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 2012

FINANCIAL HIGHLIGHTS

- Sales increased by approximately 16.1% to HK$3,311,304,000
- Operating profit increased by approximately 10.3% to HK$2,064,051,000
- Profit attributable to the equity holders of the Company increased by approximately 9.1% to HK$1,750,419,000
- Net cash generated from operating activities increased by approximately 9.5% to HK$1,540,158,000
- Proposed final dividends of HK8.88 cents per share which represents a full year dividend of HK21.86 cents per share and increased by 44.0% from last year

RESULTS HIGHLIGHTS

- Flavours business increased by approximately 10.6%, sustained a stable growth
- Reconstituted tobacco leaves ('RTL') business recorded rapid growth, segment sales reached HK$253,072,000. Profitability elevated noticeably, segment EBIT margin increased from 17.2% last year to 33.7% this year; segment EBITDA margin increased from 33.5% last year to 49.2% this year
- Established a research and development ('R&D') platform for new cigarette material business, going to establish a cigarette filter joint enterprise in Korea, a new attempt by the Group in the development of new cigarette materials business

* *For identification purpose only*

AREAS OF DEFICIENCY

- Selling, marketing and administrative expenses increased relatively fast, its proportion to sales revenue elevated significantly
  Management's view: the Group will increase input into staff and R&D, and will strive to maintain these expenses at a reasonable level in the future

- Inventory total amount increased rapidly, inventory turnover period increased
  Management's view: with the Group progressing with new businesses, inventory total amount will continue to increase, will strive to keep inventory turnover period to remain stable in the future.

- Fragrances business was affected by upstream raw material price fluctuation and the re-organizing of current business, as a result, growth pace was slowed and segment operating profit margin decreased
  Management's view: will conduct business re-organization and integration as a priority to gradually increase profitability

	For the year ended 31 March		
	2012	2011	Growth
	HK$'000	*HK$'000*	
Sales	**3,311,304**	2,852,173	+16.1%
Gross profit	**2,335,996**	2,120,459	+10.2%
Gross profit margin	**70.5%**	74.3%	
Operating profit	**2,064,051**	1,871,706	+10.3%
EBIT ratio	**62.3%**	65.6%	
Profit before income tax	**2,080,989**	1,881,114	+10.6%
Profit attributable to the equity holders of the Company	**1,750,419**	1,604,400	+9.1%
Net cash generated from operating activities	**1,540,158**	1,406,330	+9.5%
	HK cents	*HK cents*	
Earnings per share			
– Basic	**55.48**	51.01	+8.8%
– Diluted	**55.31**	50.59	+9.3%
Interim and final dividends per share *(note 8)*	**16.68**	15.18	+9.9%
Special dividend per share paid for the whole year *(note 8)*	**5.18**	Nil	N/A
Dividend payout ratio	**39%**	30%	

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 2012 with comparative figures.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Sales	*2*	**3,311,304**	2,852,173
Cost of goods sold	*3*	**(975,308)**	(731,714)
Gross profit		**2,335,996**	2,120,459
Other income	*4*	**258,551**	122,675
Selling and marketing expenses	*3*	**(105,807)**	(81,040)
Administrative expenses	*3*	**(424,689)**	(290,388)
Operating profit		**2,064,051**	1,871,706
Finance income		**33,168**	24,692
Finance costs		**(16,373)**	(14,029)
Finance income – net	*5*	**16,795**	10,663
Share of profit/(loss) of associates		**143**	(1,255)
Profit before income tax		**2,080,989**	1,881,114
Income tax expense	*6*	**(314,250)**	(249,256)
Profit for the year		**1,766,739**	1,631,858
Attributable to:			
Equity holders of the Company		**1,750,419**	1,604,400
Non-controlling interests		**16,320**	27,458
		1,766,739	1,631,858
Earnings per share for profit attributable to the Company's equity holders for the year (expressed in HK cents per share)			
– Basic	*7(a)*	**55.48**	51.01
– Diluted	*7(b)*	**55.31**	50.59
Interim and final dividends	*8*	**527,064**	478,163
Special dividends	*8*	**163,680**	–
		690,744	478,163

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Profit for the year	**1,766,739**	1,631,858
Other comprehensive income:		
Fair value gains on available-for-sale financial assets	**12,466**	755
Exchange differences on translating foreign operations	**152,280**	175,417
Other comprehensive income for the year, net of tax	**164,746**	176,172
Total comprehensive income for the year, net of tax	**1,931,485**	1,808,030
Total comprehensive income attributable to:		
Equity holders of the Company	**1,903,668**	1,773,599
Non-controlling interests	**27,817**	34,431
	1,931,485	1,808,030

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,115,382**	536,373
Land use rights		**209,233**	194,697
Intangible assets		**2,931,975**	2,879,958
Investments in associates		**101,545**	61,009
Available-for-sale financial assets		**65,931**	38,067
Deferred income tax assets		**44,436**	42,800
		4,468,502	3,752,904
Current assets			
Inventories		**667,871**	467,961
Trade and other receivables	9	**928,969**	1,030,565
Cash and cash equivalents		**2,286,577**	1,676,410
		3,883,417	3,174,936
Total assets		**8,351,919**	6,927,840
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**315,985**	315,005
Reserves		**867,402**	677,318
Retained earnings			
– Proposed final dividend		**280,595**	251,374
– Others		**4,854,325**	3,796,953
		6,318,307	5,040,650
Non-controlling interests		**331,942**	255,213
Total equity		**6,650,249**	5,295,863
LIABILITIES			
Non-current liabilities			
Borrowings	10	**–**	3,562
Deferred income tax liabilities		**72,788**	102,830
		72,788	106,392
Current liabilities			
Borrowings	10	**927,500**	740,000
Trade and other payables	11	**584,226**	688,276
Current income tax liabilities		**117,156**	97,309
		1,628,882	1,525,585
Total liabilities		**1,701,670**	1,631,977
Total equity and liabilities		**8,351,919**	6,927,840
Net current assets		**2,254,535**	1,649,351
Total assets less current liabilities		**6,723,037**	5,402,255

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**1,890,949**	1,645,859
Income tax paid	**(350,791)**	(239,529)
Net cash generated from operating activities	**1,540,158**	1,406,330
Cash flows from investing activities		
Acquisition of subsidiaries	**(39,619)**	(1,321,781)
Capital injection in available-for-sale financial assets	**(13,736)**	–
Capital injection in associate	**–**	(30,085)
Purchases of property, plant and equipment	**(597,204)**	(44,570)
Proceeds from disposal of property, plant and equipment	**11,961**	927
Short-term time deposits withdrawal	**–**	230,886
Interests received	**33,168**	30,043
Net cash used in investing activities	**(605,430)**	(1,134,580)
Cash flows from financing activities		
Dividends paid to shareholders	**(668,923)**	(619,130)
Capital contributions from holders of non-controlling interests	**48,912**	22,107
Proceeds from issue of shares in connection with exercise of share options	**35,800**	66,928
Repayment of borrowings	**(203,701)**	(699,127)
Short-term bank borrowings	**387,500**	894,348
Interest paid	**(11,550)**	(16,309)
Repayment to a shareholder	**–**	(10,000)
Net cash used in financing activities	**(411,962)**	(361,183)
Net increase/(decrease) in cash and cash equivalents	**522,766**	(89,433)
Cash and cash equivalents at beginning of the year	**1,676,410**	1,678,640
Effects of exchange rate changes on cash and cash equivalents	**87,401**	87,203
Cash and cash equivalents at end of the year	**2,286,577**	1,676,410

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, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2011, 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):

HKAS 24 (Revised)	'Related Party Disclosures'
Amendment to HK(IFRIC) – Int 14	'Prepayments of a minimum funding requirement'
HK(IFRIC) – Int 19	'Extinguishing financial liabilities with equity instruments'

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'.

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

HKFRS 7 (Amendment)	'Disclosures – Transfers of financial assets' is effective for annual periods beginning on or after 1 July 2011.
HKFRS 1 (Amendment)	'Severe hyperinflation and removal of fixed dates for first-time adopters' is effective for annual periods beginning on or after 1 July 2011.
HKAS 12 (Amendment)	'Deferred tax: Recovery of underlying assets' is effective for annual periods beginning on or after 1 January 2012.
HKAS 1 (Amendment)	'Presentation of financial statements' is effective for annual periods beginning on or after 1 July 2012.
HKFRS 10	'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013.
HKAS 27 (Revised 2011)	'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013.
HKFRS 11	'Joint arrangements' is effective for annual periods beginning on or after 1 January 2013.

HKAS 28 (Revised 2011)	'Investments in Associates and joint ventures' is effective for annual periods beginning on or after 1 January 2013.
HKFRS 12	'Disclosure of interests in other entities' is effective for annual periods beginning on or after 1 January 2013.
HKFRS 13	'Fair value measurements' is effective for annual periods beginning on or after 1 January 2013.
HKAS 19 (Amendment)	'Employee benefits' is effective for annual periods beginning on or after 1 January 2013.
HKFRS 7 (Amendment)	'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities' is effective for annual periods beginning on or after 1 January 2013.
HK(IFRIC) – Int 20	'Stripping costs in the production phase of a surface mine' is effective for annual periods beginning on or after 1 January 2013.
HKAS 32 (Amendment)	'Financial instruments: Presentation – Offsetting financial assets and financial liabilities' is effective for annual periods beginning on or after 1 January 2014.
HKFRS 9	'Financial Instruments' is effective for annual periods beginning on or after 1 January 2015.
HKFRS 7 and HKFRS 9 (Amendments)	'Mandatory effective date and transition disclosures" is effective for annual periods beginning on or after 1 January 2015.

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 2012 is presented below:

	Year ended 31 March 2012					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Total turnover	**2,905,260**	**180,590**	**253,072**	**3,338,922**	**–**	**3,338,922**
Inter-segment sales	**(24,974)**	**(2,644)**	**–**	**(27,618)**	**–**	**(27,618)**
Net turnover/segment sales	**2,880,286**	**177,946**	**253,072**	**3,311,304**	**–**	**3,311,304**
Segment result	**1,980,782**	**8,016**	**85,316**	**2,074,114**	**(10,063)**	**2,064,051**
Finance income						**33,168**
Finance costs						**(16,373)**
Finance income – net						**16,795**
Share of profit of associates						**143**
Profit before income tax						**2,080,989**
Income tax expense						**(314,250)**
Profit for the year						**1,766,739**

	As at 31 March 2012					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Segment assets	**5,827,643**	**222,140**	**2,289,627**	**8,339,410**	**12,509**	**8,351,919**

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

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	
	2012	2011
	HK$'000	*HK$'000*
Depreciation, excluding amounts included in research and development	**51,433**	35,540
Amortization	**48,876**	36,001
Changes in inventories of finished goods and work in progress	**(17,942)**	7,324
Raw materials and consumables used	**891,522**	629,495
Provision for impairment on trade receivables	**3,859**	1,192
Lease rentals	**12,143**	10,669
Auditor's remuneration	**10,371**	6,728
Travelling expenses	**33,837**	22,046
Entertainment expenses	**25,763**	17,183
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	**133,268**	103,923
Share option compensation expenses	**75**	4,123
Research and development		
– Employee benefit expenses	**58,865**	41,036
– Depreciation	**9,835**	6,880
– Others	**117,682**	73,626
Delivery expenses	**32,116**	23,552
Utilities	**36,759**	21,687
Motor vehicle expenses	**14,969**	9,809
Others	**42,373**	52,328
Total of cost of goods sold, selling and marketing expenses and administrative expenses	**1,505,804**	1,103,142

4. OTHER INCOME

	Year ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Government grants	**139,910**	59,901
Exchange gain – net	**62,777**	56,150
Others	**55,864**	6,624
	258,551	122,675

5. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Financial income:		
Interest income on bank deposits	**33,168**	24,692
Financial cost:		
Interest expenses – bank borrowings	**(16,373)**	(13,734)
Bank guarantee charge on bank borrowings	**–**	(2,510)
Less: amounts capitalized on qualifying assets	**–**	2,215
	(16,373)	(14,029)
Finance income – net	**16,795**	10,663

6. INCOME TAX EXPENSE

		Year ended 31 March	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Current income tax			
– Hong Kong profits tax	*6(a)*	**12,553**	13,364
– PRC corporate income tax	*6(b)*	**332,853**	252,306
– Germany company income tax	*6(c)*	**87**	–
– Botswana company income tax	*6(d)*	**774**	426
Deferred income tax assets		**(25)**	10,496
Deferred income tax liabilities		**(31,992)**	(27,336)
		314,250	249,256

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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) Germany company income tax has been provided at the rate of 15% (2011: 15%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15% (2011: 15%) on the estimated assessable profit for the year.

(e) 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	
	2012	2011
Profit attributable to equity holders of the Company *(HK$'000)*	**1,750,419**	1,604,400
Weighted average number of ordinary shares in issue *('000)*	**3,155,203**	3,145,299
Basic earnings per share *(HK cents per share)*	**55.48**	51.01

(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 2012, 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	
	2012	2011
Profit attributable to equity holders of the Company *(HK$'000)*	**1,750,419**	1,604,400
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,155,203**	3,145,299
Adjustment for – exercise of share options *('000)*	**9,587**	26,085
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,164,790**	3,171,384
Diluted earnings per share *(HK cents per share)*	**55.31**	50.59

8. DIVIDENDS

	Year ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Interim dividend paid of HK7.8 cents (2011: HK7.2 cents) per share	**246,469**	226,789
Proposed final dividend of HK8.88 cents (2011: HK7.98 cents) per share	**280,595**	251,374
	527,064	478,163
Special dividend paid of HK5.18 cents (2011: nil) per share	**163,680**	–
	690,744	478,163

During the year ended 31 March 2012, an interim dividend of HK$246,469,000 (HK7.8 cents per share) (2011: HK7.2 cents per share) and a special dividend of HK$163,680,000 (HK5.18 cents per share) (2011: nil) have been paid by the Company. A final dividend of HK8.88 cents per share (2011: HK7.98 cents per share), HK$280,595,000 in aggregate (2011: HK$251,374,000), are proposed at the meeting of the Board held on 20 June 2012 which is subject to the shareholders' approval at the forthcoming annual general meeting. These consolidated financial statements do not reflect these proposed dividends. The aggregate amounts of the dividends paid and proposed during 2012 and 2011 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	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Trade receivables	*9(b)*	**635,047**	653,504
Less: Provision for impairment of receivables		**(7,175)**	(3,407)
Trade receivables – net		**627,872**	650,097
Note receivables		**169,760**	175,304
Prepayments and other receivables		**110,640**	192,139
Advances to staff		**6,996**	3,519
Others		**13,701**	9,506
		928,969	1,030,565

(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	
	2012	2011
	HK$'000	*HK$'000*
0 – 90 days	**566,547**	592,568
91 – 180 days	**40,636**	39,637
181 – 360 days	**10,078**	10,863
Over 360 days	**17,786**	10,436
	635,047	653,504

10. BORROWINGS

	Note	As at 31 March **2012** *HK$'000*	2011 *HK$'000*
Non-current			
– Secured bank loans	*10 (a)*	**–**	3,562
Current			
– Unsecured bank loans	*10 (b)*	**927,500**	740,000
Total borrowings		**927,500**	743,562

(a) The bank loan was secured by a pledge of land and buildings located in Yunnan Province owned by the subsidiary, Yunnan Hua Xiang Yuan Flavours Limited. The loan was denominated in RMB and was repaid in December 2011. During the year, the average interest rate is 7.15% per annum.

(b) The unsecured bank loans are denominated in HKD and are repayable within one year. During the year, the average interest rate is 2.13% per annum.

The carrying amounts of the Group's borrowings approximate their fair values.

11. TRADE AND OTHER PAYABLES

	Note	As at 31 March **2012** *HK$'000*	2011 *HK$'000*
Trade payables	*11(a)*	**359,310**	303,913
Non-trade payables to related parties		**123,985**	123,985
Wages payable		**11,806**	11,984
Other taxes payable		**25,069**	51,350
Accrued expenses		**12,303**	8,995
Advances from customers		**5,333**	4,122
Other payables		**46,420**	183,927
		584,226	688,276

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 **2012** *HK$'000*	2011 *HK$'000*
0 – 90 days	**285,947**	211,891
91 – 180 days	**43,625**	62,177
181 – 360 days	**7,831**	7,664
Over 360 days	**21,907**	22,181
	359,310	303,913

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 March 2012, sales revenue of the Group increased by approximately 16.1% to approximately HK$3,311 million. Gross profit margin reached approximately 70.5%, which is stable compared with approximately 70.6% in the first half this reporting year. EBIT margin reached approximately 62.3%, representing an increase of approximately 1.4 percentage points from approximately 60.9% in the first half of this reporting year. Profit attributable to the equity holders was approximately HK$1,750 million, representing an increase of approximately 9.1% year-on-year; and basic earnings per share was HK55.48 cents, representing an increase of about 8.8% year-on-year.

RECENT ACQUISITIONS AND COOPERATIONS

The Group remains committed to its development strategy by combining organic growth plus merger and acquisitions ('M&A') in carrying out consolidation in the China's flavours and fragrances industry and upstream businesses, which we believe, has reaped very good results. During the reporting period, the Group completed the establishment of Yongzhou Shan Xiang Flavour Co., Ltd. ('Yongzhou Shanxiang') and the acquisition of Yunnan Zhengbang Shengwu Jishu Co., Ltd. ('Yunnan Zhengbang'), making dynamic progress in implementing the strategic plan of constructing an integrated core value chain. As a result, the Group's overall competitiveness has been further enhanced.

Establishment of Yongzhou Shanxiang

In April 2011, the Group through its subsidiary entered into a capital injection agreement to Yongzhou Shanxiang with an independent third party, which the Group injected approximately HKD27,594,000 and holds 67.1% of equity interest after the injection. Yongzhou, located in the southwest of Hunan Province, is very suitable for the growth of litsea cubeba, a natural aromatic raw material, and is one of the main producing areas of litsea cubeba oil, where its output accounts for a leading position globally. In 2010, the 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 targeted end users include globally leading food and beverage enterprises. Capital injection into Yongzhou Shanxiang is another strategic deployment of the Group in building an integrated core value chain. Yongzhou Shanxiang 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; committed to technology development and products upgrade, and focus on fine and further processing technology. It will also actively penetrate existing key international customers. By utilizing the geographic advantages of Yongzhou, it will further enhance the advantages of natural aromatic raw materials business in the district and become a natural flavours enterprise with resources advantages and characteristics.

Acquisition of Yunnan Zhengbang

In June 2011, the Group through its subsidiary acquired 100% equity interest in Yunnan Zhengbang from an independent third party at a consideration of approximately HKD6,926,000, which was satisfied by the Group's internal funds. Established in 2008, Yunnan Zhengbang is an enterprise specializing in innovation, application and production of new cigarette materials in the PRC. Currently, its products are mainly used in cigarette paper and filters to lower tar and harmful content, improve smoke taste, enhance flavours and retain moisture, etc. Yunnan Zhengbang houses a professional technology R&D team with various patents of invention, and it is one of the few enterprises specializing in the R&D of new cigarette materials in China.

The Group is now performing integration to Yunnan Zhengbang and based on its foundation, the Group then established Shanghai Huabao Biological Technology Co. Ltd. ('Huabao Bio. Tech.'), a new R&D platform for new cigarette materials, for the purpose of integrating new cigarette materials technology and cigarette perfumery technology, and collaborating technological cooperation with various science and technology institutions including Yunnan Academy of Tobacco Science and Kunming Institute of Botany under the Chinese Academy of Science in order to aggressively develop its new cigarette materials business. The acquisition of Yunnan Zhengbang is in line with the Group's development strategy of "multi-pronged, focus growth", and will effectively expedite the Group's research of new cigarette materials and development of relevant products. In the future, the Group will provide tobacco enterprises with more comprehensive services by capitalizing on the combined strength of the existing personnel and foundation of Yunnan Zhengbang and Huabao's solid customer base, flavours and fragrances products and technology.

Establishment of cigarette filter joint enterprise

In June 2012, the Group is going to set up a subsidiary to engage mainly in cigarette filter manufacturing jointly with independent third parties in Korea. The investment of such joint enterprise is planned to be 11.1 billion Korean Won (equivalent to approximately HK$70 million), which the Group will hold 60% equity holdings. The joint enterprise is with an aim to produce personalized products for the China market, as a new attempt by the Group in the development of new cigarette materials business.

BUSINESS REVIEW

Review of Flavours Business

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

   For the year ended 31 March 2012, sales revenue of the flavours business of the group amounted to HK$2,880,286,000, representing an increase of about 10.6% from the corresponding period last year. The EBIT ratio of the flavours segment was approximately 68.8%, representing a decrease of approximately 1.7 percentage points as compared to approximately 70.5% for the corresponding period last year; The EBITDA ratio was approximately 71.1%, representing a decrease of approximately 1.8 percentage points as compared to approximately 72.9% for the corresponding period last year. The growth rate in the flavours business has slowed compared with last year's, this was mainly attributable to certain negative effects of the China food and beverage industry and the food additives industry, as well as the slow-down in the pace of consolidation of the tobacco sector in the People's Republic of China ('PRC'). Such decline in both the EBIT and EBITDA margins of the segment was mainly due to factors such as enhanced efforts on research and development and an increase in staff's wages and welfare benefits.

In respect of the tobacco business, as the tobacco industry entered into the post-consolidation era, cross-provincial consolidation was slowed. The China tobacco industry has entered into a solidifying and digesting period following a rapid consolidation. Adhering to the strategy of 'Big Customers, Big Brands', through a number of major laboratories, coupled with the trend of product reducing tar and harmful content, to explore business growth points, the Group once again has achieved a stable growth. For the year ended 31 March 2012, sales revenue from the Group's largest customer, i.e. China Tobacco Yunnan Materials Group Co., Ltd, increased by approximately 16.9% from last year, while sales revenue from the Group's top 5 customers also increased by approximately 16.9% from last year.

Since April this year, the Group's F&G (Botswana) (Proprietary) Limited ('F&G') production base, which is based in the Republic of Botswana, gradually entered its peak season. The daily operations remained smooth. During the reporting period, F&G was invited to the local government's annual dinner and delivered a speech, which further elevated the image of Chinese-enterprises and Chinese citizens in the local area.

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. After several years of rapid development, the Group has become one of the largest local flavours and fragrances providers in China. Last year, the operating environment in the industry was full of challenges, as a series of food safety incidents centering plasticizer have relatively affected more on the food flavours and food additives industries. However, thanks to the solid business foundation established by the Group over the years, the increased investments in production facilities and our competent research and development team which are of international standard, the Group kept its record of no material incidents on food safety, which further boosted its industry reputation. In terms of operations, the Group's direct sales and distribution sales businesses were affected considerably. However, the business with some of the reputable end customers such as Wahaha Group continued to achieve growth, the food business achieved relatively fast growth. The management is satisfied with the fact that the flavours segment realized growth having overcome a series of unfavorable industry matters.

Last year, the Group's subsidiaries achieved sound operating results. On the R&D side, the subsidiaries including Wuxi Hua Hai Flavour Co., Ltd., Wuxi Fuhua Flavour & Fragrance Co., Ltd. and Yunnan Tianhong Flavor & Fragrance Co., Ltd. have received a total of 8 national patents. Hua Fang Tobacco Flavors Ltd. participated in various major campaigns in the PRC tobacco sector last year. Moreover, in August 2011, the Group established the "Joint Laboratory of Reconstituted Tobacco Leaves produced with Paper-making Method" in cooperation with China Tobacco Guangdong Industrial Co., Ltd. ('China Tobacco Guangdong'), the Group's core client. The establishment of this joint laboratory has further strengthened the strategic cooperation between the Group and China Tobacco Guangdong, and represented a landmark move in enhancing the comprehensive resources advantage in different areas. In regards to product innovation, the sweetened pear flavours produced by Shanghai H&K Flavours & Fragrances Co., Ltd. was widely welcomed by the market. Guangdong Zhaoqing Fragrances Limited achieved growth from sizeable customers such as Wahaha Group. Meanwhile, construction of a comprehensive production base initiated by the Group last year was generally completed. The production base is located in a provincial science and technology development zone in Yingtan city, Jiangxi Province. Since its trail production commenced in November 2011, in March 2012 Ying Tan Huabao Flavours & Fragrances Co., Ltd. ('Yingtan Huabao') was awarded "2011 Industrial Development Enterprise Improvement Award" issued by the government of Yingtan city.

In the aromatic raw materials sector, Qingdao Qingda Product Co., Inc., through developing premium products, was able to optimize its product base and achieved rapid growth, with its source of growth mainly from customers in Europe and India. Its top products, paprika coloring and paprika resin were well received by domestic and international customers. Yongzhou Shanxiang continuously improved its lemon citrus extraction technology. Currently, Yongzhou Shanxiang's second phase lemon citrus extraction production line is generally completed and has entered trail production. Through such technology upgrade, the Group aim to improve its refining technology and elevate product value.

In addition, Huabao Food Flavours & Fragrances (Shanghai) Co. Ltd. ('Huabao Shanghai') received a number of awards in the industry. During the reporting period, Huabao Shanghai was awarded "Top 10 Enterprises of Perfume and Essence in China Light Industries 2010" announced by China National Light Industry Council, reinforcing its leading position in the industry; Huabao Shanghai was granted "Silver Award for Comprehensive Strength in Jiading Industrial Zone 2011"; and the General Manager of Huabao Shanghai also received "Excellent Entrepreneur of Advanced Manufacturing Industry in Jiading Industrial Zone 2011", which acknowledged the Company's influence in the local economy development.

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 over 300 million smokers, consuming over 2 trillion sticks of cigarettes each year. In recent years, China's tobacco industry has been growing steadily and reflected several characteristics:

Firstly, 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);

Secondly, the tobacco industry continues to play a significant role in the Chinese economy, contributing industrial and commercial profit tax of approximately RMB752.9 billion in 2011, and representing an increase of approximately 22.5% (Source: TobaccoChina Online); and

Thirdly, with the steady improvement in the living standards of Chinese residents, the demand for high-end consumer products has been growing gradually.

b. Tobacco industry has entered into the post-consolidation era, consolidation 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 brand concentration enhanced substantially. The market share of the top ten 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 brands in terms of sales revenue have posted a rapid double-digit growth in CAGR.

In 2010, the State Tobacco Monopoly Administration ('STMA') has proposed that the quality of cigarettes must attain a higher standard 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 next five-year plan. But looking back to 2011, as far as the Group is aware there has not been a case of cross-provincial consolidation. The Group believes that China's tobacco industry has entered into a stage of solidifying and digesting after a rapid pace of consolidation. In the future, the industry will continuously give rise to higher degrees of concentration and trading up of brand, while the pace of consolidation will further be slowed.

c. The Chinese government strengthened the regulation of the tobacco industry, which increased industry development uncertainties

The management noticed that the Chinese government introduced a series of new smoking control measures, including the control of smoking areas, boosting tar and harmful content 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 experience from international economically-developed countries, smoking control may pose its effect on spending behaviour in a long run. Meanwhile, the Chinese government started to implement limitations to the government's consumption in cigarettes, alcohol and premium tobacco since last year. These administrative measures may cause certain effects on the tobacco industry development and cigarette consumption. The Group has established a sound 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 the regulations going forward. During the year, the Group hosted 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 respond with full preparation.

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

Since last year, the food and beverage industry is shocked by its numerous safety incidents and problems, which have 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 phenomenon, in near future, will linger and will also cast negative impact on the Group. However, in the longer perspective, 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 PRC food and beverage industry in the long run.

3. *Development strategy for the flavours business*

a. *Tobacco sector*

- To continuously pursue the "Big Customers, Big Brands" development strategy;

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

- To explore and realize the trend of China cigarette market, to cope with the Group's RTL and new cigarette materials business, to use the end market consumers as the pivot point, to effectively help customers to understand end users' needs; and

- To speed up the construction of the comprehensive production base of Yingtan Huabao, to further elevate operation efficiency.

b. *Food and beverage sector*

- Using "Big Customers, Big Brands" as a strategic direction, to continue to expand into natural aromatic raw material business in order to construct an integrated core value chain;

- Using personalized food ingredients and food ingredients and additives based on natural extracts as a catalyst in future development, to explore for new growth opportunities;

- To step up efforts in food safety to ensure food safety, and to eradicate major food safety incidents; and

- To increase spending on R&D and bring in exceptional R&D personnel to continuously upgrade the R&D standards of our products.

Review of Fragrances Business

1. *Review of operating results*

For the year ended 31 March 2012, sales revenue of the fragrances business of the Group amounted to HKD177,946,000, representing an increase of approximately 11.0% from the previous year. Operating profit amounted to HKD8,016,000, decreased by HKD22,616,000 from HKD30,632,000 in the previous year. EBIT margin reached approximately 4.5%, representing a significant decrease compared to 19.1% of last year. The increase in sales revenue of the fragrances business was mainly contributed by the acquisition of Yunnan Hua Xiang Yuan Flavours Limited ('Yunnan Huaxiangyuan'); while the sharp decline in operating margin of the sector was mainly due to the fact that revenue of Yunnan Huaxiangyuan with low gross margin accounted for a higher percentage of total revenue of the sector, and that gross margin of Yunnan Huaxiangyuan has shrunk in view of the fluctuation in prices of raw materials.

Looking back to 2011, the China fragrances industry was not pleasant and full of challenges. On one hand, the China fragrances export was affected to a certain extent by the European debt crisis and exchange rate fluctuation; on the other hand, the plasticizer incidents were relatively more detrimental to the domestic fragrances industry, especially the daily personal care industry. Mosquito coils and sprayed pesticides were seen decreased in demand due to trade-up behaviour and safety issues, etc. These negative reasons have posted challenges to business of Xiamen Amber Perfumery Co., Ltd. ('Xiamen Amber'). In the mean time, Xiamen Amber was also in the process of streamlining and adjusting its overly grown business in the earlier stage. These caused Xiamen Amber's sales revenue dropped, but thanks to the rapid growth from the acquired Yunnan Huaxiangyuan, the fragrances business realized 11.0% growth.

During the reporting period, Yunnan Huaxiangyuan's primary products, namely eucalyptus oil and citronella oil, achieved rapid growth. But the price of eucalyptus oil in the international market was declined sharply due to the European debt crisis, thus affected its gross profit margin; in the mean time, two new pinene products were introduced, especially the β-pinene which contributed relatively higher profit due to its higher profitability. Since the completion of acquisition, Yunnan Huaxiangyuan had its management flow optimized and operation efficiency elevated. Furthermore, Xiamen Amber won the title of "The Most Potential SME" in Xiamen City for the third straight year; while Yunnan Huaxiangyuan was also one of the first enterprises awarded the title of "Leading Enterprise" of forest industry in Chuxiong city of Yunnan Province, in recognition of its excellent capabilities in business operation and technology innovation. Xiamen Amber has made much efforts to promote its brand, such as participating in the 6th China Xiamen International Buddhist Items & Crafts Fair, the 2011 Annual Meeting and Exhibition of Household Sanitation and Insects-killing Products Committee in the second half of 2011, and among all, the 2011 Annual Meeting of China Sundry Articles Industry Association Incense Manufacture Branch was held by Xiamen Amber. In December, after assessment and evaluation by the experts from the National Science and Technology Board, Xiamen Amber was approved to set up the Xiamen Flavors Key R&D Laboratory. The approval was attributed to the fact that it has in place advanced equipment and facilities of the industry and high-end R&D talents, and also its continuous cooperation with research institutions. The establishment of this key laboratory will significantly improve the research power of Xiamen Amber and helps to enhance the technology level of the industry as a whole.

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, to concentrate on sanitizing, pesticide and aromatic products;

– To establish working partner relationships with market segment leaders;

– 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; and

– To seek opportunities for corporations and M&As and identify the right opportunity 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

As of 31 March 2012, the Group's sales revenue of the RTL amounted to HKD253,072,000, representing an increase of approximately 191.7% as compared with HKD86,759,000 last year, and accounted for 7.6% of the Group's sales revenue as compared with 3.0% last year. Operating profit reached HKD85,316,000, representing an increase of approximately 472.4% as compared with HKD14,905,000 last year. The significant increase in sales revenue of RTL is mainly attributable to the fact that the operating period was approximately 11 months this year and there had been 1 month without operation due to implementation of technical upgrade during the year while there was only 5 months period last year following acquisition to consolidation of accounts, and the average selling price was increased through such technical upgrade implemented during the year. EBIT margin reached approximately 33.7%, representing a noticeable increase as compared to approximately 17.2% from last year; EBITDA margin reached approximately 49.2%, which was also noticeably increased from 33.5% of last year. The noticeable increase in EBIT and EBITDA margins are attributable to the increase in average selling price and improvement in production workmanship that led to an increase in gross profit margin. Since the acquisition of Guangdong Province Jinye Reconstituted Tobacco Leaves Technology Development Company Limited ('Guangdong Jinye') and its subsidiaries and affiliated companies ('Guangdong Jinye Group') in November 2010, the management was satisfied with the results of the related business consolidation and development.

During the reporting period, the Group carried out a technical upgrade for 10,000-ton production line of Guangdong Jinke Reconstituted Tobacco Leaves Company Limited ('Guangdong Jinke'), which has noticeably improved its product quality, average selling price and customer structure. The technical upgrade was intended to enhance the coating condition, stabilize the product quality and improve the sensory quality of the products. By introducing internationally advanced technology, optimizing process parameters and enhancing the control system, the major processes, namely extraction, condensation, pulping, fluid flowing and controlling were renovated and upgraded, which significantly enhanced the taste and odour as well as the in-process endurance of products, stabilized the product quality between different batches and enhanced the stability of products within the same batch. After the technological upgrade, the quality of Guangdong Jinke's RTL has reached a leading position in China's tobacco industry and helped it penetrate into the mid and high-end cigarette products. The clients were impressed by its product quality, and the management was also satisfied with what being achieved since entering into the RTL sector.

Currently, the second phase of Guangdong Jinye Project, i.e. the 20,000-ton RTL production line, which the Group has put much effort to establish, is under installation. The management is confident of the successful delivery of the second phase of Guangdong Jinye Project. During the reporting period, the Group completed capital injection with intangible assets to Guizhou Huangguoshu Jinye Technology Co., Ltd. ('Huangguoshu Jinye') with 10,000-ton RTL production line. After the injection, the Group's equity holdings in Huangguoshu Jinye increased from 30% to 40%. Meanwhile, the designing work of such production line has commenced. The Group's RTL business development is in full play.

During the reporting period, Guangdong Jinye's R&D team was granted a number of patents and honours, including national patents for "A Method to Lower Pectin in the Extract of Reconstituted Tobacco Made Through Paper-making Process" and "A Method to Recycling of Waste Water during the Production of Reconstituted Tobacco", etc.. These patents have not only displayed their constantly-enhanced capability of research & development and innovation, but also further consolidated the leading position of the Group in China's reconstituted tobacco industry. Since January 2012, the General Manager of Guangdong Jinye was honourably elected as a member of the 13th session of the People's Congress of Shantou City, the Vice Chairman of Federation of Industry and Commerce of Shantou City of Chaoyang District, and a committee member of The Chinese People's Political Consultative Conference of Shantou City of Chaoyang District, which was not only of great significance in elevating its corporate image and reputation, but also showcased their contribution to the society by driving local economic development.

In April 2012, the STMA again confirmed it would lower the maximum tar content allowed in each cigarette as a support to the campaign of reducing tar and harmful content of cigarettes. The relevant notice stated that from 1 January 2013, cigarettes containing 11 mg or more of tar each cannot be sold in China; meanwhile, cigarettes do not comply with the same tar content requirement cannot be imported into China. This measure is another definitive timetable set by the STMA following back in 2010 that from 1 January 2015, the tar content in each cigarette must not exceed 10 mg. This indicates that the government is steadily stepping up its efforts in lowering tar and harmful content for the long term, and for that reason, the outlook of RTL is positive. (Source: TobaccoChina Online)

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

- To implement the new development direction of using the end market consumers as the pivot point, to fully integrate the Group's overall competitiveness in tobacco chemistry technology, tobacco flavours technology and new cigarette materials, to assist customers to develop products with market competitiveness, to develop into the Group's new growth engines;

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

- To finalize customer optimization process, laying a solid foundation for second phase production line's future target customers;

- To strive for the Huangguoshu Jinye and China Tobacco Anhui Industrial Co., Ltd. RTL projects; and

- To continue in improving cooperation with domestic tobacco and RTL enterprises, further elevate its influence in the industry.

Introduction of new cigarette materials

New materials for cigarettes refer to a range of new auxiliary materials used in the production of cigarettes, which will affect the characteristics of tobacco smell, adjust its odour style, lowering of tar and other harmful content. Its unique appearance and whole-new smoking experience have an increasingly obvious effect on end user consumption behaviour. The application of these materials is one of the crucial measures to enhance the competitive strength of tobacco enterprises. New and customized cigarette materials have been emerging with huge development potentials. New cigarette paper, connecting paper, shaping paper and filtering materials are among the major items of new cigarette materials.

After several years of research & development and preparation, the Group acquired Yunnan Zhengbang in June 2011 and soon established Huabao Bio. Tech. after optimization and integration was done, so as to combine the Group's existing tobacco chemical technology with the new cigarette materials technology of Yunnan Zhengbang and form a new platform for the development of new cigarette materials. In June 2012, the Group is going to set up a subsidiary engaged in cigarette filter manufacturing jointly with independent third parties in Korea to provide the China market with personalized products, so as to take the first step towards the development of new cigarette materials. Next, the Group intends to establish a complete and reliable supply chain management system by integrating and coordinating the cigarette materials manufacturers all over the world, and adopt a customer focused, market demand driven approach, so as to use the end market consumers as the pivot point, to effectively help customers to understand end users' needs, to enhance their brands' competitive strength, and to achieve mutual growth and win-win scenarios.

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 leading 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

At present, the global economic conditions are highly challenging, plagued with changing political factors of countries across the world, the lingering European debt crisis, and the admitted moderate slowdown of China's economy which has become a major concern of the world. As China's food and beverage and additives industries are still in the course of recovery after a series of reported safety incidents, a series of regulation on the tobacco industry recently implemented by the PRC Government have also increased uncertainties for the development of the China tobacco industry. Coupled with the complicated external and macro environment, it is important for the Group to adhere to the development strategy of "multi-pronged, focus growth" and further refine its integrated core value chain. Based on its solid foundation built after years of efforts, the Group will continue to capitalize on its excellent company culture, continue to tap new business growth areas and continue to enhance the Group's overall capabilities in resisting risks, in order to achieve stable growth.

In the tobacco business segment, the Group will continue to pursue the business development strategy of "Big customers, Big brands", and has brought forward a new path to development, i.e. using the end market consumers as the pivot point, to effectively help customers to understand end users' needs. Meanwhile, the Group will optimize the integration of existing flavours and fragrances, RTL and new cigarette materials, strive to develop products with market competitiveness and create higher value for our customers, so as to achieve win-win results and mutual development. Given that the second phase of the construction project of Guangdong Jinye has entered into the installation and commissioning stage, and in view of the full-scale development of Huabao Bio. Tech., the management believes that there is huge room for the Group to grow in this segment, and the Group is about to enter into a comprehensive development stage. In the mean time, due to regulations, the pace of the China tobacco industry consolidation has slowed down. And recently the Chinese government has implemented regulations on premium tobacco and alcohol and corporate spending on tobacco and alcohol products may gradually affect the industry and consumption. The management will closely monitor such matters, and to respond prudently to these new changes in the industry.

In the food ingredients and flavours and fragrances segments, the Chinese food additives and flavours and fragrances industries are still in a stage of recovery after a series of food safety incidents. The industry growth is slowed, and certain segment markets may continue to see lower in usage demand. Leveraging on the solid business foundation established by the Group over the years, the increased investments in production quality control facilities and the competent research and development team of market standards, the Group will strive to develop under adverse circumstances and continue to maintain stable growth. In the future, the food segment will seek stable growth based on a sound foundation.

In the fragrances and aromatic raw materials segments, the export of fragrances was slowed, while product safety was also detrimental to the fragrances industry. The management will finish the business's streamlining and adjustment, concentrate on fragrances business such as sanitizing and pesticide, increasing quality control of products, optimising products and customers structure, and developing new natural and plant extraction-based products, in order to seek market exploration opportunities. In the mean time, the Group will also speed up the integration of Yunnan Huaxiangyuan, timely adjust product and market strategies, so as to gradually revive the profitability in this segment.

As regards the use of cash, the Group has upheld its prudent principal, that is to fully utilize its ample cash flow generated from operations to perform expansion, increase production capacity and distribute dividend with no less than 30% dividend payout ratio and special dividend. This year, considering the capital market's landscape, a share repurchase program has also been brought to the Group's agenda. In the future, with different developments from the RTL and new cigarette materials sectors on hand, investment in the said areas will be further elevated, which the Group anticipate in next year there will be approximately HK$700-900 million of investment mainly in development of RTL business etc. (including capital expenditure but excluding major acquisitions). The management believes that these investments will provide the Group with new growth momentum, and that it will create larger values for shareholders.

Over the years, the Group has been consistently pursuing its "multi-pronged, focus growth" development strategy, using its core flavours and fragrances business, constructing an integrated core value chain, developing into an influential enterprise in the industry. Although this success only represented achievement in the past, the management strongly believes that, as long as the Group adheres to its development strategy, keeps abreast of the latest development trend of the domestic consumer products market and constantly bring forth innovation, Huabao is able to grasp business opportunities in China's consumer products market. Huabao has entered into a business transformation period, which the Group will next develop itself from a simple flavours and fragrances company into a company with multiple growth drivers. For this, the Group will perform streamlining and adjustment to its existing business segments and structure. The management believes that its rapid growth momentum will gradually recover in the coming years, thereby bringing higher value and greater rewards to Shareholders!

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2012

Sales revenue

The Group's sales revenue amounted to HKD3,311,304,000 for the year ended 31 March 2012, representing an increase of about 16.1% as compared with HKD2,852,173,000 for the corresponding period last year. The rapid growth in sales revenue was mainly attributable to a substantial increase in the sales of flavours and RTL. For the year ended 31 March 2012, sales revenue from flavours increased to HKD2,880,286,000, contributing about 87.0% of total sales revenue; sales revenue from fragrances increased to HKD177,946,000, contributing about 5.4% of total sales revenue; while sales revenue from RTL increased to HKD253,072,000, contributing about 7.6% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to HKD975,308,000 for the year ended 31 March 2012, representing an increase of about 33.3% as compared with HKD731,714,000 for the corresponding period last year. The increase in cost of goods sold being higher than the 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 HKD2,120,459,000 for the year ended 31 March 2011 to HKD2,335,996,000 for the year ended 31 March 2012, representing an increase of about 10.2%; gross profit margin reached 70.5%, representing a decrease from 74.3% of the last financial year. The decrease in gross profit margin was mainly attributable to the change of the sectors' revenue mix, with sales revenue of Fragrances and RTL (whose gross profit margins are relatively lower) to overall sales revenue ratio increased from approximately 8.7% last year to approximately 13.0% this year.

Other income

Other income of the Group was HKD258,551,000 for the year ended 31 March 2012, representing an increase of HKD135,876,000 as compared with HKD122,675,000 for the year ended 31 March 2011. The increase in other income was mainly attributable to the increase in local government grants and gains realized from intangibles assets.

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 2012 were HKD105,807,000, representing an increase of about 30.6% as compared with HKD81,040,000 for the corresponding period last year. Selling and marketing expenses to total sales revenue for the year ended 31 March 2012 and 2011 amounted to approximately 3.2 % and 2.8% respectively. The increase in the ratio of selling and marketing expenses to sales revenue was mainly attributable to increase in price levels and selling efforts by the Group.

Administrative expenses

The Group's administrative expenses amounted to HKD424,689,000 for the year ended 31 March 2012, representing an increase of approximately 46.2% as compared with HKD290,388,000 for the corresponding period last year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 12.8%, representing an increase of approximately 2.6 percentage points as compared with 10.2% for the corresponding period last year. Among the total sales revenue during the current financial year, R&D expenses amounted to approximately 5.6%, an increase of approximately 1.3 percentage points compared with last year. Meanwhile, auditor's remuneration for the current reporting year included HK$3,018,000 (2011: nil) additional audit services fee for conducting procedures in response to allegations as referred to in a report in the market. The increase in ratio of administrative expenses to total sales revenue was mainly attributable to the increase in R&D, depreciation and amortization expenses, number of labour and price levels.

Operating profit

Operating profit of the Group for the year ended 31 March 2012 was HKD2,064,051,000, representing an increase of approximately 10.3% as compared with HKD1,871,706,000 for the corresponding period last year, while the operating profit margin reached 62.3%, decreased by 3.3 percentage points compared with last year. The decrease in operating profit margin is mainly attributable to the decrease in gross profit margin and increase in ratio of selling and marketing and administrative expenses to sales revenue of the reporting period.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2012 was HKD314,250,000, which was increased substantially as compared with HKD249,256,000 for the corresponding period last year, with the income tax rates approximately 15.1% and approximately 13.3% respectively. The increase in the income tax expenses was mainly attributable to 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). Currently, certain PRC subsidiaries of the Group are in the process of applying or reviewing qualifications of high-tech enterprises to entitle for 15% preferential corporate income tax rate. The management aim to have approvals granted within the year of 2012 in order to meet the Group's internal estimation of the overall tax rates at about 17%.

Net current asset value and financial resources

As at 31 March 2012, the net current asset value of the Group was HKD2,254,535,000 (2011: HKD1,649,351,000). 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 HKD2,286,577,000 (2011: HKD1,676,410,000), over 95% 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 2012, the Group had short term bank borrowings of HKD927,500,000 (2011: HKD740,000,000), which is entirely a clean loan with interest calculated based on HK dollars inter-banks borrowings rate. For the year ended 31 March 2012, the average annual interest rate was 2.13% (2011: 2.08%). All bank borrowings are due within 1 year and the gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was about 14.7% (2011: 14.8%).

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 2012, the net cash used in investing activities amounted to HKD605,430,000, mainly incurred for procurement of properties, machineries and equipment. For the year ended 31 March 2011, the net cash used in investing activities amounted to HKD1,134,580,000.

Financing activities

For the year ended 31 March 2012, the net cash used in financing activities amounted to HKD411,962,000, mainly used for dividend distribution to shareholders. For the year ended 31 March 2011, the net cash used in financing activities amounted to HKD361,183,000.

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 2012, the Group's average debtors' turnover period was 70 days, representing a decrease of 4 days as compared with 74 days for the last financial year ended 31 March 2011, mainly as a result of better debtors' turnover management.

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 2012, the Group's average creditors' turnover period was 122 days, representing a decrease of 11 days as compared with 133 days for the last financial year ended 31 March 2011. The decrease in creditors' turnover period was mainly attributable to the increase in natural aromatic raw materials procurement amount along with a shorter creditors' turnover period.

Inventory and inventory turnover period

As at 31 March 2012, the Group's inventory balance amounted to HKD667,871,000 (2011: HKD467,961,000). For the year ended 31 March 2012, 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 210 days, representing an increase of 37 days as compared with 173 days for the last financial year. The increase in inventory and longer inventory turnover period for the year was due to the continuous increase of the Group's inventory amount. As the scale of business expands, the Group has increased the level of its safety stock, and subsidiaries such as Yongzhou Shanxiang concentrated its procurement in natural aromatic raw materials had caused the level of inventory increased.

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 calculated 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 2012, the Group did not have any secured bank loan.

Capital Commitments

As at 31 March 2012, the Group had capital commitments in respect of the purchase of property, plant, equipment, and investment in an associate, contracted for but not provided in the financial statements amounting to approximately HKD385,586,000 (2011: HKD74,716,000), mainly including HKD135,203,000 of capital injection to Huangguoshu Jinye and HKD184,446,000 of addition in property, plant and equipment for Guangdong Jinye Group.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 31 March 2012.

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 internal nomination and selection, work units review, verification by headquarters, 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.

In regards to employee salary and incentive system, the Group has implemented a new remuneration system referenced to the market, to attract stable and exceptional talents, so as to cope with the Group's long term development needs. As at 31 March 2012, the Group employed a total of 2,236 employees in the PRC, Hong Kong, Germany and Botswana, representing an increase of 367 employees from 1,869 employees of last year. The labour costs of the year (including pension costs) amounted to HKD192,208,000, representing a increase of HKD43,126,000 from HKD149,082,000 for the previous year. The increase in the labour costs was primarily attributable to the increase in the number of employees, hike of product and living standards in China and the Group's input in human resources.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code (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 Stock Exchange of Hong Kong Limited ('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, improving the current practices on the basis of experience and regulatory changes to enhance confidence of shareholders of the Company and to safeguard shareholders' interest as well as the key to assuring healthy business developments.

Model Code for Securities Transactions by Directors of Listed Issuers ('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 throughout the year.

FINAL DIVIDEND

The Board proposes to declare a final dividend of HK8.88 cents (2011: HK7.98 cents) per share in cash, about HKD281 million in aggregate, for the year ended 31 March 2012 which are expected to be paid on or about 18 October 2012 (Thursday) to shareholders whose names appear on the Register of Members of the Company as at 17 August 2012 (Friday), subject to shareholders' approval at the forthcoming annual general meeting to be held on 8 August 2012 (Wednesday). The proposed final dividend together with the interim and special dividends paid, the total dividend distribution for the financial year ended 31 March 2012 amounted to HK21.86 cents (2011: HK15.18 cents) per share.

CLOSE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

In order to determine the entitlement of shareholders to attend and vote at the annual general meeting, the Register of Members of the Company will be closed from 3 August 2012 (Friday) to 8 August 2012 (Wednesday), 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, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 2 August 2012 (Thursday). Shareholders whose names are recorded in the Register of Members of the Company on 8 August 2012 (Wednesday) are entitled to attend and vote at the annual general meeting.

CLOSE OF REGISTER OF MEMBERS FOR PAYMENT OF FINAL DIVIDEND

In order to determine shareholders who qualify for the proposed final dividend, the Register of Members of the Company will be closed from 14 August 2012 (Tuesday) to 17 August 2012 (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 Registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 13 August 2012 (Monday). Shareholders whose names are recorded in the Register of Members of the Company on 17 August 2012 (Friday), are entitled to receive the final dividend.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of 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. LEE Luk Shiu, Ms. MA Yun Yan and Dr. JIN Lizuo.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's audited annual results for the year ended 31 March 2012.

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 2011-12 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, 20 June 2012

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