second phase of Guangdong Jinye project, i.e. the construction of a production line of 20,000 tons for RTL, is currently being carried out aggressively. Management is confident in delivering on schedule and completing the second phase of Guangdong Jinye project in high quality and put into operation. The Group also signed a technical service agreement with China Tobacco Anhui, to jointly construct a 10,000-ton capacity RTL production line during the year. The Group will be providing comprehensive technical support for the production line's hardware design, operation, and staff development. Moreover, the establishment work of Guizhou Huangguoshu Jinye Technology Company Limited project is underway. Currently, the Group owns and in part of a total of 70,000-ton capacity of RTL production lines, Huabao's professional capability in the RTL field not only being recognized, its industry leading position also in formation. Moreover, Guangdong Jinye received a State-recognized patent for its 'A Method of Regulating and Controlling the Nicotine Content in Tobacco Extracts', 'A Method of Reducing Extracted Liquid Pectin in the making of Reconstituted Tobacco Leaves' was accepted by State Intellectual Property Office; and 'Research and Development of Effluent Treatment Technology During the Production of Reconstituted Tobacco Leaves with Paper Making Method' won the First Prize of Science and Technology Progress Award given by Guangdong Tobacco Monopoly Bureau. By leveraging on Huabao's leading position in the tobacco flavours industry and its advantages in developing new materials for cigarettes, the management is confident in the upcoming integration of Guangdong Jinye Group, which will bring good returns to our shareholders!

2. ***Development strategy for the RTL business:***

– To ensure the Guangdong Jinye second phase 20,000-ton production line can be completed in high quality;

– To further elevate the Group's reputation in the RTL industry, to further strengthen comprehensive strategic cooperation with domestic tobacco groups;

– To utilize major laboratories setup jointly with key customers, to proactively develop other new cigarette materials, to provide customers with comprehensive solutions and new growth points;

– To pay attention to domestic and international development in RTL and related areas, realizing rapid growth through organic growth and M&A.

Review on R&D

The R&D capability of a flavours and fragrances company reflects its overall strength. After continuous investment, the Group has set up its leading R&D team which is top-notch in China and up to international standards. The State-recognized technology centre, the overseas R&D centre in Germany and the professional R&D departments in Yunnan, Guangdong and Fujian together formed a vertically integrated platform for R&D in areas ranging from fundamental researches to applications. The R&D strategy of the Group is market-driven so as to closely follow the latest global industry trends and to accelerate the mastering of technologies in key raw materials. With such strengths, the Group is able to develop products and technologies that meet market demands, deliver comprehensive technical services to customers and remain dedicated to maximizing value for clients, while the Group's overall competitiveness is greatly elevated.

Future Business Development Plans

Firstly, with flavours and fragrances as its core, the Group will diversify into business of new materials for cigarettes, which is represented by RTL, and further develop upstream natural aromatic raw materials area. In tobacco related fields, the Group will use the Twelfth Five-Year Plan and its development targets of '532' and '461' as an opportunity to further improve its industry position in the tobacco flavours market. Meanwhile, the Group will spare no effort in the development of its RTL business; at this time the Group will pursue the growing market of reduced tar content and harm. The long term strategy of the Group, i.e. pursue the strategy of 'Big customers, Big brands', remains unchanged. We expect growth momentum in our existing flavours and fragrances business will be sustained. On the RTL side, the implementation of the second phase of the expansion project of Guangdong Jinye and startups of other RTL related projects will see rapid growth in development.

In the food and beverage field, the Group fully integrated the advantages of upstream natural aromatic raw materials, adhered to the development of natural, healthy and tasty local products, and provided product quality and taste solutions for local major customers; moreover, it continued to implement an overall strategy by fully leveraging its strengths in having a nationwide network for the heavy development of local small- and medium-sized customers and helping them to constantly improve product quality. Certainly, the management expected that the recent food safety disturbance and the new industry standards would still have certain negative impact on relevant industries. As one of the largest local flavours and fragrances enterprises, the management are confident to address these challenges and seize the opportunities brought from further industrial adjustment.

In the aromatic raw materials sector, Huabao has continued with its commitment to the strategic development of the upstream aromatic raw materials business to create an integrated core value chain and enhance its overall competitiveness. The establishment of the bases of Wuxi Huahai Flavour Company Limited and Botswana's F&G (Botswana) (Proprietary) Limited and the successful acquisitions of Qingdao Qingda and Yunnan Huaxiangyuan as well as the establishment of Yongzhou Shanxiang, have greatly elevated the Group's status in the integrated core value chain, as well as its capability in countering risks. Furthermore, by utilizing premium upstream raw materials as a platform and combining it with the Group's advantages in flavours and fragrances business, products' quality and competitive advantages will be further elevated. The Group's core business in flavours and fragrances is further improved. Furthermore, these upstream raw material bases also enabled the Group to obtain significant market share of certain important upstream natural aromatic raw materials. In the next step, the group will continue to accelerate the development of the aromatic raw materials segment, further elevating the Group's overall competitive advantages and pushing for the formation of an integrated core value chain.

The Chinese consumer products market is advancing to a higher level, consumers will demand for higher product taste and quality, with a tendency towards more natural products. This trend will inevitably lead to a significant increase in the value of per capita consumption of flavours and fragrances. From a long-term perspective, the global flavours and fragrances business will gradually shift its focus to Asia; the integrated core value chain will enable Huabao to possess a more natural, greener and healthier product system, thereby firmly capturing the opportunities of industrial upgrade to achieve greater development. The use of RTL will reduce the harm of cigarette products, and its production mainly uses tobacco waste as raw material; food and beverage products will be more natural and healthier with the development of upstream natural aromatic raw materials of the Group. The management believes the Group's future growth will be greener and healthier.

In regards to capital market, in recent years, the financing platform for domestic capital market has drawn increasing attentions. In order to broaden its financing platform and increase Huabao's brand awareness, the Group, in line with its domestic business development, is now under negotiations with professional parties to carry out operation plans on platforms for domestic capital markets. Up to date, the Group has not formulated any final opinion or concrete plans. However, it will consider both the interest of its shareholders and the development of its business and will make public the related progress, if appropriate.

In respect of M&A, the Group will continue to focus on the strategy of 'multi-pronged, focus growth', building a new business development platform through M&A and accelerate the development of existing core businesses. In the past several years, the Group has successfully carried out several M&As differing in size and has set up a team with strong M&A implementation, effective integration measures and strict internal control. In the future, the Group will remain focused on domestic targets and proactively pay attention to M&A opportunities in overseas to further enhance its own technological strength and product development capabilities. The Group will achieve faster development by fully leveraging its financial strength and relying on the Chinese market.

Future Prospects

Looking forward, the global economy is in the midst of a long recovery period, and the future growth of China's economy will be slowed as well. Against such macro environments, the Group must always adhere to the 'multi-pronged, focus growth' development strategy, constructing an integrated core value chain, continuously identifying new business growth points, enhancing the Group's capability in countering risks, actively constructing a more natural, greener, and healthier production chain, and achieving long-term sustainable growth.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2011

Sales revenue

The Group's sales revenue amounted to HK$2,852,173,000 for the year ended 31 March 2011, representing an increase of about 20.5% as compared with HK$2,366,403,000 for the corresponding period last year. The rapid growth in sales revenue was mainly attributable to a substantial increase in the sales of flavours, fragrances and RTL. For the year ended 31 March 2011, sales revenue from flavours increased by about 13.7% to HK$2,605,062,000, contributing about 91.3% of total sales revenue; sales revenue from fragrances increased approximately 112.4% to HK$160,352,000, contributing about 5.6% of total sales revenue; and sales revenue from RTL amounted to HK$86,759,000, contributing about 3.1% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to HK$731,714,000 for the year ended 31 March 2011, representing an increase of about 26.3% as compared with HK$579,568,000 for the corresponding period last year. The percentage increase in cost of goods sold being slightly higher than the percentage increase in sales revenue was mainly attributable to the decrease in gross profit margin.

Gross profit and gross profit margin

Gross profit of the Group increased from HK$1,786,835,000 for the year ended 31 March 2010 to HK$2,120,459,000 for the year ended 31 March 2011, representing an increase of about 18.7%, while gross profit margin of the Group slightly decreased from 75.5% of the last financial year. The decrease in gross profit was mainly attributable to the adjustment of the segment revenue mix. During the reporting period, inflation pressure within China remained strong, management took a series of effective countermeasures in a decisive manner, including increasing the stock of certain raw materials which were to be affected by inflation. Meanwhile, thanks to the increasing efforts in vertical integration as well as heavy development in the natural aromatic raw materials business, the influence on gross profit margin of the Group by inflation of raw materials was kept to a limited level and its gross profit margin remained stable as a whole.

Other income

Other income of the Group was HK$122,675,000 for the year ended 31 March 2011, representing an increase of HK$86,438,000 as compared with HK$36,237,000 for the year ended 31 March 2010. The increase in other income was mainly attributable to appreciation of RMB to HK$ and increase in local government grants.

Selling and marketing expenses

The selling and marketing expenses of the Group mainly comprised of travelling expenses, transportation costs, salaries and office expenses. The selling and marketing expenses of the Group for the year ended 31 March 2011 were HK$81,040,000, representing an increase of about 10.9% as compared with HK$73,057,000 for the corresponding period last year. Selling and marketing expenses to total sales revenue during the period under review amounted to approximately 2.8% and 3.1% respectively, representing a decrease of approximately 0.3 percentage point. The decrease in the ratio of selling and marketing expenses to sales revenue was mainly attributable to higher efficiency and economies of scale.

Administrative expenses

The Group's administrative expenses amounted to HK$290,388,000 for the year ended 31 March 2011, representing an increase of approximately 24.5% as compared with HK$233,326,000 for the corresponding period last year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 10.2%, representing an increase of approximately 0.3 percentage point as compared with 9.9% for the corresponding period last year. Among the total sales revenue during the current financial year, R&D expenses amounted to approximately 4.3%, an increase of approximately 0.8 percentage point compared with last year. The increase in ratio of administrative expenses to total sales revenue was mainly attributable to the increase in R&D expenses, number of labour and price levels.

Operating profit

Operating profit of the Group for the year ended 31 March 2011 was HK$1,871,706,000, representing an increase of approximately 23.4% as compared with HK$1,516,689,000 for the corresponding period last year, while the operating profit margin reached 65.6%, increased by 1.5 percentage points compared with last year. The increase in operating profit margin is mainly attributable to the decrease in ratio of selling and marketing expenses to sales revenue of the reporting period and increase in other income.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2011 was HK$249,256,000, which was increased substantially as compared with HK$162,236,000 for the corresponding period last year, with the income tax rates approximately 13.3% and approximately 10.6% respectively. The substantial increase in the income tax expenses was mainly attributable to the growth of profit and the increase in income tax rate of certain PRC subsidiaries due to the expiration of their preferential tax periods (two-year exemption and three-year half rate); the latter represents the main factor in the increase of the income tax rate during this year.

Net current asset value and financial resources

As at 31 March 2011, the net current asset value of the Group was HK$1,649,351,000 (2010: HK$1,998,156,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. The Group's cash and cash equivalents amounted to HK$1,676,410,000 (2010: HK$1,678,640,000), over 98% of which was held in RMB. The Group neither held any forex hedging products nor structured investment products or financial derivatives.

Bank borrowings and gearing ratio

As at 31 March 2011, the Group had bank borrowings of HK$743,562,000, of which HK$740,000,000 is clean loan with interest calculated based on HK dollars inter-banks borrowings rate and is due within 1 year. The average annual interest rate of the clean loan was 2.08% (2010: 1.63%) for the year ended 31 March 2011. As at 31 March 2011, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was about 14.8% (2010: 6.6%).

Investing activities

The Group's investing activities were mainly incurred for the purchase of fixed assets and the strategically development strategies for M&As. For the year ended 31 March 2011, the net cash used in investing activities amounted to HK$1,134,580,000, mainly incurred for the acquisition of Guangdong Jinye Group and capital injection into associate. For the year ended 31 March 2010, the net cash used in investing activities amounted to HK$357,650,000.

Financing activities

For the year ended 31 March 2011, the net cash used in financing activities amounted to HK$361,183,000, mainly used for dividend distribution to shareholders. For the year ended 31 March 2010, the net cash used in financing activities amounted to HK$476,591,000.

Debtors' turnover period

Debtors' turnover period is calculated on the basis of the average amount of trade receivables as at the beginning and end of a relevant financial year divided by the total sales revenue for the corresponding period and multiplied by 360 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with, the customers. For the year ended 31 March 2011, the Group's average debtors' turnover period was 74 days, representing an increase of 3 days as compared with 71 days for the last financial year ended 31 March 2010, was mainly a result of adjustment of trade receivables to certain customers.

Creditors' turnover period

Creditors' turnover period is calculated on the basis of the average amount of trade payables as at the beginning and the end of a relevant financial year divided by the cost of goods sold for the corresponding period and multiplied by 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 March 2011, the Group's average creditors' turnover period was 133 days, representing an increase of 12 days as compared with 121 days for the last financial year ended 31 March 2010. The increase in creditors' turnover period was mainly attributable to the increased inventory of certain raw materials and to the extension of trade payables to certain suppliers.

Inventory and inventory turnover period

As at 31 March 2011, the Group's inventory balance amounted to HK$467,961,000 (2010: HK$235,294,000). For the year ended 31 March 2011, the inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and end of a relevant financial year divided by the total cost of goods sold for the corresponding period and multiplied by 360 days) was 173 days, representing an increase of 34 days as compared with 139 days for the last financial year. The increase in inventory and longer inventory turnover period for the year was a result of further expansion of the Group's scale and the increase in inventory level of certain raw materials that were affected by inflation.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in Mainland China and the majority of the sales revenue is denominated in RMB, only a certain amount of imported raw materials and equipment are settled in foreign currency such as USD or EUR. There is insignificant pressure for the depreciation of RMB and thus the Group's exposure to exchange rate risk is relatively low.

Pledge of assets

As at 31 March 2011, the secured bank loan of the Group amounted to RMB3,000,000.

Capital Commitments

As at 31 March 2011, the Group had capital commitments in respect of the purchase of property, plant and equipment contracted for but not provided in the financial statements amounting to approximately HK$74,716,000 (2010: HK$4,234,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 31 March 2011.

EMPLOYEES AND REMUNERATION POLICY

The Group remained committed to corporate culture construction and established a clear vision, as well as a common goal for all employees, of combining corporate development and individual growth to achieve common development of the Company and its employees. Adhering to its core value of 'client first' for years to maximize client values, the Group also constituted a code of conduct for each employee on the basis of this concept. The Group organized corporate culture promotion activities, including articles and speeches delivered by the management, publication of Huabao Monthly and essay competitions. The Group enriched employees' leisure time through various recreational and sports activities including sports contests and outward bound training to reinforce cohesion of Huabao people and their sense of identity.

The Group placed substantial emphasis on talent training. The Group stepped up its efforts in creating a scientific and flexible management environment and institutional mechanism in terms of policy, system and culture development, empowering each employee to make full use of his expertise and specialties and maintaining a joint force in its staff to create more value for the Group. The Group established a sound training scheme for its reserve talents on the basis of external recruitment. The selection procedures applied to reserve talents include five stages, namely public nomination and selection, work units review, verification by headquarter, approval and result announcement. Reserve talents management mainly comprises regular inspection, dynamic adjustment, training and profile management. Through its annual examination and assessment on reserve talents, the result of which is to be recorded into personal profile, the Group will promote those with excellent appraisal performance and eliminate those with unsatisfactory results. During inspection period, reserve talents are under direct coaching and supervision of mentors. The Group organizes reserve talents selection and review every year to guarantee healthy and orderly development of reserve talents. The continuous construction of our talent team guarantees new momentum for corporate expansion and development.

The Group established a multi-level comprehensive staff training system, comprising special training program for middle to high level employees, intensive training for reserve talents, as well as business skills and industrial know-how coaching for front-line staff. External experts, internal management and professionals were invited to act as program trainers. Through these successive training programs, the initiatives of employees were mobilized while their professional knowledge and technical competency were enhanced.

As at 31 March 2011, the Group employed a total of 1,869 employees in the PRC, Hong Kong, Germany and Botswana, representing an increase of 553 employees from 1,316 employees of last year. The labour costs of the year (including pension costs) amounted to HK$149,082,000, representing a increase of HK$20,585,000 from HK$128,497,000 for the previous year. The increase in the labour costs was primarily attributable to the expansion of business area, hike of product and living standards in China and the Group's input in human resources. The Group has launched a share option scheme as an incentive to those employees and directors who have made significant contributions to the business development of the Group. For the period from year 2006 to 2008, the Group granted share options to 79 persons including directors, senior management, technical and business executives.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices (the 'CG Code')

The Company has adopted the code provisions in the CG Code contained in Appendix 14 to The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the 'Listing Rules') as its own code on corporate governance practices except for the following deviations:

Pursuant to code provision A.4.1 of the CG Code, independent non-executive directors ('INEDs') should be appointed for a specific term and subject to re-election. Although the INEDs of the Company were not appointed for a specific term which deviates from the code provision A.4.1 of the CG Code, pursuant to the bye-laws of the Company, the directors shall retire from office by rotation no later than the third annual general meeting of the Company since their last appointment or re-election and are eligible for re-election. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code but is about promoting and developing an ethical and healthy corporate culture. The directors will continue to review and, where appropriate, improve the current practices on the basis of experience and regulatory changes to enhance confidence of the shareholders of the Company and safeguarding shareholders' interest as well the key to assuring healthy business developments.

Model Code for Securities Transactions by Directors of Listed Issuers (the 'Model Code')

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry to all directors, all directors confirmed in writing that they have complied with the required standard as set out in the Model Code during the reporting year.

FINAL DIVIDEND

The Board proposes to declare a final dividend of HK7.98 cents (2010: HK6.78 cents and a special dividend of HK5.5 cents) per share in cash, about HK$251 million in aggregate, for the year ended 31 March 2011, which are expected to be paid on or about 17 October 2011 (Monday) to shareholders whose names appear on the Register of Members of the Company as at 5 August 2011 (Friday), subject to Shareholders' approval in the forthcoming annual general meeting to be held on 5 August 2011. Together with the interim dividend declared and the proposed final dividend, the total proposed dividend distribution for the current financial year amounted to HK15.18 cents (2010: HK12.78 cents and a special dividend of HK8.3 cents) per share.

CLOSURE OF REGISTER OF MEMBERS

Shareholders are reminded that in order to qualify for the proposed final dividend and be entitled to attend and vote at the annual general meeting, the Register of Members of the Company will be closed from 1 August 2011 (Monday) to 5 August 2011 (Friday), 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 Registrars, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road, Wanchai, Hong Kong not later than 4:30 p.m. on 29 July 2011 (Friday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS' BUSINESSES COMPETING WITH THE GROUP

None of the directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Board has formed an audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprises all the INEDs, namely Mr. MAK Kin Kwong, Ms. MA Yun Yan and Mr. LEE Luk Shiu.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's audited annual results for the year ended 31 March 2011.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of HKExnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The 2010-11 annual report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
CHU Lam Yiu
Chairman

Hong Kong, 17 June 2011

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