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 2014

FINANCIAL HIGHLIGHTS

Compared with last financial year:

- Sales increased by approximately 16.2% to HK$4,237,425,000
- Operating profit increased by approximately 17.4% to HK$2,377,244,000
- Profit attributable to the equity holders of the Company increased by approximately 15.2% to HK$1,977,325,000
- Basic earnings per share ("EPS") increased by approximately 16.9% to HK63.76 cents
- Cash and bank balances+ increased by approximately 36.9% to HKD3,181,745,000 and net cash# reached HKD2,651,614,000
- Proposed a final dividend of HK10.49 cents per share and a special dividend of HK7.00 cents per share, which together with the interim and special dividends paid will represent a total dividend distribution of HK29.05 cents per share for the whole year, representing a significant increase of approximately 31%; total dividend payout ratio reached approximately 46% for the year, representing an increase of approximately 5 percentage points

\+ *"Cash and bank balances" means "Short-term time deposits" plus "Cash and cash equivalents".*

\# *"Net cash" means "Short-term time deposits" plus "Cash and cash equivalents" minus "Borrowings".*

* *For identification purpose only*

Results highlights:

- Reconstituted Tobacco Leaves ("RTL") segment sales broke through HKD1 billion, which is in line with management's expectation
- Gross profit margin for the year reached 70.8%, representing an elevation of 1.7 percentage points over last financial year
- Operating profit margin ("EBIT margin") for the year reached 56.1%, representing an elevation of 0.6 percentage point over last financial year
- Profitability of all three business segments have shown improvement; EBIT margins of flavours, fragrances and RTL segments have elevated 0.8, 3.7 and 7.9 percentage points respectively over last financial year
- Financial position remained sound with net cash exceeded HKD2.65 billion, representing an increase of 42.7%

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 March		Change in
	2014	2013	percentage
	HK$'000	*HK$'000*	
Sales	**4,237,425**	3,645,940	+16.2%
Gross profit	**2,998,119**	2,518,909	+19.0%
Gross profit margin	***70.8%***	*69.1%*	
Operating profit	**2,377,244**	2,024,668	+17.4%
EBIT margin	***56.1%***	*55.5%*	
Profit before income tax	**2,417,245**	2,047,404	+18.1%
Profit attributable to the equity holders of the Company	**1,977,325**	1,716,375	+15.2%
Net cash generated from operating activities	**1,824,923**	1,615,626	+13.0%
Earnings per share			
– Basic	**63.76 *HK cents***	54.53 *HK cents*	+16.9%
– Diluted	**63.72 *HK cents***	54.49 *HK cents*	+16.9%
Interim and final dividends per share *(note 8)*	**19.17 *HK cents***	16.88 *HK cents*	+13.6%
Aggregated special dividends per share for the year *(note 8)*	**9.88 *HK cents***	5.28 *HK cents*	+87.1%
Dividend payout ratio	**46%**	41%	

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 referred to as the "Group") for the year ended 31 March 2014 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Sales	2	**4,237,425**	3,645,940
Cost of goods sold	3	**(1,239,306)**	(1,127,031)
Gross profit		**2,998,119**	2,518,909
Other income	4	**204,571**	176,692
Selling and marketing expenses	3	**(169,936)**	(139,464)
Administrative expenses	3	**(655,510)**	(531,469)
Operating profit		**2,377,244**	2,024,668
Finance income		**54,352**	41,277
Finance costs		**(11,997)**	(19,079)
Finance income – net	5	**42,355**	22,198
Share of (loss)/profit of associates and a jointly controlled entity		**(2,354)**	538
Profit before income tax		**2,417,245**	2,047,404
Income tax expense	6	**(420,381)**	(314,804)
Profit for the year		**1,996,864**	1,732,600
Attributable to:			
Equity holders of the Company		**1,977,325**	1,716,375
Non-controlling interests		**19,539**	16,225
		1,996,864	1,732,600
Earnings per share for profit attributable to the Company's equity holders for the year (expressed in HK cents per share)			
– Basic	*7(a)*	**63.76**	54.53
– Diluted	*7(b)*	**63.72**	54.49
Interim and final dividends	8	**594,523**	526,515
Special dividends	8	**306,410**	164,748
		900,933	691,263

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
Profit for the year	**1,996,864**	1,732,600
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**62,398**	(3,155)
Currency translation differences on foreign operations	**126,031**	39,555
Other comprehensive income for the year, net of tax	**188,429**	36,400
Total comprehensive income for the year, net of tax	**2,185,293**	1,769,000
Total comprehensive income attributable to:		
Equity holders of the Company	**2,157,918**	1,750,950
Non-controlling interests	**27,375**	18,050
	2,185,293	1,769,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 March 2014** *HK$'000*	2013 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,425,497**	1,443,810
Land use rights		**200,247**	204,045
Intangible assets		**2,931,430**	2,925,745
Investments in associates		**239,044**	102,299
Investments in a jointly controlled entity		**7,442**	–
Available-for-sale financial assets		**154,504**	67,648
Deferred income tax assets		**66,208**	48,710
		5,024,372	4,792,257
Current assets			
Inventories		**855,694**	702,316
Trade and other receivables	*9*	**1,341,399**	1,059,769
Assets held for sale		**5,196**	5,102
Short-term time deposits		**806,400**	437,166
Cash and cash equivalents		**2,375,345**	1,886,183
		5,384,034	4,090,536
Total assets		**10,408,406**	8,882,793
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**310,132**	311,013
Reserves		**1,110,334**	914,597
Retained earnings			
– Proposed final dividend		**325,329**	291,524
– Proposed special dividend		**217,092**	86,837
– Others		**6,722,684**	5,675,440
		8,685,571	7,279,411
Non-controlling interests		**314,658**	346,265
Total equity		**9,000,229**	7,625,676
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**92,676**	62,628
Current liabilities			
Borrowings	*10*	**530,131**	465,000
Trade and other payables	*11*	**652,094**	585,683
Current income tax liabilities		**133,276**	143,806
		1,315,501	1,194,489
Total liabilities		**1,408,177**	1,257,117
Total equity and liabilities		**10,408,406**	8,882,793
Net current assets		**4,068,533**	2,896,047
Total assets less current liabilities		**9,092,905**	7,688,304

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**2,245,508**	1,907,337
Income tax paid	**(420,585)**	(291,711)
Net cash generated from operating activities	**1,824,923**	1,615,626
Cash flows from investing activities		
Acquisition of subsidiaries	**–**	(4,889)
Proceeds from disposal of a subsidiary	**15,993**	–
Capital injection into an associate	**(138,136)**	–
Capital injection into available-for-sale financial assets	**–**	(1,230)
Purchases of property, plant and equipment, land use right and intangible assets	**(161,946)**	(335,257)
Proceeds from disposal of property, plant and equipment	**233**	1,515
Short-term time deposits placed	**(361,229)**	(437,166)
Dividend received	**843**	–
Interest received	**48,344**	41,277
Net cash used in investing activities	**(595,898)**	(735,750)
Cash flows from financing activities		
Dividends paid to shareholders	**(776,719)**	(628,118)
Acquisition of additional interests in a subsidiary from non-controlling interests	**(5,242)**	(9,808)
Capital contributions from holders of non-controlling interests	**3,221**	35,141
Repurchase of shares	**(13,937)**	(199,661)
New short-term bank borrowings	**65,131**	77,500
Repayment of borrowings	**–**	(540,000)
Repayment to a shareholder	**(30,000)**	–
Interest paid	**(13,030)**	(21,038)
Net cash used in financing activities	**(770,576)**	(1,285,984)
Net increase/(decrease) in cash and cash equivalents	**458,449**	(406,108)
Cash and cash equivalents at 1 April	**1,886,183**	2,286,577
Effects of currency translation on cash and cash equivalents	**30,713**	5,714
Cash and cash equivalents at 31 March	**2,375,345**	1,886,183

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 remeasurement of available-for-sale financial assets.

(a) The following new/revised/amendments to standards are mandatory for the first time for the financial year beginning 1 April 2013, but are not currently relevant or do not have a significant impact on the Group's operations (although they may affect the accounting for future transactions and events):

HKAS 1 (Amendment)	"Financial Statements Presentation" regarding other comprehensive income is effective for annual periods beginning on or after 1 July 2012.
HKFRS 1 (Amendment)	"First-time Adoption" on government loans is effective for annual periods beginning on or after 1 January 2013.
HKFRS 7 (Amendment)	"Financial Instruments: Disclosures" offsetting financial assets and financial liability is effective for annual periods beginning on or after 1 January 2013.
HKFRS 10,11 and 12 (Amendment)	on transition guidance is effective for annual periods beginning on or after 1 January 2013.
HKFRS 10	"Consolidated 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.
HKFRS 12	"Disclosures of Interests in Other Entities" is effective for annual periods beginning on or after 1 January 2013.
HKFRS 13	"Fair Value Measurement" 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.
HKAS 27 (Revised 2011)	"Separate Financial Statements" 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.
HK(IFRIC) Int 20	"Stripping Costs in the Production Phase of a Surface Mine" is effective for annual period beginning on or after 1 January 2013.

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

	Effective for annual periods beginning on or after
HKAS 32 (Amendment) "Financial Instruments: Presentation" on asset and liability offsetting	1 January 2014
HKFRS 10, 12 and HKAS 27 (Amendment) "Consolidation for investment entities"	1 January 2014
HKAS 36 (Amendment) "Impairment of assets" on recoverable amount disclosures	1 January 2014
HKAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Novation of derivatives	1 January 2014
HK(IFRIC) Int 21 "Levies"	1 January 2014
HKAS 19 (Amendment) regarding defined benefit plans	1 July 2014
HKFRS 9 "Financial Instruments"	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 assess the performance of the operating segments based on a measure of operating profit.

The segment information for the year ended 31 March 2014 is presented below:

	Year ended 31 March 2014					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Total turnover	**3,164,888**	**84,688**	**1,070,170**	**4,319,746**	**–**	**4,319,746**
Inter-segment sales	**(81,969)**	**(13)**	**(339)**	**(82,321)**	**–**	**(82,321)**
Segment turnover – net	**3,082,919**	**84,675**	**1,069,831**	**4,237,425**	**–**	**4,237,425**
Segment result	**1,967,077**	**7,760**	**422,683**	**2,397,520**	**(20,276)**	**2,377,244**
Finance income						**54,352**
Finance costs						**(11,997)**
Finance income – net						**42,355**
Share of loss of associates and a jointly controlled entity						**(2,354)**
Profit before income tax						**2,417,245**
Income tax expense						**(420,381)**
Profit for the year						**1,996,864**

	As at 31 March 2014					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Segment assets	**6,832,773**	**167,256**	**3,377,290**	**10,377,319**	**31,087**	**10,408,406**

The segment information for the year ended 31 March 2013 is presented below:

	Year ended 31 March 2013					
	Flavours	Fragrances	Reconstituted tobacco leaves	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total turnover	3,044,411	166,887	483,173	3,694,471	–	3,694,471
Inter-segment sales	(46,916)	(1,615)	–	(48,531)	–	(48,531)
Segment turnover – net	2,997,495	165,272	483,173	3,645,940	–	3,645,940
Segment result	1,887,719	9,074	152,523	2,049,316	(24,648)	2,024,668
Finance income						41,277
Finance costs						(19,079)
Finance income – net						22,198
Share of profit of associates						538
Profit before income tax						2,047,404
Income tax expense						(314,804)
Profit for the year						1,732,600

	As at 31 March 2013					
	Flavours	Fragrances	Reconstituted tobacco leaves	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	5,791,611	221,972	2,754,219	8,767,802	114,991	8,882,793

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

3. EXPENSES BY NATURE

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

		Year ended 31 March	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Depreciation		**126,367**	77,848
Amortization		**44,929**	43,858
Changes in inventories of finished goods and work in progress		**82,542**	(18,418)
Raw materials and consumables used		**881,195**	950,079
Provision for impairment on trade receivables		**386**	212
Lease rentals		**25,963**	18,505
Auditor's remuneration		**8,188**	7,940
Travelling expenses		**33,954**	28,218
Entertainment expenses		**38,420**	31,052
Employee benefit expenses		**290,397**	217,443
Research and development expenses	*(a)*	**243,517**	213,491
Delivery expenses		**51,875**	38,783
Utilities expenses		**106,562**	54,199
Motor vehicle expenses		**19,764**	18,268
Others		**110,693**	116,486
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**2,064,752**	1,797,964

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

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
Depreciation	**17,188**	11,904
Amortization	**4,596**	6,167
Employee benefit expenses	**100,384**	82,850

4. OTHER INCOME

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
Government grants	**172,891**	147,474
Exchange gain – net	**26,691**	8,316
Others	**4,989**	20,902
	204,571	176,692

5. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
Financial income:		
Interest income on bank deposits	**54,352**	41,277
Financial cost:		
Interest expense on bank borrowings and others	**(11,997)**	(19,079)
Finance income – net	**42,355**	22,198

6. INCOME TAX EXPENSE

		Year ended 31 March	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Current income tax			
– Hong Kong profits tax	*(a)*	**11,156**	9,308
– PRC corporate income tax	*(b)*	**412,481**	323,436
– Germany company income tax	*(c)*	**139**	150
– Botswana company income tax	*(d)*	**784**	89
Deferred income tax		**(4,179)**	(18,179)
		420,381	314,804

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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% (2013: 15%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15% (2013: 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	
	2014	2013
Profit attributable to equity holders of the Company *(HK$'000)*	**1,977,325**	1,716,375
Weighted average number of ordinary shares in issue *('000)*	**3,101,359**	3,147,638
Basic earnings per share *(HK cents per share)*	**63.76**	54.53

(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 2014, the Company has one type of dilutive potential ordinary shares i.e. share options.

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

	Year ended 31 March	
	2014	2013
Profit attributable to equity holders of the Company *(HK$'000)*	**1,977,325**	1,716,375
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,101,359**	3,147,638
Adjustment for: exercise of share options *('000)*	**1,671**	2,409
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,103,030**	3,150,047
Diluted earnings per share *(HK cents per share)*	**63.72**	54.49

8. DIVIDENDS

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
Interim dividend paid of HK8.68 cents (2013: HK7.48 cents) per share	**269,194**	234,991
Proposed final dividend of HK10.49 cents (2013: HK9.40 cents) per share	**325,329**	291,524
	594,523	526,515
Special dividend paid of HK2.88 cents (2013: HK2.48 cents) per share	**89,318**	77,911
Proposed special dividend of HK7.00 cents (2013: HK2.80 cents) per share	**217,092**	86,837
	306,410	164,748
	900,933	691,263

A final dividend of HK10.49 cents (2013: HK9.40 cents) per share, HK$325,329,000 in aggregate (2013: HK$291,524,000), together with a special dividend of HK7.00 cents (2013: HK2.80 cents) per share, HK$217,092,000 in aggregate (2013: HK$86,837,000), are proposed at the meeting of the Board held on 18 June 2014 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 2014 and 2013 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	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Trade receivables	*(a)*	**970,628**	822,863
Less: Provision for impairment of receivables		**(7,787)**	(7,356)
Trade receivables – net		**962,841**	815,507
Note receivables		**241,334**	118,196
Prepayments and other receivables		**89,706**	90,317
Advances to staff		**10,321**	4,990
Others		**37,197**	30,759
		1,341,399	1,059,769

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 amounts.

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 March 2014 and 2013, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice date was as follows:

	As at 31 March	
	2014	2013
	HK$'000	*HK$'000*
0 – 90 days	**840,994**	737,855
91 – 180 days	**86,909**	53,875
181 – 360 days	**20,583**	15,439
Over 360 days	**22,142**	15,694
	970,628	822,863

10. BORROWINGS

		As at 31 March	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Current			
– Secured bank borrowing	*(a)*	**15,131**	–
– Unsecured bank borrowing	*(b)*	**515,000**	465,000
Total borrowings		**530,131**	465,000

Movement in borrowings is analyzed as follows:

	Year ended 31 March	
	2014	2013
	HK$'000	*HK$'000*
At 1 April	**465,000**	927,500
New short-term bank borrowing	**65,073**	77,500
Repayment of bank borrowing	**–**	(540,000)
Currency translation differences	**58**	–
At 31 March	**530,131**	465,000

(a) The bank borrowing was secured by a pledge of land and buildings located in Hunan Province owned by a subsidiary, Yongzhou Shanxiang Flavour Co., Ltd. The borrowing was denominated in RMB and is repayable within one year. During the year, the average interest rate was 6.3% per annum.

(b) The unsecured bank borrowing are denominated in HKD and are repayable within one year. During the year, the average interest rate is 2.39% (2013: 2.47%) per annum.

Borrowings are financial liabilities categorized under "financial liabilities measured at amortized cost". The fair values of the borrowings approximate to their carrying amounts.

Interest expense on bank borrowings for the year ended 31 March 2014 amounted to HK$11,932,000 (2013: HK$19,016,000).

11. TRADE AND OTHER PAYABLES

	Note	As at 31 March **2014** *HK$'000*	2013 *HK$'000*
Trade payables	*(a)*	**446,029**	378,162
Non-trade payables to related parties		**93,985**	123,985
Dividends payable		**3,707**	2,652
Wages payable		**46,632**	19,593
Other taxes payable		**7,663**	18,092
Accruals for expenses		**6,828**	13,730
Advances from customers		**2,383**	983
Other payables		**44,867**	28,486
		652,094	585,683

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

(a) As at 31 March 2014 and 2013, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates was as follows:

	As at 31 March **2014** *HK$'000*	2013 *HK$'000*
0 – 90 days	**338,224**	317,433
91 – 180 days	**59,860**	33,532
181 – 360 days	**14,558**	3,910
Over 360 days	**33,387**	23,287
	446,029	378,162

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY PROFILES

Tobacco industry

Over the past few years, sales growth in the PRC tobacco market has been gradually slowing down. According to the data released, the growth of the PRC tobacco industry in terms of production volume in 2013 was approximately 1.8%, representing a decrease of approximately 1 percentage point as compared with 2012. Due to the increase of consumers' health-conscious and under the influence of the Chinese government's strengthened smoking control measures and policies to strictly limit government spending on business accounts, the growth of the PRC tobacco industry in terms of sales volume in 2013 was approximately 1.2%, representing a decrease of more than 1 percentage point as compared with 2012. However, growth in the sales revenue of cigarette remained obvious as the State Tobacco Monopoly Administration ("STMA") has been proactively promoting the plan of "Cigarette Industry Improvement" in recent years with an aim to proactively regulate the production and consumption structure of tobacco and boost the consumption of middle to high-end cigarette. In 2013, sales revenue from wholesaling of cigarette in PRC was approximately RMB1.25 trillion, representing an increase of approximately 8.5% as compared with corresponding period last year. The tobacco industry contributed industrial and commercial profit tax of approximately RMB956 billion for the whole year, representing an increase of approximately 10.5% compared with last year.

Based on the development of the industry throughout 2013, the STMA formulated a plan for the next phase of business development of the industry at the National Tobacco Conference held in January 2014. The gist of such plan is as follows:

- Continuous adjustments to the structure: the STMA expects that growth in total sales revenue of China's tobacco industry to be basically in line with growth in total national retail sales of consumer goods, and growth in average price of cigarette per case be basically in line with growth in urban and rural residents' income;

- Global business development: according to the relevant data, total sales volume of cigarettes of the global markets (excluding China) exceeded 70 million cases in 2013. Among which, approximately 47 million cases were sold by the four tobacco giants, namely Philip Morris International, British American Tobacco, Japan Tobacco and Imperial Tobacco. The remaining some 20 million cases were sold by other tobacco companies. In terms of China tobacco's overseas sales, sales volume in 2013 was approximately 1.4 million cases, which accounts for less than 3% of total sales volume. The STMA considers that the overseas market has huge potential. Accordingly, it sets the specific targets of achieving overseas sales volume of over 8 million cases by 2020 and catching up with top three global tobacco companies;

- Monitor the development of innovative cigarette products: to follow the latest trend in global tobacco industry, and in particular R&D of innovative cigarette products such as e-cigarette, snus and non-burning cigarette. These innovative cigarette products could be the key factor for sustainable development of the industry in the long run;

- Industrial and commercial profit tax to exceed RMB1 trillion: in 2013, industrial and commercial profit tax amounted to approximately RMB956 billion, representing a growth of approximately 10.5% from last year; in 2014, industrial and commercial profit tax will strive to reach RMB1.033 trillion, to ensure a growth rate of 8%, with an upside of as high as 10%; and

- Continue to boost industry consolidation: to support the consolidation of Hongta Tobacco Group Company Limited and Hongyunhonghe Tobacco Group Company Limited, which are both sub-groups of China Tobacco Yunnan Industrial Co., Ltd. ("China Tobacco Yunnan").

In addition, tender process for raw materials procurement remained effective for the year and will introduced further in the future. As the efforts spend on cost control increases, so will the competitive landscape in the industry.

(Source: *the National Statistics Bureau, China Tobacco and East Tobacco Newspaper*)

Food and beverage industry

In 2013, continuous scale expansion of the food industry had boosted effectiveness but at the same time general food price level also rose considerably. On the other hand, growth of the entire industry in terms of scale and effectiveness had declined, especially most sub-industries such as beverage and catering, confectionary items, meat product and candy industries. According to statistics, revenue from principal business of food enterprise above designated size in 2013 was approximately RMB10.1 trillion, representing an increase of 13.9% compared with last year, while the growth rate represented a decrease of 5.1 percentage points compared with last year. Total profit of food enterprises was RMB753.1 billion, representing an increase of 13.6%, while the growth rate represented a decrease of 11.6 percentage points compared with last year. Traditional food is far from meeting the demands for higher in "quality, nutritional and functional" values as investment in technology by the industry in 2013 remained low. However, the whole industry became more consolidated and pressure on SMEs increased. In terms of food safety, the operating environment remained challenging in 2013. Along with the introduction of related regulations, the China Food and Drug Administration was established in March 2013. All of the above suggests a more stringent regulation on food safety. Therefore, the prospect of the external market does not look optimistic for the food and flavours industries. Meanwhile, the spread of the avian influenza at the beginning of the year gave a severe blow to the beverage and catering industry and in which flavours and food additives industries suffered the most. In addition, the Chinese government's policies to promote frugality and reject extravagance also brought material and continuous impacts to the beverage and catering industry, particularly high-end hotel and catering businesses.

Fragrances industry

According to the data released by China National Information Center of Light Industry, the growth rate of total profit of daily chemical industry in China in 2013 was approximately 10.1%, representing a decrease of 7.4 percentage points compared with that of in 2012 and lower than the average growth rate of 14.6% of the entire light industry. The daily chemical industry was faced with enormous pressure as a whole. In terms of growth in realized profit of each sub-industry, growth rate of oral hygiene and flavours and fragrances manufacturing industries recorded decreases of different magnitudes. Realized profit of soap and synthetic detergent manufacturing industry decreased by 1.3% compared with 2012, while the aromatic industry in China did not record growth at all. Looking forward to the year ahead, liquid washing detergent, infants and cosmetics markets are expected to continue to record a significant growth. In 2013, the production output of liquid washing detergent increased by 34% compared with last year. As liquid washing detergent products under various brand names flocked into China, the washing detergent market has gradually entered a "liquid" era. In terms of raw materials, the general price level of imported materials fell while prices of certain types of domestic raw materials surged as a result of excess demand.

New cigarette materials and new workmanships

According to the STMA, domestic sales volume of low tar cigarette (8mg or below per stick) from January to November 2013 increased by approximately 7% over the corresponding period last year, which was significantly higher than that of the industry average. Meanwhile, growth of domestic sales volume of low tar cigarettes with 6mg or below per stick was approximately 180% over the corresponding period last year. Despite the sluggish sales volume growth of cigarette in the domestic market, low tar cigarettes stand out from the others with a remarkable growth rate leading the industry. In terms of an increase in the number of new products, the cigarette industry developed 82 new products in 2012. Among them, 44 being low tar cigarettes, 15 were cigarettes with 6 mg of tar or below per stick. It is obvious that low tar cigarette products have been strongly promoted by cigarette manufacturers. On the other hand, the current production output and sales volume of cigarettes with 6 mg of tar or below per stick of 0.7 million cases in absolute terms remains low and is far from meeting the target ("the output of cigarettes with 5 mg of tar or below per stick shall exceed 2 million cases by 2015") under the plan of "Cigarette Industry Improvement" proposed by the STMA and needs to be significantly enhanced. In addition, the tar content in each cigarette in China must not exceed 10 mg from 1 January 2015 as clearly required by the STMA. To this end, the STMA issued internal notices in April 2014 in relation to speeding up promotion and application of the technology results in "tar and harmful content reduction" among cigarette manufacturers and continued to consider the results of tar reduction as a key factor in the assessment of manufacturers, with an aim to significantly bring down the tar content and hazard index of cigarettes in 2014 from that of 2013.

Innovative tobacco products

Innovative tobacco products experienced rapid growth in recent years, especially those represented by e-cigarette, which has become a new booming business. In the past three years, global sales revenue of e-cigarette grew at a compound annual growth rate of 40.1%. Growth of sales revenue from 2010 to 2013 is set out below:

	2010	**2011**	**2012**	**2013**
Total global sales revenue (USD million)	910	1,280	1,800	2,500
Growth rate	–	40.7%	40.6%	38.9%

Source: *East Tobacco Newspaper*

In general, the market is optimistic about the prospect of the industry. Research institutions estimate that the global sales volume of e-cigarette may reach USD4.7 billion by 2015; by 2023, the scale of global e-cigarette sales revenue may reach as high as USD25 billion.

Rapid development in the past few years and enormous potential for growth have drawn close attention of all parties to the development of e-cigarette. On one hand, traditional cigarette manufacturers rushed to launch related e-cigarette products with an aim to capture market share; on the other, merger and acquisitions were frequently conducted among the e-cigarette companies to further expand their market share. A number of investment institutions and investors within the capital markets also proactively participated in the industry with an aim to get a share in the rapid development of the industry.

In terms of e-cigarette brands, certain brands in the industry have gained sound reputation. However, absolute scale of all brands remains small. This is especially true when compared with the enormous tobacco market. Currently, this sector is highly fragmented and has not yet experienced the situation where the market is being dominated by a few giant players just as that in the traditional cigarette market. Therefore, the industry provides a dynamic and evolving backdrop with excellent development opportunities for industry players.

In terms of policies and regulations on e-cigarette, standards vary in different parts of the world and many countries or territories even have yet to formulate any relevant laws and regulations. Among them is China, the largest global cigarette market. In the U.S., the Food and Drug Administration proposed to extend its tobacco authority to regulate "additional tobacco products" including e-cigarettes in April 2013. Such proposal remains in a public consultation period.

RESULTS

For the year ended 31 March 2014, sales revenue of the Group increased by approximately 16.2% year-on-year to approximately HKD4,237 million. Gross profit margin reached approximately 70.8%, representing an increase of 1.7 percentage points over last financial year. EBIT margin reached approximately 56.1%, representing an increase of 0.6 percentage point over last financial year. Profit attributable to equity holders of the Company was approximately HKD1,977 million, representing an increase of approximately 15.2% over last financial year. Basic EPS was HK63.76 cents, representing an increase of approximately 16.9% over last financial year.

BUSINESS REVIEW

Review of Flavours Business

For the year ended 31 March 2014, sales revenue of the flavours business of the Group amounted to HKD3,082,919,000, representing an increase of approximately 2.8% from last financial year. The EBIT margin of the flavours segment reached approximately 63.8%, representing an increase of 0.8 percentage point as compared with approximately 63.0% for the last financial year. The EBITDA margin reached approximately 66.7%, representing an increase of 1.1 percentage points as compared with approximately 65.6% for the last financial year. The flavours business maintained a slow growth rate, which was mainly due to the Group's flavours business (mainly tobacco flavours) being closely related to the development of China's tobacco industry, whose overall growth rate is gradually slowing down. However, benefitting from the Group's "Big Customers, Big Brands" development strategy, as well as the technological advantages accumulated from the long-term fulfillment of customer's increasing demands for quality and provision of comprehensive solutions to customers, the flavours business segment was still able to achieve results which surpassed the overall growth rate of China's tobacco industry. On the other hand, the Group continued to strengthen management, control costs, expand production scale and gradually enhance the concentration of production capacity, which led to the further increase of the profit margins of the flavours business.

During the year, multiple sessions of the "State Tobacco Monopoly Administration's Training Course for Senior Cigarette Flavorists" were held smoothly at Hua Fang Tobacco Flavors Ltd. with participation from core technicians from cigarette enterprises in all provinces and cities nationwide. The training course of senior cigarette flavorists, mainly covering theoretical study and practical operation, has not only increased the delegates' flavoring technique, but also promoted their interaction and cooperation with the Group in terms of technology and business. In August 2013, Yunnan Tobacco Materials (Group) Co., Ltd. accredited Owada Flavours Technology (Guangzhou) Limited ("Owada") the highest rating of "A-Class Flavours and Fragrances Supplier". Such award reflected Owada's overall strength and industry standing, and also laid the foundation for future cooperation. In December 2013, Owada received certification from ISO 14001 Environmental Management Systems and OHSAS 18001 Occupational Health and Safety Management Systems, which was combined with the original ISO 9001 Quality Management certificate into a three-in-one certificate. In January 2014, Huabao Food Flavours & Fragrances (Shanghai) Co., Ltd. received the "2013 Jiading Industrial Area Advanced Manufacturing Overall Capability Gold Award" and the "2013 Jiading Industrial Area Advanced Manufacturing Outstanding Operator Award", once again receiving recognition within the industry. In March 2014, Yingtan Huabao Flavours & Fragrances Co., Ltd. was awarded the "2013 Major Tax Paying Companies Special Contribution Award".

In terms of food and beverage business, although in 2013 the spread of avian influenza and price wars with competitors presented adverse conditions in the operating environment of the Group, the Group was still able to achieve stable growth in the food and beverage business through the gradual expansion of business and enhanced production efficiency. In the meantime, the Group continued to focus primarily on food safety and maintain the quality of the products, which in return bringing it a sound market reputation.

The major customers of the Group's food and beverage business continued to be small and medium enterprises, which underwent greater fluctuations during periods of unfavorable business development. Therefore, the Group continued to optimize its customer base and relied on the "Big Customers, Big Brands" development strategy and was able to achieve results in the development of big customers over the past year. For example, Shanghai H&K Flavours & Fragrances Co., Ltd. ("Huabao Kongque") expanded its business into reputable customers such as Black Cow and Glico, where sales to Kraft also grew substantially. After expanding production capacity in 2013, Guangdong Zhaoqing Fragrances Limited ("Guangdong Zhaoqing") gradually expanded its sales to customers such as Wahaha Group. In addition, Yongzhou Shan Xiang Flavour Co., Ltd. ("Yongzhou Shanxiang") successfully expanded its business into international flavours and fragrances customers such as Givaudan.

During the financial year, the subsidiaries in the food and beverages business made some notable achievements. In July 2013, the Litsea Cubeba Industry Association, which was established under the guidance of Yongzhou Shanxiang, organized the "2013 Litsea Cubeba Oil Working Conference". It was aimed to organize and promote the long-term development of the Litsea Cubeba oil industry. In October 2013, the "China Ice Cream and Frozen Foods Equipment and Raw Materials Exhibition" organized by the China Association of Bakery & Confectionary Industry was held in Shanghai. Huabao Kongque participated in the exhibition with its healthy concept of "Originating from Nature, Exemplifying Nature", alongside with its pure taste and popular fragrances. It displayed over 10 flavours of unique ice cream, such as the coconut pineapple popsicle. Of which, new products such as chocolate popsicle, durian-flavoured ice cream and rose milkshake generated a great deal of interest among customers. In March 2014, the Group's members in the food and beverages business, namely Huabao Kongque, Guangzhou Huabao Flavours & Fragrances Co., Ltd. ("Guangzhou Huabao"), Guangdong Zhaoqing and Yongzhou Shanxiang, jointly participated in the

"2014 Food Ingredients China" exhibition held in Shanghai. This exhibition attracted over 1,200 participating companies both domestically and abroad and tens of thousands of professionals from around the world. In preparation for the exhibition, the subsidiaries made thorough preparations. Of which, Huabao Kongque organized a natural flavours new product press conference in the morning of the exhibition and invited its own senior experts and German experts to communicate face-to-face with customers, presenting to customers the trends of latest products on the market and the advanced research and development ("R&D") principles implemented by the Group in its flavours business. Such flavours mainly consist of natural extracts and artificial flavours and are mainly applied to various beverages, which possess an advantage in fragrance and texture and can better satisfy customer demands on the product's price-to-value ratio, compatibility and stability. Guangzhou Huabao presented its major product, savory food ingredients, at the exhibition. Its confectionary snacks, baked foods, meat products, convenient foods and condiments all received positive feedback.

Review of Fragrances Business

For the year ended 31 March 2014, sales revenue of the fragrances business of the Group reached HKD84,675,000, representing a decrease of approximately 48.8% from the last financial year. Operating profit of the segment amounted to HKD7,760,000. EBIT margin was approximately 9.2%, representing a significant improvement from 5.5% of last financial year. The substantial decrease in sales revenue of the fragrances business was mainly attributable to the Group's disposal of all the equity interest in Yunnan Hua Xiang Yuan Flavours Limited ("Yunnan Huaxiangyuan") during the financial year.

Although the fragrances industry in China faced tremendous pressure in 2013, Xiamen Amber Fragrances Co., Ltd. was able to take advantage of its position in the washing and sanitary fragrance business, in particular stepping up its efforts in the promotion of the detergent business, which led to relatively stable growth overall. At the same time, the disposal of Yunnan Huaxiangyuan, which was lower in profitability, had led to the gradual recovery of the segment's profitability.

Review of RTL Business

For the year ended 31 March 2014, sales revenue of the RTL business of the Group reached HKD1,069,831,000, representing a significant increase of approximately 121.4% from the last financial year, which successfully completed management's target. The segment grew rapidly to account for 25.2% of the Group's total sales revenue from 13.3% of the last financial year. Operating profit reached approximately HKD422,683,000, representing a rapid increase of approximately 177.1% as compared with the last financial year. EBIT margin reached approximately 39.5%, representing a remarkable increase of 7.9 percentage points as compared with approximately 31.6% of the last financial year. The substantial increase in sales revenue and profitability of the RTL segment was mainly due to the gradual increase in the utilization of the second phase of production line for Guangdong Golden Leaf Technology Development Co., Ltd. ("Guangdong Jinye"); furthermore, average selling price increased further due to constant enhancement of product quality and this had led to continuous optimization of customer structure, resulting in penetration into numerous major brands in China. Management is pleased with the good results achieved so far since entering the RTL business in 2010.

During the financial year, Guangdong Jinye achieved outstanding results. In July 2013, Guangdong Jinye leveraged on its professional technical capabilities and constant ability to innovate, passed the stringent assessment of Guangdong Provincial Department of Science and Technology and Guangdong Provincial Department of Finance and was awarded the "High-tech Enterprise" certificate. In December 2013, the "Guangdong Province Reconstituted Tobacco Leaves Technology and Development Centre" under Guangdong Jinye passed the certification of Guangdong Provincial Department of Science and Technology, Guangdong Provincial Development and Reform Commission and Guangdong Provincial Economic and Trade Commission, which symbolized that the Group's R&D capabilities in the RTL area has reached a new level. The success of such R&D platform will effectively enhance the technical standards of R&D personnel and promote the development of technological talent, which will bring significant impact to the enhancement and long-term development of the Group's technological innovative capabilities and economies of scale. In January 2014, Guangdong Jinye was awarded the highest credit rating of "AAA-Class Enterprise Credit Rating Certificate" by the Ministry of Commerce of PRC. In March 2014, the "Guangdong Shantou Paper-making Reconstituted Tobacco Leaves Enhancement Project" achieved an important breakthrough. The second phase of Guangdong Jinye production line passed the assessment of the STMA, and became the first one that being certified and achieved its landmark-status in paper-making RTL production line. Such production line was assessed to have encompassed advanced paper-making RTL techniques from domestic and international sources. The major technical indicators such as production workmanship, technological equipment and RTL products have reached international advanced levels, also representing the technology has reached top-notch status domestically.

In 2011, the STMA launched the "Major Upgrading Project of Paper-making Reconstituted Tobacco Leaves" in order to promote the development and application of domestically produced paper-making RTL. Afterwards, the STMA listed the "Guangdong Shantou Paper-making Reconstituted Tobacco Leaves Enhancement Project" as one of the annual major technological projects, which aimed to establish a high speed, high efficiency, clean, low consumption paper-making RTL production line that is up to international standards. After more than two years' efforts, Guangdong Jinye production line currently operates at a speed of over 180 meters per minute, with a production yield of over 87% and lower water consumption of production of 24.23 tons for each ton of product and lower energy consumption of production of 0.844 tons of standard coal for each ton of product, all of which are of internationally leading standards.

In terms of operating production, Guizhou Province Huashuo Biological Technology Company Ltd. ("Guizhou Huashuo") officially commenced operations during the financial year. The main product made by Guizhou Huashuo is coating base, one of the core raw materials applied to RTL coating. The completion of Guizhou Huashuo is of great significance to Guangdong Jinye's promotion of upstream and downstream integration. On the one hand, Guangdong Jinye can autonomously monitor coating base production, allowing more flexible control over the supply quality of the coating base and the confidentiality of the formula; on the other hand, it is instrumental in cost control to a certain extent. In respect of Guizhou Huangguoshu Jinye Technology Co., Ltd. ("Huangguoshu Jinye"), the Group has completed capital injection according to its 40% equity interest during the financial year. Management has learnt that the main production equipment is now in a procurement stage.

Updated on new cigarette materials and new workmanships

In recent years, the Chinese tobacco industry has been continuously promoting for cigarette's "tar and harmful content reduction" scheme, where the Group had strived to capture the opportunities and increased its R&D input. As R&D continues to bear fruitful results, the Group had thereby successfully applied these results to applications and stepped up the pace of production, so as to seize related opportunities.

The Group completed the acquisition of Guangdong Jinye in late 2010 in anticipation of the shift towards reduction in tar content several years ahead. Only three years following the completion of the acquisition, the Group had developed the RTL business from scratch and now has become a business segment with revenue of more than HKD1,000 million for the year, which well exemplified the vision and implementation ability of the management. In the past year, the Group set up three platforms in relation to new cigarette materials, which include the cigarette smoke transmission technology platform, the specialized RTL technology platform and the new tobacco stem processing technology platform. Trial production lines had been established and through preliminary promotion, favourable responses had been received from major customers. The Group will then continue to adhere to improving production technology as a base and fully boost cooperation with major customers in the abovementioned fields to realize commercial production in the near future.

Updates on innovative tobacco products including e-cigarette

Innovative tobacco products, especially those represented by e-cigarette, experienced rapid growth in recent years. Although regulations for e-cigarette in all parts of the world remain unclear, the rapid growth of the industry in recent years has clearly demonstrated a huge potential market in the future. With clear competitiveness in tobacco flavours and fragrances, tobacco chemistry and analysis, etc, the management believes that the Group will achieve cost-effective results in the development of e-cigarette business. In fact, the Group's preparatory work in such field has long been underway. In February 2013, the Group has started to establish a R&D centre in North Carolina in the U.S. in order to acquire the latest technology, human resources and current trend that enable it to comply with international standards. In March 2014, the Group established a working committee focusing on innovative tobacco products which is directly headed by the Chief Executive Officer of the Group. The Group is expected to face the world with China as its stronghold to further develop related products and launch its own e-cigarette brands on the basis of increasing R&D input in e-cigarette. Meanwhile, the Group also intends to provide e-cigarette manufacturers with tobacco oil products for e-cigarette production. The Group's e-cigarette related products and other innovative cigarette products are expected to be launched in the second half of 2014.

Review on R&D

The Group pays foremost attention to constantly enhancing the capacity of R&D. During the financial year, the Group's R&D cost amounted to HKD243,517,000, representing an increase of HKD30,026,000 as compared with the last financial year. R&D cost represented approximately 5.7% of its sales revenue, such ratio remained stable as compared with approximately 5.9% of last financial year. After continuous investment, the Group has set up a R&D team which is in a leading position in China and is of international standards. The State-recognized technology center in Shanghai, the overseas R&D centers in Germany and the US and the professional R&D departments in Yunnan, Guangdong and Fujian, etc., together form a vertically integrated platform for R&D in areas ranging from fundamental researches to product applications. The R&D strategy of the Group is market-driven and focused on technology innovation, 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, to gradually form a R&D team with a global perspective and deliver a system integration platform of technology, and thereby comprehensively elevate its overall competitiveness in relation to R&D. In the past year, the Group achieved fruitful results in respect of R&D, among which a total of 35 preciously applied patents were granted; further stepped up technology collaboration within the industry, participated in multiple joint research projects with major customers such as China Tobacco Yunnan, China Tobacco Guangdong Industrial Co., Ltd., China Tobacco Hunan Industrial Co., Ltd. and China Tobacco Zhejiang Industrial Co., Ltd., which strengthened research capabilities and reinforced the cooperative relationship with customers.

Future Business Development Plans

The National Bureau of Statistics and the Ministry of Commerce at the beginning of 2014 anticipated that the developed economies and the emerging economies will continue to grow at different paces, while the growth momentum of developing countries outside Asia and Europe are still far from satisfactory. Although the global economy is expected to grow slightly, risks remain. Among all, the U.S.'s decision to taper its Quantitative Easing is one of the biggest uncertainties for the global economy. As the global economy may be volatile, China will face a complicated external economic environment in the coming year.

In respect of the PRC tobacco industry, it is expected that the growth in sales volume of cigarettes in China will slow down further as China has been tightening on smoking control. However, the increasingly obvious changes in the industry during the past years have also presented the Group with opportunities and further room for development. Firstly, the increasing pressure of "tar and harmful content reduction, quality enhancement" being faced by the PRC tobacco industry will help boost the demand for new cigarette materials from the manufacturers. Meanwhile, the Group's leading position in R&D and application in terms of new cigarette materials and new workmanships will be instrumental in enhancing the technology and product cooperation between the Group and its customers. Moreover, the STMA also heightened its concern over the shrinking market of traditional cigarette and suggested that cigarette manufacturers should closely follow the development trend in the international tobacco markets, in particular the shift towards R&D of e-cigarette, snus and non-burning cigarette and other innovative cigarette products. These innovative cigarette products, and in particular the e-cigarette, could be the key factor of the long-term sustainable growth for the industry. The Group is well positioned in this respect and is ready to proactively participate in the rapid growth of the market and face up to ensuing challenges and opportunities. In addition, the STMA has clearly stated the target to achieve overseas sales of cigarette of more than 8 million cases by 2020, catching up with the top three global tobacco companies in the world. It is believed that the PRC tobacco industry will keep exploring and looking into the possibility of expanding into overseas markets. Meanwhile, the Group will contribute its leading technology and internationalized management experiences forged over the years in support of the internationalization of the PRC tobacco industry. Apart from the above businesses, the Group will continue to adhere to the development strategy of "Multi-pronged, Focused Growth" and proactively explore business opportunities arise from in association with its principal businesses, such as finance leasing.

Based on the above, although the PRC tobacco industry has temporary halted from its rapid growth era, the Group is of the view that, these aforementioned development directions will continue to be the windows for sustainable growth for the enterprises in the industry. The Group will continue in adhering to its core development strategy of "Multi-pronged, Focused Growth", persistent in using consumers' taste preferences and trends as direction, along with driven by technology innovation, in order to create the right products for the core customers and to provide them with comprehensive solutions. Looking forward, the Group will continue to pursue steady development of its flavours business while vigorously promoting the development of new cigarette materials, new workmanships and innovative cigarette products. The Group will remain persistent in combining the ways of organic development and merger and acquisitions, and to probe for multi-channels of financing. The Group will continue operating its business in China, while boosting the development of global business in the process of internationalization of the PRC tobacco industry. The Group is of the view that, as the Group has gained a leading position in terms of R&D capabilities, together with its long-term and stable cooperation relationship with customers, it will help to capture opportunities that arise alongside with the adjustments to and changes in both the PRC and the global tobacco industries in future, so as to maintain a consistent development momentum.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2014

Sales revenue

The Group's sales revenue reached HKD4,237,425,000 for the year ended 31 March 2014, representing an increase of approximately 16.2% as compared with HKD3,645,940,000 for the last financial year. The continuous growth in sales revenue was mainly attributable to the stable growth momentum maintained by flavours and rapid growth in the sales of RTL. For the year ended 31 March 2014, sales revenue from flavours reached HKD3,082,919,000, contributing approximately 72.8% of total sales revenue; sales revenue from fragrances reached HKD84,675,000, contributing approximately 2.0% of total sales revenue; while sales revenue from RTL reached HKD1,069,831,000, contributing approximately 25.2% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to HKD1,239,306,000 for the year ended 31 March 2014, representing an increase of approximately 10.0% as compared with HKD1,127,031,000 for the last financial year.

Gross profit and gross profit margin

Gross profit of the Group increased from HKD2,518,909,000 for the year ended 31 March 2013 to HKD2,998,119,000 for the year ended 31 March 2014, representing an increase of approximately 19.0%; gross profit margin was 70.8%, representing an increase of 1.7 percentage points from 69.1% of the last financial year. The increase in gross profit margin was mainly attributable to the Group's sound management of cost of goods sold.

Other income

Other income of the Group was HKD204,571,000 for the year ended 31 March 2014, representing an increase of HKD27,879,000 as compared with HKD176,692,000 for the last financial year. The increase in other income is mainly attributable to the increase of government grants.

Selling and marketing expenses

The selling and marketing expenses of the Group mainly comprised travelling expenses, transportation costs, salaries and office expenses. The selling and marketing expenses of the Group for the year ended 31 March 2014 were HKD169,936,000, representing an increase of approximately 21.8% as compared with HKD139,464,000 for the last financial year. Selling and marketing expenses to total sales revenue for the year ended 31 March 2014 and 2013 amounted to approximately 4.0% and 3.8% respectively. Such ratio remains stable.

Administrative expenses

The Group's administrative expenses amounted to HKD655,510,000 for the year ended 31 March 2014, representing an increase of approximately 23.3% as compared with HKD531,469,000 for the last financial year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 15.5%, representing an increase of approximately 0.9 percentage point as compared with 14.6% for the last financial year. The increase in the ratio of administrative expenses to total sales revenue was mainly attributable to the increase in R&D expenses, employee salary and staff benefit expenses and depreciation expenses, etc.

Operating profit

Operating profit of the Group for the year ended 31 March 2014 was HKD2,377,244,000, representing an increase of approximately 17.4% as compared with HKD2,024,668,000 for the last financial year, while the operating profit margin improved to approximately 56.1% of the current financial year from approximately 55.5% of the last financial year. The increase in operating profit and improvement in operating profit margin were mainly attributable to the increase in sales revenue and elevation in gross profit margin.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2014 was HKD420,381,000, representing an increase of 33.5% as compared with HKD314,804,000 for the last financial year. Income tax rate of the current year was approximately 17.4%, which was increased by 2.0 percentage points as compared with approximately 15.4% for the last financial year. The increase in income tax rate was mainly attributable to the expiration of preferential tax periods.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD1,977,325,000 for the year ended 31 March 2014, representing an increase of 15.2% as compared with HKD1,716,375,000 for the last financial year.

Net current asset value and financial resources

As at 31 March 2014, the net current asset value of the Group was HKD4,068,533,000 (2013: HKD2,896,047,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 March 2014, the Group's cash and bank balances amounted to HKD3,181,745,000 (2013: HKD2,323,349,000), 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 2014, the Group had bank borrowings of HKD530,131,000 (2013: HKD465,000,000), all of which were due within one year. Among which, HKD515,000,000 are unsecured loan with interest calculated based on HK dollars inter-banks borrowings rate. For the year ended 31 March 2014, the average annual interest rate of such unsecured loan was 2.39% (2013: 2.47%); the average annual interest rate of the remaining secured loan was 6.30% (2013: nil). As at 31 March 2014, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 6.1% (2013: 6.4%).

Investing activities

The Group's investing activities were for the purchase of property, plant and equipment and the strategically development strategies for merger and acquisitions. For the year ended 31 March 2014, the net cash used in investing activities amounted to HKD595,898,000, mainly for capital injection in associate, procurement of properties, plant and equipment, and placing of short-term bank fixed deposit. For the year ended 31 March 2013, the net cash used in investing activities amounted to HKD735,750,000.

Financing activities

For the year ended 31 March 2014, the net cash used in financing activities amounted to HKD770,576,000, mainly used for dividend distribution to shareholders. For the year ended 31 March 2013, the net cash used in financing activities amounted to HKD1,285,984,000.

Debtors' turnover period

Debtors' turnover period is calculated on the basis of the average amount of trade receivables net of provisions 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 2014, the Group's average debtors' turnover period was 76 days, representing an increase of 4 days as compared with 72 days for the last financial year ended 31 March 2013. Debtors' turnover period is generally stable.

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 2014, the Group's average creditors' turnover period was 120 days, representing an increase of 2 days as compared with 118 days for the last financial year ended 31 March 2013. Creditors' turnover period remains stable.

Inventory and inventory turnover period

As at 31 March 2014, the Group's inventory balance amounted to HKD855,694,000 (2013: HKD702,316,000). For the year ended 31 March 2014, 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 226 days, representing an increase of 7 days as compared with 219 days for the last financial year. The increase in inventory and longer inventory turnover period for the year was due to the increase in RTL's inventory reserves as the production and sales volume of RTL significantly increase.

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, with the exception of only a certain amount of imported raw materials and equipment which are denominated in foreign currency such as USD or EUR. The Group is of the view that the risk of RMB depreciation is very low. As a result, the Group's exposure to exchange rate risk is relatively low.

Pledge of assets

As at 31 March 2014, the secured bank loan of the Group amounted to RMB12,000,000 (2013: nil).

Capital Commitments

As at 31 March 2014, 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 HKD44,709,000 (2013: HKD186,532,000), the significant decrease in capital commitments was mainly attributable to the capital injection in Huangguoshu Jinye was completed during this financial year.

Contingent liabilities

Based on the information currently available to the Board, the Group had no contingent liabilities as at 31 March 2014.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2014, the Group employed a total of 2,510 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea, as compared with 2,507 employees last year. The labour costs for the year (including pension and mandatory provident fund, etc.) amounted to HKD390,781,000, representing an increase of HKD90,488,000 from HKD300,293,000 of the last financial year. The increase in the labour costs was primarily attributable to the hike of product prices and living standards in China and the Group's investment in human resources. Regarding employee salary and incentive system, the Group has implemented a remuneration system referenced to the market to attract stable and exceptional talents, so as to meet with the Group's long term development needs. Generally, remuneration system includes fixed and performance-based salaries, while senior management would also be entitled to incentives such as discretionary bonus and share options, which are subject to adjustment with reference to price level in the market and their respective performance. As to Directors' remunerations, remunerations are subject to adjustment made by the Board with reference to their respective duties and responsibilities, the prevailing benchmark in the market and the Group's performance.

The Group has placed substantial emphasis on talent building. Through external recruitment and internal nomination, the Group has established a comprehensive recruitment system. For reserve talent training, the reserve talent pool is constantly reinforced through internal recruitment and training courses, ensuring healthy and systematic growth of the reserve talent team and providing new talent for the Group at a suitable time. In May 2013, the "2013 Huabao Reserve Talent Training Class" was officially launched. This training is based on the Group's "Reserve Talent Training Management Regulations" and "2013 Training Plan Outline", which spans over two years and conducted in four sessions. In October 2013, the Group commenced internal recruitment to search for outstanding flavourists internally within the Group for the first time. According to the plan, the Group will fund the selection training of flavourists at the Shanghai Institute of Technology. The course duration is one year and has officially commenced in March 2014. The commencement and implementation of the above have allowed the Group to further optimize its reserve talent training and structure.

The Group has 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 formulated a code of conduct for each employee on the basis of this concept. Corporate culture and information is spread through the Company's monthly internal magazine, and employees are also encouraged to submit articles, for cultural enrichment. On the other hand, the Group enriched employees' leisure time through various recreational and sports activities including sports contests and outward bound trainings to reinforce cohesion of Huabao people and their sense of identity.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Throughout the year, the Company had complied with the code provisions in the corporate governance code (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") and, where appropriate, adopted the recommended best practice as set out in the code provisions, except for code provisions A.2.1 and A.4.1:

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. CHU Lam Yiu, Chairman of the Board and Executive Director of the Company, took up the position of chief executive officer ("CEO") starting from 9 April 2013. As the Board meets regularly to consider matters relating to business operations of the Group, the Board is of the view that the above arrangement will not impair the balance of power and authority of the Board and the executive management. The effectiveness of corporate planning and implementation of corporate strategies and decisions will generally not be affected.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The Independent Non-executive Directors ("INEDs") of the Company were not appointed for a specific term as they are subject to retirement 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 in accordance with the Company's bye-laws. 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.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the Directors of the Company. Having made specific enquiry to all Directors, they have confirmed in writing that they have complied with the required standard as set out in the Model Code throughout the year.

FINAL AND SPECIAL DIVIDENDS

The Board proposes to declare a final dividend of HK10.49 cents per share (2013: HK9.40 cents per share) and a special dividend of HK7.00 cents per share (2013: HK2.80 cents per share) both in cash (amounting to HKD542 million in aggregate) for the year ended 31 March 2014, which are expected to be paid on or about 17 October 2014 to shareholders whose names appear on the register of members of the Company as at 18 August 2014. The payment of the final and special dividends is subject to shareholders' approval at the annual general meeting ("AGM") which is scheduled to be held on 8 August 2014. The proposed final and special dividends together with the interim and special dividends paid will represent a total dividend distribution for the financial year ended 31 March 2014 of HK29.05 cents per share (2013: HK22.16 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 AGM, the register of members of the Company will be closed from 5 August 2014 to 8 August 2014, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 4 August 2014. Shareholders whose names are recorded in the register of members of the Company on 8 August 2014 are entitled to attend and vote at the AGM.

CLOSE OF REGISTER OF MEMBERS FOR PAYMENT OF FINAL AND SPECIAL DIVIDENDS

In order to determine shareholders who qualify for the proposed final and special dividends, the register of members of the Company will be closed from 14 August 2014 to 18 August 2014, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 13 August 2014. Shareholders whose names are recorded in the register of members of the Company on 18 August 2014 are entitled to receive the final and special dividends, both in cash for the year ended 31 March 2014.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 March 2014, the Company repurchased a total of 4,213,000 ordinary shares of HKD0.10 per share through The Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HKD13,892,000 (excluding transaction costs). The aforesaid repurchased shares together with 4,598,000 shares, which were repurchased in the last financial year but not yet cancelled, were both cancelled on 30 April 2013. Details of shares repurchased during the year are set out as follows:

Month/year	**No. of ordinary shares repurchased**	**Highest price paid per share** *(HKD)*	**Lowest price paid per share** *(HKD)*	**Aggregate price paid** *(HKD'000)*
April 2013	4,213,000	3.40	3.21	13,892

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the net asset value per share and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2014.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and their respective associates (as defined in the Listing Rules) is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, 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 of the INEDs of the Company, namely Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's audited annual results for the year ended 31 March 2014.

The figures in respect of the announcement of the Group's results for the year ended 31 March 2014 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in the respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

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 2013-14 annual report of the Company 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
Huabao International Holdings Limited
CHU Lam Yiu
Chairman and CEO

Hong Kong, 18 June 2014

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