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 2015

FINANCIAL HIGHLIGHTS

Compared with last financial year:

- Sales increased by approximately 2.1% to HKD4,326,486,000
- Operating profit decreased by approximately 2.4% to HKD2,320,145,000
- Profit attributable to the equity holders of the Company increased by approximately 0.5% to HKD1,986,584,000
- Basic earnings per share ("EPS") increased by approximately 0.4% to HK64.02 cents
- Net cash generated from operating activities increased by approximately 17.4% to HKD2,141,895,000
- Cash and bank balances+ increased by approximately 14.0% to HKD3,626,091,000 and net cash# reached HKD2,875,813,000, representing an increase of approximately 8.5%
- The Board does not recommend the payment of any final dividend for the year ended 31 March 2015. Together with the interim and special dividends of HK31.72 cents per share paid during the year, the total dividend payout ratio reached approximately 50% for the year

\+ *"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*

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 March		Change in
	2015	2014	percentage
	HK$'000	*HK$'000*	
Sales	**4,326,486**	4,237,425	+2.1%
Gross profit	**3,025,317**	2,998,119	+0.9%
Gross profit margin	***69.9%***	*70.8%*	
Operating profit	**2,320,145**	2,377,244	-2.4%
EBIT margin	***53.6%***	*56.1%*	
Profit before income tax	**2,386,247**	2,417,245	-1.3%
Profit attributable to the equity holders of the Company	**1,986,584**	1,977,325	+0.5%
Net cash generated from operating activities	**2,141,895**	1,824,923	+17.4%
Net cash	**2,875,813**	2,651,614	+8.5%
Earnings per share			
– Basic	***64.02 HK cents***	*63.76 HK cents*	+0.4%
– Diluted	***63.93 HK cents***	*63.72 HK cents*	+0.3%
Interim and special dividends paid per share *(note 8)*	***31.72 HK cents***	*11.56 HK cents*	
Final and special dividends per share *(note 8)*	***– HK cents***	*17.49 HK cents*	
Dividend payout ratio	**50%**	46%	

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 2015 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Sales	*2*	**4,326,486**	4,237,425
Cost of goods sold	*3*	**(1,301,169)**	(1,239,306)
Gross profit		**3,025,317**	2,998,119
Other income and other gains – net	*4*	**263,205**	204,571
Selling and marketing expenses	*3*	**(204,650)**	(169,936)
Administrative expenses	*3*	**(763,727)**	(655,510)
Operating profit		**2,320,145**	2,377,244
Finance income		**83,095**	54,352
Finance costs		**(13,988)**	(11,997)
Finance income – net	*5*	**69,107**	42,355
Share of loss of associates and a jointly controlled entity		**(3,005)**	(2,354)
Profit before income tax		**2,386,247**	2,417,245
Income tax expense	*6*	**(391,054)**	(420,381)
Profit for the year		**1,995,193**	1,996,864
Attributable to:			
Equity holders of the Company		**1,986,584**	1,977,325
Non-controlling interests		**8,609**	19,539
		1,995,193	1,996,864
Earnings per share for profit attributable to the Company's equity holders for the year			
– Basic (HK cents)	*7(a)*	**64.02**	63.76
– Diluted (HK cents)	*7(b)*	**63.93**	63.72
Interim and final dividends	*8*	**295,531**	594,714
Special dividends	*8*	**689,158**	306,539
		984,689	901,253

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2015	2014
	HK$'000	*HK$'000*
Profit for the year	**1,995,193**	1,996,864
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**13,461**	62,398
Currency translation differences on foreign operations	**6,341**	126,031
Other comprehensive income for the year, net of tax	**19,802**	188,429
Total comprehensive income for the year, net of tax	**2,014,995**	2,185,293
Total comprehensive income attributable to:		
Equity holders of the Company	**2,006,322**	2,157,918
Non-controlling interests	**8,673**	27,375
	2,014,995	2,185,293

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2015	2014
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,405,495**	1,425,497
Land use rights		**194,060**	200,247
Intangible assets		**2,897,367**	2,931,430
Investments in associates		**227,795**	239,044
Investments in a jointly controlled entity		**6,987**	7,442
Available-for-sale financial assets		**225,217**	154,504
Deferred income tax assets		**65,194**	66,208
		5,022,115	5,024,372
Current assets			
Inventories		**818,433**	855,694
Trade and other receivables	*9*	**1,309,693**	1,341,399
Financial assets at fair value through profit or loss		**124,535**	–
Assets held for sale		**–**	5,196
Short-term time deposits		**951,802**	806,400
Cash and cash equivalents		**2,674,289**	2,375,345
		5,878,752	5,384,034
Total assets		**10,900,867**	10,408,406
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**310,432**	310,132
Reserves		**1,188,606**	1,110,334
Retained earnings			
– Proposed final dividend		**–**	325,329
– Proposed special dividend		**–**	217,092
– Others		**7,670,008**	6,722,684
		9,169,046	8,685,571
Non-controlling interests		**234,796**	314,658
Total equity		**9,403,842**	9,000,229
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**72,607**	92,676
Current liabilities			
Borrowings	*10*	**750,278**	530,131
Trade and other payables	*11*	**562,030**	652,094
Current income tax liabilities		**112,110**	133,276
		1,424,418	1,315,501
Total liabilities		**1,497,025**	1,408,177
Total equity and liabilities		**10,900,867**	10,408,406
Net current assets		**4,454,334**	4,068,533
Total assets less current liabilities		**9,476,449**	9,092,905

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March	
	2015	2014
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**2,582,464**	2,245,508
Income tax paid	**(440,569)**	(420,585)
Net cash generated from operating activities	**2,141,895**	1,824,923
Cash flows from investing activities		
Proceeds from disposal of a subsidiary	**–**	15,993
Capital injection into an associate	**–**	(138,136)
Additions to available-for-sale financial assets	**(52,558)**	–
Proceeds from disposal of an associate	**10,952**	–
Purchases of financial assets at fair value through profit or loss	**(95,877)**	–
Purchases of property, plant and equipment, land use right and intangible assets	**(154,179)**	(161,946)
Proceeds from disposal of property, plant and equipment	**375**	233
Short-term time deposits placed	**(144,425)**	(361,229)
Dividend received	**3,089**	843
Interest received	**83,088**	48,344
Net cash used in investing activities	**(349,535)**	(595,898)
Cash flows from financing activities		
Dividends paid to shareholders	**(1,565,695)**	(776,719)
Acquisition of additional interests in subsidiaries from non-controlling interests	**(58,669)**	(5,242)
Capital contributions from holders of non-controlling interests	**–**	3,221
Proceeds from issue of shares in connection with exercise of share options	**9,271**	–
Repurchase of shares	**–**	(13,937)
New short-term bank borrowings	**290,150**	65,131
Repayment of borrowings	**(65,150)**	–
Repayment to a shareholder	**(93,985)**	(30,000)
Interest paid	**(13,489)**	(13,030)
Net cash used in financing activities	**(1,497,567)**	(770,576)
Net increase in cash and cash equivalents	**294,793**	458,449
Cash and cash equivalents at 1 April	**2,375,345**	1,886,183
Effects of currency translation on cash and cash equivalents	**4,151**	30,713
Cash and cash equivalents at 31 March	**2,674,289**	2,375,345

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 and financial assets at fair value through profit or loss, which are carried at fair value.

(a) The following amendments and interpretation to standards are mandatory for the first time for the financial year beginning 1 April 2014, 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 32 (Amendment) "Financial instruments: Presentation" on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2014

- HKFRS 10,12 and HKAS 27 (Amendment) "Consolidation for investment entities" is effective for annual periods beginning on or after 1 January 2014

- HKAS 36 (Amendment) "Impairment of assets" on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014

- HKAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Novation of derivatives is effective for annual periods beginning on or after 1 January 2014

- HK(IFRIC) 21 "Levies" is effective for annual periods beginning on or after 1 January 2014

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

	Effective for annual periods beginning on or after
HKAS 19 (Amendment) regarding defined benefit plans	1 July 2014
Annual improvements 2012 on changes from the 2010-2012 cycle of the annual improvements project	1 July 2014
Annual improvements 2013 on changes from the 2011-2013 cycle of the annual improvements project	1 July 2014
HKFRS 14 "Regulatory Deferral Accounts"	1 January 2016
HKFRS 11 (Amendment) on accounting for acquisitions of interests in joint operation	1 January 2016
HKAS 16 and HKAS 38 (Amendment) on clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment) on bearer plants	1 January 2016
HKFRS 10 and HKAS 28 (Amendment) on the sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKAS 27 (Amendment) "Equity method in separate financial statements"	1 January 2016
Annual improvements 2014 on changes from the 2012-2014 cycle of the annual improvements project	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment) on investment entities: applying the consolidation exception	1 January 2016
HKAS 1 for the disclosure initiative	1 January 2016
HKFRS 15 "Revenue from Contracts with Customers"	1 January 2017
HKFRS 9 "Financial Instruments"	1 January 2018

2. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours;

(2) Reconstituted tobacco leaves

(3) New materials; and

(4) Fragrances.

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, reconstituted tobacco leaves, new materials and fragrances segments. Flavours segment includes research and development, production and sale of flavours products. Reconstituted tobacco leaves segment includes research and development, production and sale of paper-making reconstituted tobacco leaves. Fragrances segment includes research and development, production and sale of fragrances products. In line with the Group's business development relating to new materials products, the management has decided to report a new operating segment – New materials during this reporting period. The segment includes research and development, production and sale of new materials products that are innovative, functional, and applicable to tobacco industry, The Executive Directors assess the performance of the operating segments based on a measure of operating profit.

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

	Year ended 31 March 2015						
	Flavours *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**New materials** *HK$'000*	**Fragrances** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Total turnover	3,229,796	974,301	86,769	85,075	4,375,941	–	4,375,941
Inter-segment sales	(20,697)	(28,727)	–	(31)	(49,455)	–	(49,455)
Segment turnover – net	3,209,099	945,574	86,769	85,044	4,326,486	–	4,326,486
Segment result	1,898,165	417,891	15,311	10,654	2,342,021	(21,876)	2,320,145
Finance income							83,095
Finance costs							(13,988)
Finance income – net							69,107
Share of loss of associates and a jointly controlled entity							(3,005)
Profit before income tax							2,386,247
Income tax expense							(391,054)
Profit for the year							1,995,193

	As at 31 March 2015						
	Flavours	**Reconstituted tobacco leaves**	**New material**	**Fragrances**	**Total segments**	**Corporate**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment assets	**7,204,941**	**3,353,107**	**161,573**	**164,299**	**10,883,920**	**16,947**	**10,900,867**

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

	Year ended 31 March 2014						
	Flavours	Reconstituted tobacco leaves	New material	Fragrances	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total turnover	3,143,885	1,070,170	21,003	84,688	4,319,746	–	4,319,746
Inter-segment sales	(81,969)	(339)	–	(13)	(82,321)	–	(82,321)
Segment turnover – net	3,061,916	1,069,831	21,003	84,675	4,237,425	–	4,237,425
Segment result	1,981,437	422,683	(14,360)	7,760	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	Reconstituted tobacco leaves	New materials	Fragrances	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	6,708,824	3,353,762	147,477	167,256	10,377,319	31,087	10,408,406

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	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Depreciation		**124,596**	126,367
Amortization		**44,304**	44,929
Changes in inventories of finished goods and work in progress		**8,873**	82,542
Raw materials and consumables used		**1,026,344**	881,195
(Reversal of)/provision for impairment on trade receivables		**(507)**	386
Lease rentals		**38,153**	25,963
Auditor's remuneration		**8,360**	8,188
Travelling expenses		**49,443**	33,954
Employee benefit expenses		**337,764**	293,580
Research and development expenses	*(a)*	**256,205**	243,517
Delivery expenses		**49,621**	51,875
Utilities expenses		**84,368**	106,562
Motor vehicle expenses		**21,237**	19,764
Maintenance expenses		**25,217**	15,610
Advertising and promotion expenses		**43,518**	17,473
Office administrative and communication expenses		**14,167**	15,533
Taxation		**12,921**	12,188
Others		**124,962**	85,126
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**2,269,546**	2,064,752

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

	Year ended 31 March	
	2015	2014
	HK$'000	*HK$'000*
Depreciation	**26,548**	17,188
Amortization	**886**	4,596
Employee benefit expenses	**94,727**	100,384

4. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 March	
	2015	2014
	HK$'000	*HK$'000*
Changes in fair value of financial assets at fair value through profit or loss	**28,658**	–
Gain on disposal of an associate	**3,487**	–
Gain on disposal of a subsidiary	**2,180**	–
Government grants	**229,442**	172,891
Foreign exchange (loss)/gain – net	**(5,549)**	26,691
Others	**4,987**	4,989
	263,205	204,571

5. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2015	2014
	HK$'000	*HK$'000*
Finance income:		
Interest income on bank deposits	**83,095**	54,352
Finance costs:		
Interest expense on bank borrowings and others	**(13,988)**	(11,997)
Finance income – net	**69,107**	42,355

6. INCOME TAX EXPENSE

		Year ended 31 March	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Current income tax			
– Hong Kong profits tax	*(a)*	**13,408**	11,156
– PRC corporate income tax	*(b)*	**400,000**	412,481
– Germany company income tax	*(c)*	**139**	139
– Botswana company income tax	*(d)*	**1,023**	784
Deferred income tax		**(23,516)**	(4,179)
		391,054	420,381

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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% (2014: 15%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15% (2014: 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	
	2015	2014
Profit attributable to equity holders of the Company *(HK$'000)*	**1,986,584**	1,977,325
Weighted average number of ordinary shares in issue *('000)*	**3,103,145**	3,101,359
Basic earnings per share *(HK cents per share)*	**64.02**	63.76

(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 2015, 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	
	2015	2014
Profit attributable to equity holders of the Company *(HK$'000)*	**1,986,584**	1,977,325
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,103,145**	3,101,359
Adjustment for: exercise of share options *('000)*	**4,170**	1,671
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,107,315**	3,103,030
Diluted earnings per share *(HK cents per share)*	**63.93**	63.72

8. DIVIDENDS

	Year ended 31 March 2015 *HK$'000*	2014 *HK$'000*
Interim dividend paid of HK 9.52 cents (2014: HK8.68 cents) per share	**295,531**	269,194
Proposed final dividend of nil (2014: HK10.49 cents) per share	**–**	325,520
	295,531	594,714
Special dividend paid of HK22.20 cents (2014: HK9.88 cents) per share	**689,158**	306,539
	984,689	901,253

No final dividend is proposed at the meeting of the Board held on 23 June 2015. The aggregate amounts of the dividends paid during 2015 and 2014 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

9. TRADE AND OTHER RECEIVABLES

	Note	As at 31 March 2015 *HK$'000*	2014 *HK$'000*
Trade receivables	*(a)*	**936,735**	970,628
Less: Provision for impairment of receivables		**(7,044)**	(7,787)
Trade receivables – net		**929,691**	962,841
Note receivables		**224,940**	241,334
Prepayments and other receivables		**106,060**	89,706
Advances to staff		**13,473**	10,321
Others		**35,529**	37,197
		1,309,693	1,341,399

All trade and other receivables are either recoverable 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 2015 and 2014, 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 2015 *HK$'000*	2014 *HK$'000*
0 – 90 days	**837,444**	840,994
91 – 180 days	**47,365**	86,909
181 – 360 days	**14,087**	20,583
Over 360 days	**37,839**	22,142
	936,735	970,628

10. BORROWINGS

	Note	As at 31 March 2015 HK$'000	2014 HK$'000
Current			
– Secured bank borrowing	(a)	**15,150**	15,131
– Unsecured bank borrowings	(b)	**735,128**	515,000
Total borrowings		**750,278**	530,131

(a) The bank borrowing is secured by a pledge of land and buildings located in Hunan Province owned by a subsidiary, Yongzhou Shanxiang Flavour Co., Ltd. The borrowing is 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 borrowings are repayable within one year. During the year, the average interest rate was 2.24% (2014: 2.39%) 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 2015 amounted to HKD13,878,000 (2014: HKD11,932,000).

11. TRADE AND OTHER PAYABLES

	Note	As at 31 March 2015 HK$'000	2014 HK$'000
Trade payables	(a)	**394,759**	446,029
Non-trade payables to related parties		**–**	93,985
Dividends payable		**–**	3,707
Wages payable		**70,723**	46,632
Other taxes payable		**39,378**	7,663
Accruals for expenses		**9,454**	6,828
Advances from customers		**2,345**	2,383
Other payables		**45,371**	44,867
		562,030	652,094

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

(a) As at 31 March 2015 and 2014, 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 2015 HK$'000	2014 HK$'000
0 – 90 days	**271,306**	338,224
91 – 180 days	**88,508**	59,860
181 – 360 days	**12,296**	14,558
Over 360 days	**22,649**	33,387
	394,759	446,029

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY PROFILES

Tobacco industry

In 2014, the sales volume of cigarettes in the PRC amounted to 50.99 million cases, representing an increase of 1.05 million cases or approximately 2.1% compared with last year. The sales revenue of the entire industry amounted to approximately RMB1,359.0 billion, representing an increase of RMB111.6 billion or approximately 8.9% compared with last year. The total industrial and commercial profit tax of the cigarette industry for the year also exceeded the threshold of RMB1,000.0 billion and reached RMB1,051.8 billion, representing an increase of RMB95.8 billion or 10.0% compared with last year. This has fully accomplished the annual target of "8-10% of growth rate and RMB1,000 billion of sales revenue" made in early 2014.

– ***Industry growth***

Although the sales volume of cigarettes in the PRC continued to record growth, it is worth noting that there is pressure of high inventory in the cigarette industry. In 2014, the monthly inventory of the cigarette industry was higher compared with that of last year. In particular, the inventory level has been on the rise every month since last August. As at the end of 2014, the industrial and commercial inventory in the cigarette industry was 5.42 million cases, representing an increase of 0.62 million cases or 12.9% compared with last year, and was the highest in recent years.

Starting from 2015, although the inventory level is under control to some extent, the condition is not as optimistic in general. At the end of the first quarter of 2015, the industrial and commercial inventory of cigarettes in the PRC was 4.31 million cases, representing a decrease compared with that at the end of 2014, but remained 0.41 million cases higher than the same period of 2014. In view of such unfavourable condition, the State Tobacco Monopoly Administration (the "STMA") has formulated a plan to reduce cigarette production by 2.0 million cases during the first half of 2015.

Based on statistical data, the production output and sales volume of the tobacco industry for the first quarter of 2015 both decreased. The production output of cigarettes in the PRC for the first quarter was 13.33 million cases, representing a decrease of 0.67 million cases or 4.8% compared with last year; whereas the sales volume of cigarettes for the first quarter was 14.20 million cases, representing a decrease of 0.52 million cases or 3.5% compared with last year. Such extent of decrease in the production output and sales volume of cigarettes is unprecedented in the industry in the recent decade. In addition, the sales revenue from cigarettes for the first quarter grew by only 3.1% compared with last year, far below the growth in total national retail sales of consumer goods (10.6%). As to industry profit tax, the accumulated profit tax for the first quarter of 2015 amounted to RMB368.25 billion, representing an increase of RMB19.76 billion or only 5.7%, which is lower than the targeted "7-9% of growth rate" for the entire year. Worse still, to cope with STMA's inventory clearing plan for the first half of the year, the production of cigarettes for the second quarter of 2015 needs to be reduced by more than 1.30 million cases.

– ***Status on tobacco leaves inventory***

Apart from the tremendous pressure on cigarette inventory, the tobacco leaves inventory was also facing a severe situation. According to the figures released at the National Tobacco Leaves Working Conference held in November 2014, as of then, the tobacco leaves inventory level in the PRC was up to 37.2 months or close to 5.0 million tonnes, which was way beyond the optimal level of inventory for "natural aging" of tobacco leaves (being 24 to 28 months). The reserve of tobacco leaves locked up funds of approximately RMB350.0 billion. Accordingly, the STMA has formulated a three-year adjustment plan with respect to the production of tobacco leaves, pursuant to which it plans to acquire tobacco leaves of 2.35 million tonnes by 2014, 2.25 million tonnes by 2015 and 2.15 million tonnes by 2016 in order to adjust the tobacco leaves inventory to a reasonable level within three years or so.

The high inventory level of tobacco leaves, to a certain extent, has discouraged tobacco enterprises to further use innovative tobacco materials such as Reconstituted Tobacco Leaves ("RTL") to produce low tar cigarette products. At the same time, traditional low tar cigarette brands, due to its own insufficient growth potential, also suppressed the overall growth potential of the low tar cigarette industry. During the first quarter of 2015, the sales volume of low tar cigarettes (8mg or below per stick) in the PRC was 2.01 million cases, representing a decrease of 0.10 million cases or 4.9%, and presented a downward momentum. Among which, the sales volume of low tar cigarettes (6mg or below per stick) was 0.27 million cases. Despite an increase of 0.02 million cases compared with last year, the pace of growth slowed down significantly.

– ***Conditions faced by the industry in the near future***

After a long period of fast growth, the cigarette industry in the PRC has gradually entered a difficult period and faced a tough environment filled with numerous unfavourable internal and external factors. Firstly, as the impacts of the comprehensive smoking control on cigarette consumption in the PRC intensified, coupled with the successive introduction of state and local related smoking control policies and the further increase in supervision by society and public opinion, the smoking control circumstances and conditions have become more complex. These trends and measures will impose restrictions on the cigarette consumption environment, thus restraining the consumption behaviour of cigarettes. Secondly, tobacco consumption from business, gift and group purchase was suppressed and the consumption behaviours of some high-end cigarettes have changed and shifted. Thirdly, the PRC Advertising Law (Draft Amendments) was passed in April 2015 which stipulates further constraints on tobacco advertising. This has further reduced the room for cigarette marketing and communication. Accordingly, brand promotion and guidance are subject to further restrictions. Lastly, as a result of the implementation of the new tobacco tax policy in early May 2015, it is believed that the retail price of cigarettes will be increased, which will have considerable impacts on the routine purchase behaviours of smokers.

According to the statistics, at the end of the first quarter of 2015, 23 (9 more than last year) provinces in China posted a decrease in sales volume compared with last year. In particular, the sales volume in 6 provinces decreased by more than 10%.

– ***Countermeasures and future prospects***

To cope with these adversities, the STMA will strengthen the austerity measures on economic operation in five areas. These include 1) reducing the production progress to effectively clear the inventory backlog; 2) advancing the inventory reserve and stepping up industry allocation to maintain profit tax growth; 3) balancing business sale to reduce commercial's backlog; 4) promoting the cooperation on production among tobacco enterprises; and 5) strengthening the refined management and exercising strict cost control. In addition to adopting various austerity measures in the domestic market, the STMA has also proposed a clear line of thought for overseas market development. Capitalising on the opportunities arising from the strategic planning of "One Belt One Road" implemented by the central government, the Chinese tobacco manufacturers shall adhere to the "going out" growth strategy to catch up with leading tobacco multinationals, cigarette equipment manufacturers and major auxiliary materials producers. It endeavours to enhance the competitiveness of the Chinese tobacco manufacturers in the global perspective through enhancing the level of entity operation to improve infrastructure development, enhancing the level of international capital operation to promoting Merger and Acquisition ("M&A") and restructuring as well as enhancing the level of imported innovation and integrated innovation to increase cigarette making competencies.

At the workshop held in early 2015, the STMA promulgated its targets for the entire year – to continue to increase the tobacco industry's total profit tax, sales revenue, unit average price and profit tax, average revenue of tobacco farmers, average revenue of tobacco plantation per acre, profit of retail customers and sales volume of cigarettes in overseas markets and endeavour to achieve total industry and commercial profit tax of RMB1,125.6 billion for the entire year of 2015, achieving the target of "7-9% of growth rate" compared with last year. It is believed that, under a series of austerity measures of the STMA, the pressure on tobacco leaves inventory and cigarette inventory can be gradually eased. Meanwhile, as a result of the implementation of an internationalisation strategy, the Chinese cigarette manufacturers can pull through the prevailing difficult period and move towards the next phase of development. (Source: China Tobacco)

Food and beverage industry

In 2014, production of the food industry in the PRC maintained steady growth. However, the pace of growth continued to slow down. According to the figures released by the National Statistics Bureau, more than 37,000 food enterprises above designated size grew by approximately 7.8% in 2014 over last year, down by 1.3 percentage points from the year before. Revenue from principal business of food enterprises above designated size amounted to approximately RMB10.9 trillion, representing an increase of approximately 8.0% compared with last year. However, such growth was down by 5.1 percentage points from last year. Total profit of food enterprises was approximately RMB760 billion, representing an increase of merely 1.2%. Such growth decreased drastically by 12.4 percentage points from last year.

In recent years, the global food product industry has undergone substantial changes and details of such changes mainly relate to the following areas:

– Globalisation: the slowdown in overseas food enterprises (average compound annual growth rate ("CAGR") in the next decade is expected to decrease to 3%) have prompted them to seek growth opportunities in developing markets such as China, presenting more global cooperation opportunities to local enterprises in China

– Professionalism: given further upgrade in industry structure, professional food raw materials enterprises with technological know-how in the niche market will differentiate themselves from other competitors

– Localisation and regionalisation: with the increasing level of localisation and regionalisation of food products and flavours, more localised food solutions will be needed

– Personalisation and customisation: as a result of the more personalised demand from downstream consumers, food and raw materials enterprises will need to introduce more customised and innovative solutions

– Healthy, safe and natural products: as consumers attach greater importance to "healthy, safe and natural" products, food and raw materials enterprises will need to introduce relevant solutions

– Channel re-development and online popularity: in the mobile and digital era, online channel will become increasingly popular (market share of online channel was approximately 3% in 2014 and the CAGR may reach 11% in the decade ahead), exerting pressure on traditional channels and pressure them to increase efficiency

In the food flavours and fragrances industry, despite the advantages enjoyed by foreign-invested enterprises, market concentration in China is not significant with abundant business opportunities for local flavours and fragrances enterprises. Firstly, there are numerous medium to large downstream food enterprises featuring a high level of localisation. Even the existing international flavours and fragrances giants are unable to dominate the market. Secondly, large downstream customers often maintain business relationship with a number of medium to large flavours and fragrances suppliers in order to minimise risks. Thirdly, many small flavours and fragrances enterprises will be gradually phased out or merged with large scale flavours and fragrances enterprises.

For niche market analysis, it is expected that savoury flavours, sports drink flavours and juice flavours will become the niche flavours and fragrances products with the greatest potential for some time in the future. At the same time, local flavours brands have considerable comparative advantages in these niche markets with further potential for continuous expansion in the future.

RTL and new cigarette materials industry

It is understood that currently there are a total of 14 production bases of RTL approved by the STMA in China with a total annual production capacity of 165,000 tonnes. With the implementation, completion of construction and commencement of production of RTL projects, the Chinese cigarette manufacturers have successively applied RTL in the cigarette formula and increase its proportion. As a result, the production output and usage of RTL in China increase each year. However, it is also faced with intensifying industry competition. The wide application of RTL has also resulted in the fundamental change in the concept of usage among its customers, who are increasingly demanding on customised and functional RTL products. RTL has developed gradually from a simple tobacco leave filling in the past into today's important and integral part of Chinese cigarettes. It is understood that, currently, almost all cigarette brands in the PRC use RTL although varying in product specifications and proportions. However, its usage remains far below international levels.

Over the past year, RTL production lines in Yunnan, Jiangsu and Anhui that have previously obtained approvals from the STMA have completed construction and commenced production. Currently, among all approved production capacities, only one production line in Guizhou has not yet completed construction (for which the Group is a joint venture partner). These production bases that are newly put into operation have brought great impacts to the market. Moreover, the increase in proportion of RTL as a substitute for natural tobacco leaves in cigarettes will have a direct impact on the usage amount of natural tobacco leaves. Given the current high backlog of natural tobacco leaves, tobacco enterprises are likely to be discouraged to add RTL in cigarette production. In recent years, all RTL enterprises have stepped up their efforts in technological advancement to enhance their technology and quality, reduce costs, increase safety and solve environmental problems. Over the past year, with the speedy release of production capacity, the shortage in supply is greatly relieved. It is expected that more intensifying competition and pricing pressure will follow.

From another perspective, given the unique cost advantage and low tar content of RTL products, the usage amount of RTL by mainstream cigarette brands worldwide has exceeded 20% in general. In some developed countries or regions, such addition percentage may even reach 30-35%. Based on the estimates on the current total production output in the RTL industry in China, the adoption rate by cigarettes in China is only around 5-8%, which is significantly below the international benchmark and has tremendous potential for increase. In addition, the product structure of the cigarette industry in China is undergoing rapid enhancement with increasing proportions of medium to high-end products. In 2014, the sales volume of Class I cigarettes was approximately 10.25 million cases, representing an increase of approximately 16.8% compared with last year; whereas the sales volume of Class II cigarettes was approximately 5.29 million cases, representing an increase of approximately 19.0% compared with last year; and the average unit sales revenue in the cigarette industry amounted to RMB26,700 per case, representing an increase of approximately 6.7% compared with last year. The improvement in product structure of the cigarette industry will lead to higher requirements on new product launches, and ultimately lead to a higher demand for the usage of new cigarette materials.

As to the innovative inflated stems, as increasingly more tobacco enterprises are interested in such technique and gradually increase their investment and research resources, and the STMA has included inflated tobacco stem technique as a key technological project, it is expected that such technique may be widely applied after product commercialisation. With respect to filters and related products, currently the products are mainly filters that are personalised, functional and designed for slim cigarettes. It is believed that, with the enhancement in the specifications of cigarette products among tobacco enterprises, demand for unique filter products is expected to increase. (Source: China Tobacco)

Innovative tobacco products (e-cigarette)

Innovative tobacco products include e-cigarettes and low-temperature cigarettes. Below are some characteristics of the industry at current stage: it started off relatively late, low base in terms of sales volume, faster growth, numerous manufacturers, low concentration and immature regulatory environment. Currently, major tobacco companies worldwide have increased their R&D efforts to introduce innovative products and vigorously explore potential markets.

According to the statistics, the global e-cigarette market was valued at USD6.28 billion in 2014. It is expected that by 2019, the global e-cigarette market size may be increased to USD18.52 billion with a CAGR of up to 31.0%. Geographically speaking, in 2014, North America accounted for approximately 33.3% of the overall market; western Europe accounted for approximately 27.9%; middle Europe and eastern Europe accounted for approximately 26.6%; and Asia Pacific accounted for approximately 8.1%. It is expected that, by 2019, North America and Asia Pacific's market share will increase up to 46.5% and 14.0% respectively.

With respect to the domestic market, as far as the management is aware, there is currently no other large-scale promotion of brands and products apart from the Group's SPV brand. However, some references indicate that domestic consumers are showing greater interests over the industry. For example, in 2014, the number of searches for the e-cigarette category on taobao.com and tmall.com was 73.28 million times, representing an increase of approximately 82% compared with last year; number of visitors was 55.37 million, representing an increase of approximately 74% compared with last year; number of bookmarked visitors was 4.65 million, representing an increase of approximately 236% compared with last year.

At present, the Pearl River Delta region in China remains the primary e-cigarette production base. However, with increasing awareness of the public on the quality and safety issues of e-cigarette products, especially the implementation of more stringent regulations by the United States on e-cigarettes in the future, there are higher requirements on product quality and safety. Accordingly, some e-cigarette manufacturers begin to relocate their production bases to the United States to ensure that their products meet the conditions for market launch. Given the level of automation and higher management standards, it is expected that the cost of production will be reduced.

As the major component of e-cigarette products is tobacco oil, the flourishing market has also attracted various players to invest in the production of e-cigarette tobacco oil, including tobacco leaves multinationals and flavours and fragrances companies. However, there are increasingly more concerns over the ingredients, functions and safety of e-cigarette tobacco oil. It is expected that relevant regulations on the production of e-cigarette tobacco oil may be promulgated by the United States Food and Drug Administration in the future, such as labelling the ingredients of e-cigarette tobacco oil and stipulating the production within the United States, which may have considerable impacts on the manufacturers and post key challenges to the e-cigarette tobacco oil manufacturers in the future.

As to product trends, consumers are increasingly interested in larger e-cigarette products. Usually these products are larger in size so as to increase energy output, thus allowing consumers to have a more personalised vapour experience. As the large e-cigarette products are more popular among the primary consumers, its competition with disposable e-cigarettes is very keen. However, for beginner consumers, as the large e-cigarette is more expensive with greater vapour production, the disposable e-cigarette products that come smaller in size, less vapour production and cheaper in price may be more attractive to such consumers. According to the forecasts made by the research institute, there are currently 5,000-6,000 e-cigarette stores within the United States and such number is growing in first tier and second tier cities. Among these e-cigarette stores, many of them do not have those nationally reputable disposable e-cigarette products for sale, but the regional brand large e-cigarette products that are highly personalised.

On the other hand, the shift in the industry trends has resulted in the launch of a variety of e-cigarette flavours to the market, including peppermint, cola, chocolate, cool mint, melon, bubble gum, grape and assorted fruits. E-cigarette manufacturers also endeavour to roll out more flavours to attract more consumers. Based on preliminary statistics, there are more than 3,000 flavours for existing e-cigarette products in the market at a growth rate of more than 300 new flavours each month. This has proved that e-cigarette products are highly attractive to consumers and can cater for the highly personalised needs of consumers at the same time. It is expected that such trend will continue in the coming five years and the size of e-cigarette industry will continue to grow. (Source: Tech Navio "2015-2019 Global E-cigarette Market")

RESULTS

For the year ended 31 March 2015, sales revenue of the Group increased by approximately 2.1% year-on-year to approximately HKD4,326 million. Gross profit margin reached approximately 69.9%, representing a decrease of 0.9 percentage point over last financial year. EBIT margin reached approximately 53.6%, representing a decrease of 2.5 percentage points over last financial year. Profit attributable to equity holders of the Company was approximately HKD1,987 million, representing an increase of approximately 0.5% over last financial year. Basic EPS was HK64.02 cents, representing an increase of approximately 0.4% over last financial year.

BUSINESS REVIEW AND FUTURE DEVELOPMENT STRATEGIES

Review of Flavours Business

For the year ended 31 March 2015, sales revenue of the flavours business of the Group amounted to HKD3,209,099,000, representing an increase of approximately 4.8% from the last financial year. The EBIT margin of the flavours segment was approximately 59.1%, representing a decrease of approximately 5.6 percentage points as compared with approximately 64.7% for the last financial year. The EBITDA margin was approximately 61.8%, representing a decrease of approximately 5.6 percentage points as compared with approximately 67.4% for the last financial year. Sales revenue of flavours maintained a sound growth rate, which was mainly attributable to the accelerated growth of food and beverage flavours. The decrease in profit margins was mainly attributable to the larger share of food and beverage flavours accounted for, which is relatively lower in profit margins, and the increase in sales and administration expenses.

During the financial year, the tobacco flavours business of the Group made a number of achievements. In April 2014, Hua Fang Tobacco Flavors Ltd.'s "molecular distilled natural flavours" was accredited as a "Guangdong province high-tech product" by the Guangdong Provincial Department of Science and Technology. In August 2014, Yunnan Tianhong Flavour & Fragrance Co., Ltd. ("Yunnan Tianhong") was granted the title of "2014 Yunnan Top 100 Domestic Enterprises" jointly by the Yunnan Provincial Enterprise Federation and Yunnan Provincial Entrepreneur Association. In October 2014, Huabao Food Flavours & Fragrances (Shanghai) Co., Ltd. ("Huabao Shanghai") passed the audit of China Quality Certification Centre's "Occupation Health and Safety Management System OHSAS 18001:2011". It was the first time Huabao Shanghai applied for such certification and passed smoothly. In November 2014, Wuxi Hua Hai Flavour Co., Ltd.'s "functional premium natural flavours and fragrances" was awarded the "High-tech product certification" by the Jiangsu Provincial Department of Science and Technology. In December 2014, Yunnan Tianhong was rated "A-Class Flavours and Fragrances Supplier" by China Tobacco Yunnan Industrial Co., Limited.

In respect of the tobacco industry, the following trends are emerging:

– In terms of the composition of smokers in China, the aging of loyal smokers will put downward pressure on the total market size. Meanwhile, smokers' awareness on health and tar reduction requirements are increasing (annual average growth of the number of smokers decreased slightly from 1.1% from 2008-2010 to 0.5% from 2012-2014)

– In terms of customer demand from tobacco enterprises, various brands will have higher requirements on further enhancing the quality of taste. In addition, the tobacco industry in China has also set a clearer direction on the "going out" international development

– In terms of product competition, given the industry strategic guidance of "big enterprise, big market, big brand", brand concentration continues to increase alongside with increasing market share of high-end cigarettes. Despite the limited market size of the innovative tobacco products, its considerable growth is worth noting

As to the Group, tobacco related business is a high-yield and stable business and the main source of profit. Accordingly, with respect to the abovementioned possible industry trends in the future, the Group will focus on the demand from key customers and transform itself from a product supplier to a multi-solution provider with emphasis on technological upgrade and innovative product development by taking a service strategy with four layers of differentiation:

– Flavours and fragrances raw materials supply: Focus on the development and production of high value-added and unique flavours and fragrances raw materials to structure an unique flavours and fragrances raw materials system for the Group

– Flavours and fragrances solutions: Continue to provide services to all customers of the PRC tobacco customers by leveraging on its high-quality and differentiated flavours and fragrances products and technological know-how

– Unique auxiliary materials based on the design of cigarette's overall taste ("Cigarette Overall Taste"): Develop differentiated and unique auxiliary materials solutions beginning with unique RTLs and tobacco stems based on the integrated design capability of Cigarette Overall Taste with flavours advantages

– Comprehensive partnership: Enter into close cooperation with the PRC tobacco enterprises to capture the growth opportunities in the internationalisation of the tobacco industry in China and to further strengthen the comprehensive partnership with key customers

To ensure the successful implementation of the above strategic objectives, the Group will focus on enhancing its four major capabilities:

– Key flavours and fragrances raw materials extraction/synthesis, mass production and stable procurement capability

– Flavours and fragrances solutions development and technology service capability, including: 1) fundamental development of flavouring technique; 2) application technology and workmanship; 3) technology service capability

– Building a technology service team mastering the design of Cigarette Overall Taste

– Forward looking insights on demand from comprehensive service oriented customers, especially building an effective communication and cooperation mechanism between the sales and technology service team and the R&D and production base

In terms of food and beverage business, faced with such complex operating environment, the Group further optimised its customer mix by adhering to the growth strategy of "Big Customers, Big Brands" and performed satisfactorily in business. During the financial year, Shanghai H&K Flavours & Fragrances Co., Ltd. ("Huabao Kongque") successfully secured large customers including Mondelēz and Pepsi. With respect to the promotion of natural flavours and fragrances products, the samples developed for Wahaha by the Group were well received by the customers and thus facilitating the negotiation on subsequent cooperation. Guangzhou Huabao Flavours & Fragrances Co., Ltd.'s confectionary snacks and meat products business fulfilled the business target as expected and the sales from customers including Jinluo and Panpan grew significantly. Guangdong Zhaoqing Fragrances Limited ("Guangdong Zhaoqing")'s small canned ethyl maltol products continued to dominate the market. During the financial year, by adopting the new technique of UV laser mark, the label is embedded in the body of the can, which can effectively eliminate the counterfeit products available in the market. In terms of export business, Qingdao Qingda Product Co., Inc.'s major export product is red pepper extracts, which are exported to the European countries, particularly Germany, as the major export markets in order to secure quality customers who are fairly well-known in the industry and have higher demand for products. Guangdong Zhaoqing's export sales to the Southeast Asia market recorded a double digit growth compared with last year. Looking forward, it will endeavour to expand into the markets in Europe, the United States, the Middle East, Africa and South America by actively working with the International Business Department of the Group.

During the financial year, the food and beverage business of the Group made a number of achievements. In September 2014, Huabao Kongque was awarded the "2014 China Flavours, Fragrances and Cosmetics Products Exhibition – Excellence Award". In October 2014, it was named the "National Iced Beverage Raw Materials Quality Supplier" by the Frozen Food Professional Committee of the China Association of Bakery & Confectionary Industry. In November 2014, it was granted "The Third Annual National Nuts and Roasted Seeds Science and Technology Progress Awards – Second Class Award" by the Nuts and Roasted Seeds Professional Committee of China National Food Industry Association. In April 2014, Guangdong Zhaoqing was granted "Guangdong Famous Trademark Certificate" by the Evaluation Committee of Guangdong Famous Trademark. In July and September 2014, it was granted the "Adopting International Standard Product Marking Certificate" by the Administration of Quality and Technology Supervision of Guangdong Province and the "Certificate for Level II Measurement Assurance System of Guangdong Enterprises" by the Administration of Quality and Technology Supervision of Zhaoqing.

In addition, the Group attaches great importance to the issue of food safety by adhering to strict quality control. In July 2014, Guangdong Zhaoqing's "Xinghu" ethyl maltol was confirmed by the relevant authorities in Guangdong Province after inspection to be in line with international product recognition and trademark standards and was again awarded the "Adopting International Standard Product Marking Certificate" by the Administration of Quality and Technology Supervision of Guangdong Province, representing the product quality of "Xinghu" ethyl maltol has fulfilled such internationally recognised standard. In September 2014, Huabao Kongque passed the audit of Intertek's "FSSC 22000 Food Safety Management System Certification", representing Huabao Kongque has fulfilled such internationally recognised standard. It is also evidence of its establishment of a comprehensive management system and full compliance with the requirements of customers and the industry regulations regarding food safety.

In terms of the food and beverage flavours industry, its downstream customers are consumer goods manufacturers such as food and beverage with tremendous market potentials and rigid demand in general. At the same time, with the increasing purchasing power of the Mainlanders, the market demand for high-quality and personalised products are increasingly high. This has resulted in higher requirements on the food and beverage flavours industry, presenting good growth opportunities to the industry players.

In terms of the food and beverage flavours market, despite the comparative advantages enjoyed by foreign-invested enterprises, market concentration is low, which provides tremendous opportunities for local flavours enterprises. Currently, there are numerous medium to large enterprises in the downstream food and beverage market with a higher level of localisation. Even the existing international flavours giants are unable to dominate the market. In addition, large flavours enterprises usually focus on tens of large customers. Numerous medium to large flavours enterprises are faced with tremendous opportunities with dispersed small to medium customers in the downstream market. At the same time, due to the shorter product life cycle, higher requirements on quality, rising price of raw materials and high R&D investments, these trends will erode the expansion ability of the smaller flavours enterprises, accelerating the pace of industry integration where many small enterprises will be gradually phased out or merged with larger enterprises. By capitalising on its own technological strengths in the flavours and fragrances industry, coupled with local enterprises' flexible and speedy response in the area of customer service, the Group will quickly expand its scale and influence in the domestic market.

In terms of specific product mix, there are more attractive and low entry barrier niche markets under the food and beverage flavours segment, including sports drink flavours, savoury flavours, juice flavours and baking flavours and dairy beverage flavours. These are the areas that the Group may expand into as its next key products and markets. In these niche markets, local enterprises in the downstream market far outnumber the foreign-invested enterprises. It is expected that the number of local suppliers will continue to grow in the future. Obviously, to the local enterprises, it is more feasible for them to enter these niche markets.

Based on the foregoing market analysis, the Group's food and beverage flavours business will focus on the local food and beverage sector and the highly attractive niche markets (such as seasonings, beverage and baked food). With respect to local medium to large-sized food and beverage enterprises, the Group will provide customised solutions through differentiated channel development:

– Strengthen customer direct sales channel to provide highly customised additive raw materials solutions including high-quality flavours to local large-sized food and beverage enterprises

– Provide integrated application formula semi-finished product technology solutions covering flavours, additives and ingredients to local medium-sized food and beverage enterprise through enhancing the capability and efficiency of distributors and upgrading the Group's own technology service capability

– Capitalise on the extensive distribution network and online channels to provide unique products to other dispersed caterers and small-sized enterprises

The Group will utilise M&A as an inception point to build its superior channel capability, system R&D platform, raw materials procurement and technician recruitment capability to ensure the implementation of the strategies of the food and beverage flavours business.

Review of RTL Business

For the year ended 31 March 2015, the sales revenue of the RTL business of the Group reached HKD945,574,000, representing a decrease of approximately 11.6% from the last financial year. Operating profit of the segment was approximately HKD417,891,000, representing a decrease of approximately 1.1% as compared with the last financial year. EBIT margin reached approximately 44.2%, representing a further increase of 4.7 percentage points as compared with approximately 39.5% of the last financial year. The decrease in sales revenue of the RTL segment was mainly due to the fierce industry competition as a result of numerous new entrants over the past year and the decrease in usage of RTL due to the backlog of tobacco leaves among tobacco enterprises. However, since the quality of the Group's RTL products remains industry leading, coupled with effective cost control, the profitability continued to maintain at a relatively high level. Looking into the future, with the easing of the tension between industry supply and demand, and the tremendous pressure on the development of RTL business due to the backlog of tobacco leaves and cigarettes, the management remained cautious on this business segment. In the long-term, there remains growth potential in the RTL industry. It is believed that, upon digestion of the backlog of tobacco leaves by the domestic tobacco enterprises and the subsequent launches of higher-end and specification cigarettes, the RTL industry will see continuous growth.

In September 2014, Guangdong Golden Leaf Technology Development Co., Ltd. ("Guangdong Jinye") was awarded the title of "Large-scale Industrial Backbone Development Enterprise" by the Shantou Municipal Government. Guangdong Jinye as the No.001 "Key Support and Protected Enterprise" in Chaoyang District was the only selected enterprise in Chaoyang District. The award not only demonstrated Guangdong Jinye's corporate spirit of solid work and "To Be No.1", it also reflected the local government's recognition of Guangdong Jinye's production and operation. In December 2014, Guangdong Jinye successfully passed a total of 65 requirements under five major categories including general operation qualifications, production and operational management, innovative technology competence and quality control system on tobacco raw materials stipulated by China Tobacco Guangdong Industrial Co., Ltd. and was granted the "Tobacco Materials Supplier Certification", laying a solid foundation for further cooperation in the future. In February 2015, the "High-speed high-efficiency clean and stable production key technology of paper-making RTL" was granted "Second Class of the Science and Technology Progress Award 2014" by China National Tobacco Corporation, the highest level of award among the RTL players during the year. During the financial year, Guangdong Jinye participated in a number of researches on RTL technology and engaged in the works of product quality, such as the "R&D of the special pulp workmanship for paper-making RTL production", "Regulation on paper-making RTL workmanship", "Research on the approval and safety assessment of the materials used in RTL production", etc.

Review of New Materials Business

For the year ended 31 March 2015, the Group's sales revenue from new materials was HKD86,769,000, while sales revenue was HKD21,003,000 for the last financial year. Operating profit from the segment was HKD15,311,000, while for last financial year was operating loss of approximately HKD14,360,000. The EBIT margin of the new materials segment for the financial year was approximately 17.6%.

In recent years, in response to the STMA's overall planning of "Optimisation of Cigarettes" to promote tar reduction and quality stability of cigarettes, the Group began the development of the new materials segment some years ago and set up technological platforms for cigarette smoke transmission, innovative tobacco stem treatment and specialised RTL in an effort to provide customers with all-round and diversified solutions. During the financial year, the related products derived from the cigarette smoke transmission technological platform performed well and met the initial target set by the management. Currently, the new materials segment is mainly engaged in the sales of flavoured capsules and related products, which are mainly applied in the middle to high-end cigarette products of a few major customers. Next, the Group will continue to increase its efforts in the R&D of innovative capsule technology with an aim to enhance its product competitiveness.

During the reporting period, the Group's dry-pressed RTL technology passed the project identification of the STMA and was recognised as the first, both locally and abroad, dry-pressed RTL pilot scale production line and a full set of equipment with its own intellectual property rights, filling the gap in the industry. Overall, such R&D achievements have attained the advanced international level. The Group also made some breakthroughs in the innovative tobacco stem treatment technological platform and its related products. Currently, the R&D team is developing a microwave and steam treatment technique which allows efficient expansion of tobacco stems and effective microwave chemical reaction to reduce the content of semi cellulose and speed up the reduction of polysaccharides into fragrance components. This can increase the ductility of tobacco stem and further strengthen the industrial applicability of expanded tobacco stems. Innovative tobacco stems are divided into different shapes including sheets, cuts or granules by multidimensional cutting technology according to customers' uses and requirements. The cuts are mainly made into formula cuts after blending with tobacco leaves for application in tobacco rods. The granules are mainly made into combined filters after combining with acetate fibres for application in tobacco filters. The major features of the products are reduced tobacco stem miscellaneous gas, enhanced cigarette flavour and fragrance as well as reduced tar content.

Review of Fragrances Business

For the year ended 31 March 2015, the sales revenue of the fragrances business of the Group amounted to HKD85,044,000, representing an increase of approximately 0.4% from the last financial year. Operating profit of the segment amounted to approximately HKD10,654,000, representing a significant increase of approximately 37.3% from the last financial year. EBIT margin reached approximately 12.5%, representing an increase of approximately 3.3 percentage points as compared with 9.2% for the last financial year.

The year 2014 was a year of structural adjustment for the fragrances industry in China. As foreign-invested fragrances giants saw a slowdown of varying degrees, its own structure and future growth strategies underwent some changes. The emerging Chinese local brands have driven the development of local enterprises. The industry is taking on a new look under the rule of survival of the fittest. Xiamen Amber Daily Chemical Technology Co., Ltd. ("Xiamen Amber", formerly known as "Xiamen Amber Fragrance Co., Ltd.") has set its market foothold in the washing business a few years ago and performed remarkably in the past few years. During the financial year, the washing business, particularly the detergent products, again performed nicely and for the first time replaced the sanitising business and accounted for the largest portion of sales.

In April 2015, the Group proposed to list the shares of Xiamen Amber on the National Equities Exchanges and Quotations (the "NEEQ") and filed the application with the relevant departments. Immediately following the proposed quotation, the Group will continue to hold 51% equity interests in Xiamen Amber, which will continue to be an indirect non-wholly owned subsidiary of the Group where the business of which will continue to be separately operated by Xiamen Amber and the financial results which will continue to be consolidated into the financial statements of the Group.

The NEEQ is commonly known as the New Third Board, and is a unified national system that typically provides a trading platform for off market transfer of non-listed public shares by subscribing members of the NEEQ. It was established on 20 September 2012. The Group is of the view that, the proposed quotation will enable the Group to capitalise the value of its existing investment in Xiamen Amber; provide separate fund-raising platforms for Xiamen Amber with respect to its operation and future expansion; provide a mechanism to attract and motivate the management of Xiamen Amber in line with the operating and financial performance of Xiamen Amber on a standalone basis; and provide more transparency in the future business performance by Xiamen Amber.

Next, Xiamen Amber will improve and enhance a number of areas including internal structure, sales system and management model. Such adjustment process is expected to take two years during which it will step up its efforts to expand customer base, identify target major customers in each region and rationalise small customer base. As to products, Xiamen Amber will continue to focus on the high volume usage washing products including detergent, shower gel and soap. Looking ahead, it will further expand into aroma, incense and fragrance business that applies natural raw materials. As to R&D, it will target at the areas of fragrance raw materials, extraction and synthesis as well as increase the investment in equipment and manpower.

Latest development of e-cigarette

Since last year the Group announced that it will enter the area of e-cigarette, a series of results have been achieved. In terms of brand building, the Group's non-nicotine e-cigarette brand SPV is the first domestic brand that commits large scale promotion activities. In October 2014, it sponsored one of the biggest music festivals – STORM Electronic Music Festival which was held in Shanghai, and released its first generation V-series disposable products; In June 2015, SPV announced its advertising microfilm "Stand Point" starring Mr. Feng Shaofeng; recently, SPV sponsored a current events-themed drama, for which it has been permanently named "Stand Point News".

In terms of products development, SPV released its first generation V-series products in October 2014 with flavours such as fruity mint, roasted coffee, etc; In June 2015, SPV released its second generation products, with a total of up to ten flavours planned. The second generation products are led by products such as luminous and car series, which aim at a broader target market.

In terms of channels establishment, other than the flagship store established on tmall.com as the main online channel, the Group will next explore cooperation and advertisement with chained convenient stores. Meanwhile, SPV will also consider setting up its own official shops. As for overseas, initial sales of the second generation products will soon occur in the United States, while negotiations with distributors in Spain, Russia, and Korea, etc, have been established, with an aim to commence sales in such markets.

Through the abovementioned development in regards to brand building, products development and channels establishment, the Group strives to become a domestically and internationally leading e-cigarette brand and e-cigarette oil manufacturer within the next few years, with an aim to become one of the growth drivers in the Group's future development.

Review of 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 HKD256,205,000, representing an increase of HKD12,688,000 as compared with the last financial year. R&D cost represented approximately 5.9% of sales revenue, such ratio slightly increased as compared with approximately 5.7% of the 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-recognised technology center in Shanghai, the overseas R&D centres 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 research to product applications. The R&D strategy of the Group is market-driven and focuses 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 raise its overall competitiveness in relation to research and development.

Future Development Strategies

In the future, the Group will be persistent in its "Multi-pronged, Focused Growth" strategy for its business portfolio and endeavour to become a strategic investment holding group in enhancing the ecological environment for the consumer related industry chain in China. In regards to the flavours and fragrances segment, the Group will enhance the flavours and fragrances technology to expand into the food and beverage flavours and fragrances business by leveraging thereon and then replicating such success in other businesses such as additives and food ingredients, forming the future mega flavours and fragrances segment. In regards to the tobacco segment, the Group will expand its business into tobacco reconstituted raw materials and differentiated auxiliary materials according to the cigarette taste design proposal by capitalising on the differences in the design of Cigarette Overall Taste, forming the future tobacco auxiliary materials segment. Moreover, the Group will establish an innovative incubator platform, utilising innovative organisation and incentive mechanism, to focus on incubating new business and new models in relation to "Multi-pronged, Focused Growth" and based on core competencies in establishing an accelerating growth engine in the future. In the meantime, the Group will strengthen its domestic and international M&A and post-investment overall management capabilities, based on development requirement of respective segments and subsidiaries, to establish several capital platforms, utilising differentiating management style, to form incentive and restrictive systems that are in relation to the market, ultimately to become an influential "Leader to a better life" in consumer and related ecological environment.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2015

Sales revenue

The Group's sales revenue amounted to HKD4,326,486,000 for the year ended 31 March 2015, representing an increase of approximately 2.1% as compared with HKD4,237,425,000 for the last financial year. The continuous growth in sales revenue was mainly attributable to the stable increase in sales of flavours by approximately 4.8% in this financial year, and a significant increase in sales of new materials by HKD65,766,000 in this financial year. But as sales of RTL in this financial year decreased by approximately 11.6% from last financial year, the overall growth was partially offset. For the year ended 31 March 2015, sales revenue from flavours reached HKD3,209,099,000, contributing approximately 74.2% of total sales revenue; sales revenue from RTL reached HKD945,574,000, contributing approximately 21.8% of total sales revenue; sales revenue from new materials reached HKD86,769,000, contributing approximately 2.0% of total sales revenue; while sales revenue from fragrances reached HKD85,044,000, contributing approximately 2.0% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to HKD1,301,169,000 for the year ended 31 March 2015, representing an increase of approximately 5.0% as compared with HKD1,239,306,000 for the last financial year.

Gross profit and gross profit margin

Gross profit of the Group increased from HKD2,998,119,000 for the year ended 31 March 2014 to HKD3,025,317,000 for the year ended 31 March 2015, representing an increase of approximately 0.9%; gross profit margin was 69.9%, representing a decrease of less than 1 percentage point from 70.8% of the last financial year. The gross profit margin remained largely stable as compared with last financial year.

Other income and other gains – net

Other income and other gains – net of the Group was HKD263,205,000 for the year ended 31 March 2015, representing an increase of HKD58,634,000 as compared with HKD204,571,000 for the last financial year. The increase in other income is mainly attributable to increase in fair value of financial assets at fair value through profit or loss and government grants.

Selling and marketing expenses

The selling and marketing expenses of the Group mainly comprised travelling expenses, transportation costs, advertising and promotion expenses, salaries and office expenses. The selling and marketing expenses of the Group for the year ended 31 March 2015 were HKD204,650,000, representing an increase of approximately 20.4% as compared with HKD169,936,000 for the last financial year. Selling and marketing expenses to total sales revenue for the year ended 31 March 2015 and 2014 amounted to approximately 4.7% and 4.0% respectively. The increase of such ratio was mainly because the Group had stepped up its advertising effort for products such as e-cigarettes which drove up the promotion expenses.

Administrative expenses

The Group's administrative expenses amounted to HKD763,727,000 for the year ended 31 March 2015, representing an increase of approximately 16.5% as compared with HKD655,510,000 for the last financial year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 17.7%, representing an increase of approximately 2.2 percentage points as compared with 15.5% 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, etc.

Operating profit

Operating profit of the Group for the year ended 31 March 2015 was HKD2,320,145,000, representing a decrease of approximately 2.4% as compared with HKD2,377,244,000 for the last financial year, while the operating profit margin decreased to approximately 53.6% of the current financial year from approximately 56.1% of the last financial year. The decrease in operating profit and operating profit margin were mainly attributable to the growth of sales revenue was slower as compared with the faster increase in selling and marketing and administrative expenses, etc.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2015 was HKD391,054,000, representing a decrease of approximately 7.0% as compared with HKD420,381,000 for the last financial year. Income tax rate of the current year was approximately 16.4%, which was decreased by approximately 1 percentage point as compared with approximately 17.4% for last financial year. The decrease in income tax expenses and income tax rate was mainly attributable to the decrease in withholding income tax on dividends resulted from dividends expected to be declared by PRC subsidiaries will be lower than that in current financial year..

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD1,986,584,000 for the year ended 31 March 2015, representing an increase of 0.5% as compared with HKD1,977,325,000 for the last financial year.

Net current asset value and financial resources

As at 31 March 2015, the net current asset value of the Group was HKD4,454,334,000 (2014: HKD4,068,533,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 March 2015, the Group's cash and bank balances amounted to HKD3,626,091,000 (2014: HKD3,181,745,000), over 97% of which was held in RMB. The Group neither held any forex hedging products nor structured investment products or financial derivatives.

Bank borrowings and debt ratio

As at 31 March 2015, the Group had bank borrowings of HKD750,278,000 (2014: HKD530,131,000), all of which were due within one year. Among which, HKD735,128,000 are unsecured loan with interest calculated based on inter-banks borrowings rate. For the year ended 31 March 2015, the average annual interest rate of such unsecured loan was 2.24% (2014: 2.39%); the average annual interest rate of the remaining secured loan was 6.30% (2014: 6.30%). As at 31 March 2015, the Group's debt ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 8.2% (2014: 6.1%).

Investing activities

The Group's investing activities were for the purchase of property, plant and equipment, financial assets investment and the strategically development strategies for M&As. For the year ended 31 March 2015, the net cash used in investing activities amounted to HKD349,535,000, mainly for newly acquired financial assets, procurement of properties, plant and equipment, and placement of short-term time deposits. For the year ended 31 March 2014, the net cash used in investing activities amounted to HKD595,898,000.

Financing activities

For the year ended 31 March 2015, the net cash used in financing activities amounted to HKD1,497,567,000, mainly used for dividend distribution to shareholders. For the year ended 31 March 2014, the net cash used in financing activities amounted to HKD770,576,000.

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 2015, the Group's average debtors' turnover period was 79 days, representing an increase of 3 days as compared with 76 days for the last financial year ended 31 March 2014. 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 2015, the Group's average creditors' turnover period was 116 days, representing a decrease of 4 days as compared with 120 days for the last financial year ended 31 March 2014. Creditors' turnover period remains stable.

Inventory and inventory turnover period

As at 31 March 2015, the Group's inventory balance amounted to HKD818,433,000 (2014: HKD855,694,000). For the year ended 31 March 2015, 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 232 days, representing an increase of 6 days as compared with 226 days for the last financial year. The inventory balances at the end of the financial year decreased by HKD37,261,000 as compared with the beginning of the financial year. The increase in inventory turnover period was attributable to the average inventory balances of this financial year was higher than that of last financial year.

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 2015, the secured bank loan of the Group amounted to RMB12,000,000 (2014: RMB12,000,000).

Capital Commitments

As at 31 March 2015, the Group had capital commitments in respect of the purchase of property, plant, equipment and available-for-sale financial assets, contracted for but not provided in the financial statements amounting to approximately HKD274,175,000 (2014: HKD44,709,000), mainly was investment in high-tech fund amounted to HKD193,520,000.

Contingent liabilities

Based on the information available to the Board, the Group had no contingent liabilities as at 31 March 2015.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2015, the Group employed a total of approximately 2,300 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea, down by approximately 200 employees as compared with last year. Such decrease was mainly due to the optimisation of employee structure carried out by subsidiaries, particularly Guangdong Jinye. The labour costs for the year (including pension and mandatory provident fund, etc.) amounted to HKD432,491,000, representing an increase of HKD38,527,000 from HKD393,964,000 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 benchmarked to the market to attract stable and exceptional talents, so as to meet with the Group's long term development needs. Generally, remuneration 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. Various departments of the Group carried out different training activities based on work requirements from time to time. During the financial year, the Group had a total of approximately 25 training activities on record. Among which, for the long-term development of the Group and development of flavour and fragrance talents, a flavourist training was held by the Group at the Shanghai Institute of Technology during March 2014 to February 2015, in which approximately 16 talents selected internally participated. To enhance the management capability of reserve talents and for the long-term development of the Group's human resources, the second reserve talent training programme was held by the Group in Guangzhou and Shanghai during May to November 2014, in which approximately 25 employees participated. To enable fresh graduates to quickly learn about the Group and get to know about its corporate culture and commence work as soon as possible, a 14-day fresh graduate training course was held by the Group in Shanghai and Yingtan in July 2014. In April 2015, the core management team of the Group participated in the strategic training programme tailored by the China Europe International Business School featuring corporate strategic thinking, value creation and investment decision-making. The core management team comprised 38 members led by the Chairlady of the Group will regularly participate in such one-year training programme.

The Group has remained committed to corporate culture development 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 maximise 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. During the financial year, different forms of leisure activities were held by the Group to allow employees to relax after hectic work schedules and interact with each other.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Throughout the financial 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, Chairwoman 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") and Non-executive Director 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 enquiries of all directors, the Company has received their written confirmations that they have complied with the required standard as set out in the Model Code throughout the financial year.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 March 2015 (2014: final dividend of HK10.49 cents per share and a special dividend of HK7.00 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 of the Company which is scheduled to be held on 6 August 2015 ("AGM"), the register of members of the Company will be closed from 3 August 2015 to 6 August 2015, 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 31 July 2015. Shareholders whose names are recorded in the register of members of the Company on 6 August 2015 are entitled to attend and vote at the AGM.

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

During the year ended 31 March 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors and their respective close 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 2015.

The figures in respect of consolidated statement of the financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and related notes of the announcement of the Group's results for the year ended 31 March 2015 have been agreed by the Group's auditor, PricewaterhouseCoopers, that they were consistent with the amounts set out in the Group's audited consolidated financial statements for the financial 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 Company's 2014-15 annual report 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
Chairwoman and CEO

Hong Kong, 23 June 2015

As at the date of this announcement, the Board comprises four executive directors, namely Ms. CHU Lam Yiu (Chairwoman and CEO), Messrs. XIA Li Qun, POON Chiu Kwok, WANG Guang Yu, 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.