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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

FINANCIAL HIGHLIGHTS

Compared with the corresponding period last year:

- Sales decreased by approximately 21.3% to HKD1,693,019,000
- Gross profit decreased by approximately 21.4%, profit margin remained stable
- Operating profit decreased by 37.8% to HKD733,809,000
- Profit attributable to the equity holders of the Company decreased by approximately 42.5% to HKD565,340,000
- Basic earnings per share decreased by approximately 42.6% to HK18.20 cents
- Net cash+ reached HKD3,017,557,000, increased by 4.9% as compared with 31 March 2015
- The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2015

+ *"Net cash" means "Restricted bank deposits" plus "Short-term time deposits" and "Cash and cash equivalents" minus "Borrowings".*

* *For identification purpose only*

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September 2015 HK$'000	2014 HK$'000	Change in percentage
Sales	**1,693,019**	2,151,137	**-21.3%**
Operating profit	**733,809**	1,180,574	**-37.8%**
Gross profit margin	***69.2%***	*69.3%*	
EBITDA margin≠	***49.2%***	*59.4%*	
EBIT margin	***43.3%***	*54.9%*	
Profit before income tax	**760,290**	1,204,424	**-36.9%**
Profit attributable to the equity holders of the Company	**565,340**	984,013	**-42.5%**
Earnings per share			
– Basic	***18.20 HK cents***	*31.72 HK cents*	**-42.6%**
– Diluted	***18.18 HK cents***	*31.68 HK cents*	**-42.6%**
Interim dividend per share	***– HK cents***	*9.52 HK cents*	
Special dividend per share	***– HK cents***	*22.20 HK cents*	

≠ "EBITDA margin" equal to "Earnings before taxes, interest, depreciation, and amortization" divided by "Sales".

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2015 together with the comparative figures for the corresponding period in 2014.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's Audit Committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The auditor's review report will be included in the interim report to be despatched to the shareholders of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2015

		Unaudited For the six months ended 30 September	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Sales	*3*	**1,693,019**	2,151,137
Cost of goods sold		**(521,283)**	(659,771)
Gross profit		**1,171,736**	1,491,366
Other income and other gains – net	*4*	**70,215**	135,831
Selling and marketing expenses		**(118,603)**	(94,260)
Administrative expenses		**(389,539)**	(352,363)
Operating profit		**733,809**	1,180,574
Finance income		**34,668**	30,110
Finance costs		**(6,948)**	(6,490)
Finance income – net		**27,720**	23,620
Share of (loss)/profit of associates and a jointly controlled entity		**(1,239)**	230
Profit before income tax		**760,290**	1,204,424
Income tax expense	*6*	**(187,318)**	(214,937)
Profit for the period		**572,972**	989,487
Attributable to:			
Equity holders of the Company		**565,340**	984,013
Non-controlling interests		**7,632**	5,474
		572,972	989,487
Earnings per share for profit attributable to the Company's equity holders for the period			
Basic	*7(a)*	**18.20** ***HK cents***	31.72 *HK cents*
Diluted	*7(b)*	**18.18** ***HK cents***	31.68 *HK cents*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2015

	Unaudited For the six months ended 30 September 2015 HK$'000	2014 HK$'000
Profit for the period	**572,972**	989,487
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**(12,472)**	340
Currency translation difference on foreign operations	**(334,641)**	(876)
Other comprehensive loss for the period, net of tax	**(347,113)**	(536)
Total comprehensive income for the period, net of tax	**225,859**	988,951
Total comprehensive income attributable to:		
Equity holders of the Company	**226,645**	983,281
Non-controlling interests	**(786)**	5,670
	225,859	988,951

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2015

	Note	**As at 30 September 2015** *HK$'000* **Unaudited**	As at 31 March 2015 *HK$'000* Audited
Assets			
Non-current assets			
Property, plant and equipment		**1,318,664**	1,405,495
Land use rights		**185,605**	194,060
Intangible assets		**2,788,179**	2,897,367
Investments in associates		**321,022**	227,795
Investments in a jointly controlled entity		**–**	6,987
Available-for-sale financial assets		**223,120**	225,217
Deferred income tax assets		**70,943**	65,194
		4,907,533	5,022,115
Current assets			
Inventories		**826,448**	818,433
Trade and other receivables	*9*	**1,203,415**	1,309,693
Financial assets at fair value through profit or loss		**270,108**	124,535
Restricted bank deposits		**114,104**	–
Short-term time deposits		**921,694**	951,802
Cash and cash equivalents		**2,582,924**	2,674,289
		5,918,693	5,878,752
Total assets		**10,826,226**	10,900,867
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**310,666**	310,432
Reserves		**906,242**	1,188,606
Retained earnings		**8,188,648**	7,670,008
		9,405,556	9,169,046
Non-controlling interests		**223,033**	234,796
Total equity		**9,628,589**	9,403,842
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**66,825**	72,607
Current liabilities			
Borrowings	*10*	**601,165**	750,278
Trade and other payables	*11*	**423,562**	562,030
Current income tax liabilities		**106,085**	112,110
		1,130,812	1,424,418
Total liabilities		**1,197,637**	1,497,025
Total equity and liabilities		**10,826,226**	10,900,867
Net current assets		**4,787,881**	4,454,334
Total assets less current liabilities		**9,695,414**	9,476,449

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2015

	Unaudited For the six months ended 30 September **2015** *HK$'000*	2014 *HK$'000*
Cash flows from operating activities		
Cash generated from operations	**713,829**	1,276,229
Income tax paid	**(195,053)**	(166,906)
Net cash generated from operating activities	**518,776**	1,109,323
Cash flows from investing activities		
Acquisition of an associate	**(101,890)**	–
Proceeds from disposal of a jointly controlled entity/an associate	**6,434**	10,952
Additions to available-for-sale financial assets	**(21,617)**	–
Purchases of financial assets at fair value through profit or loss	**(330,162)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	**218,729**	–
Purchases of property, plant and equipment, land use right and intangible assets	**(50,864)**	(76,717)
Proceeds from disposal of property, plant and equipment	**300**	78
Increase in restricted bank deposits	**(114,104)**	–
Short-term time deposits placed	**(3,195)**	(3,253)
Dividend received	**20,805**	3,089
Interest received	**44,914**	30,117
Net cash used in investing activities	**(330,650)**	(35,734)
Cash flows from financing activities		
Dividends paid to non-controlling interests	**(7,992)**	(29,154)
Proceeds from issue of shares upon exercise of share options	**9,865**	5,655
Repayment of borrowings	**(154,120)**	–
Repayment to a shareholder	**–**	(93,985)
Interest paid	**(7,216)**	(6,440)
Net cash used in financing activities	**(159,463)**	(123,924)
Net increase in cash and cash equivalents	**28,663**	949,665
Cash and cash equivalents at 1 April	**2,674,289**	2,375,345
Effects of currency translation on cash and cash equivalents	**(120,028)**	2,657
Cash and cash equivalents at 30 September	**2,582,924**	3,327,667

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2015 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2015, as described in those financial statements.

(a) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(b) There are no other standards or interpretations that are effective for the first time for this interim period that have a material impact on the Group.

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

	Effective for annual periods beginning on or after
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
Annual improvements 2014	1 January 2016
HKFRS 15 "Revenue from Contracts with Customers"	1 January 2017
HKFRS 9 "Financial Instruments"	1 January 2018

Management does not anticipate that the application of the new standards and amendments to standards will result in a material impact on the Group's consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

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

– Flavours;

– Reconstituted tobacco leaves;

– New materials; and

– 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 include research and development, production and sale of flavours products. Reconstituted tobacco leaves segment include research and development, production and sale of paper-making reconstituted tobacco leaves. New materials segment includes research and development, production and sale of new materials products that are innovative, functional, and applicable to tobacco industry. Fragrances segment include research and development, production and sale of fragrances products. The Executive Directors assess the performance of the operating segments based on a measure of operating profit.

The segment information for the six months ended 30 September 2015 is presented below:

	Unaudited For the six months ended 30 September 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	**1,363,262**	**264,052**	**35,700**	**38,844**	**1,701,858**	**–**	**1,701,858**
Inter-segment sales	**(7,951)**	**(887)**	**–**	**(1)**	**(8,839)**	**–**	**(8,839)**
Segment turnover – net	**1,355,311**	**263,165**	**35,700**	**38,843**	**1,693,019**	**–**	**1,693,019**
Segment result	**665,658**	**80,219**	**2,351**	**2,957**	**751,185**	**(17,376)**	**733,809**
Finance income							**34,668**
Finance costs							**(6,948)**
Finance income – net							**27,720**
Share of loss of associates and a jointly controlled entity							**(1,239)**
Profit before income tax							**760,290**
Income tax expense							**(187,318)**
Profit for the period							**572,972**

	Unaudited As at 30 September 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*
Segment assets	**7,431,240**	**3,050,478**	**176,687**	**152,946**	**10,811,351**	**14,875**	**10,826,226**

The segment information for the six months ended 30 September 2014 is presented below:

	Unaudited For the six months ended 30 September 2014						
	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	1,590,276	483,178	43,868	41,942	2,159,264	–	2,159,264
Inter-segment sales	(6,097)	(2,022)	–	(8)	(8,127)	–	(8,127)
Segment turnover – net	1,584,179	481,156	43,868	41,934	2,151,137	–	2,151,137
Segment result	963,003	217,350	7,609	6,852	1,194,814	(14,240)	1,180,574
Finance income							30,110
Finance costs							(6,490)
Finance income – net							23,620
Share of profit of associates and a jointly controlled entity							230
Profit before income tax							1,204,424
Income tax expense							(214,937)
Profit for the period							989,487

The segment assets as at 31 March 2015 are presented below:

	Audited As at 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*
Segment assets	7,204,941	3,353,107	161,573	164,299	10,883,920	16,947	10,900,867

Segment result represents the profit earned by each segment without inclusion of unallocated expenses, finance costs, finance income and share of results of associates and a jointly controlled entity. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

4. OTHER INCOME AND OTHER GAINS-NET

	Unaudited For the six months ended 30 September	
	2015	2014
	HK$'000	*HK$'000*
Changes in fair value of financial assets at fair value through profit or loss	**47,317**	–
Loss on disposal of financial assets at fair value through profit or loss	**(7,270)**	–
Government grants	**61,395**	125,832
Currency exchange (loss)/gain – net	**(31,366)**	5,399
Gain on disposal of an associate	**–**	3,487
Others	**139**	1,113
	70,215	135,831

5. EXPENSES BY NATURE

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

		Unaudited For the six months ended 30 September	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Depreciation		**65,063**	61,964
Amortization		**20,686**	22,274
Employee benefit expenses		**161,056**	165,576
Research and development expenses	*(a)*	**111,250**	124,837
Lease rentals		**20,118**	16,950
Travelling expenses		**39,745**	23,906
Utility expenses		**37,510**	41,839
Delivery expenses		**18,616**	21,635

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

	Unaudited For the six months ended 30 September	
	2015	2014
	HK$'000	*HK$'000*
Depreciation	**13,717**	12,824
Amortization	**50**	471
Employee benefit expenses	**46,698**	49,412

6. INCOME TAX EXPENSE

	Note	Unaudited For the six months ended 30 September **2015** ***HK$'000***	 2014 *HK$'000*
Current income tax:			
– Hong Kong profits tax	*(a)*	**4,657**	5,331
– PRC corporate income tax	*(b)*	**189,652**	221,633
– Germany company income tax	*(c)*	**125**	147
– Botswana company income tax	*(d)*	**787**	566
Deferred income tax		**(7,903)**	(12,740)
		187,318	214,937

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

(b) PRC corporate income tax has been calculated on the estimated assessable profit for the period 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 period.

(d) Botswana company income tax has been provided at the rate of 15% (2014: 15%) on the estimated assessable profit for the period.

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 period.

	Unaudited For the six months ended 30 September 2015	2014
Profit attributable to equity holders of the Company *(HK$'000)*	**565,340**	984,013
Weighted average number of ordinary shares in issue *('000)*	**3,106,211**	3,102,158
Basic earnings per share *(HK cents per share)*	**18.20**	31.72

(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 six months ended 30 September 2015, the Company has one type of dilutive potential ordinary shares, i.e. share options.

For 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 financial period) for the same total proceeds is added to the denominator. No adjustment is made to the net profit.

	Unaudited For the six months ended 30 September 2015	2014
Profit attributable to equity holders of the Company *(HK$'000)*	**565,340**	984,013
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,106,211**	3,102,158
Adjustment for: exercise of share options *('000)*	**2,957**	3,671
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,109,168**	3,105,829
Diluted earnings per share *(HK cents per share)*	**18.18**	31.68

8. DIVIDENDS

	Unaudited For the six months ended 30 September	
	2015	2014
	HK$'000	*HK$'000*
Proposed interim dividend of nil (2014: HK9.52 cents) per share	**–**	295,531
Proposed special dividend of nil (2014: HK22.20 cents) per share	**–**	689,158
	–	984,689

No interim dividend is proposed at the meeting of the Board held on 18 November 2015.

9. TRADE AND OTHER RECEIVABLES

		As at 30 September 2015	As at 31 March 2015
	Note	***HK$'000***	*HK$'000*
		Unaudited	Audited
Trade receivables	*(a)*	**945,283**	936,735
Less: Provision for impairment of receivables		**(13,028)**	(7,044)
Trade receivables – net		**932,255**	929,691
Notes receivable		**142,366**	224,940
Prepayments and other receivables		**92,583**	106,060
Advances to staff		**13,466**	13,473
Others		**22,745**	35,529
		1,203,415	1,309,693

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

(a) The credit period granted to customers generally ranges from 0 to 180 days. At 30 September 2015 and 31 March 2015, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice dates were as follows:

	As at 30 September 2015 *HK$'000* **Unaudited**	As at 31 March 2015 *HK$'000* Audited
0 – 90 days	**848,383**	837,444
91 – 180 days	**47,433**	47,365
181 – 360 days	**15,201**	14,087
Over 360 days	**34,266**	37,839
	945,283	936,735

10. BORROWINGS

	Note	**As at 30 September 2015** *HK$'000* **Unaudited**	As at 31 March 2015 *HK$'000* Audited
Current			
– Secured bank borrowing	*(a)*	**–**	15,150
– Unsecured bank borrowings	*(b)*	**601,165**	735,128
Total borrowings		**601,165**	750,278

(a) The bank borrowing was secured by a pledge of land and buildings located in Hunan Province owned by a subsidiary, Yongzhou Shanxiang Flavour Co., Ltd. The borrowing was denominated in RMB and was repayable within one year. During the period, the average interest rate was 6.30% (30 September 2014: 6.3%) per annum. The borrowing was fully repaid before 30 September 2015.

(b) The unsecured bank borrowing are repayable within one year. During the period, the average interest rate was 1.86% (30 September 2014: 2.35%) per annum.

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

Interest expense on bank borrowings for the six months ended 30 September 2015 amounted to HKD6,948,000 (30 September 2014: HKD6,406,000).

11. TRADE AND OTHER PAYABLES

	Note	As at 30 September 2015 HK$'000 Unaudited	As at 31 March 2015 HK$'000 Audited
Trade payables	*(a)*	**269,639**	394,759
Dividends payable	*(b)*	**2,985**	–
Wages payable		**23,947**	70,723
Other taxes payable		**49,480**	39,378
Accruals for expenses		**15,206**	9,454
Advance from customers		**4,775**	2,345
Other payables		**57,530**	45,371
		423,562	562,030

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

(a) As at 30 September 2015 and 31 March 2015, 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 30 September 2015 HK$'000 Unaudited	As at 31 March 2015 HK$'000 Audited
0 – 90 days	**203,537**	271,306
91 – 180 days	**43,136**	88,508
181 – 360 days	**7,275**	12,296
Over 360 days	**15,691**	22,649
	269,639	394,759

(b) Dividends payable

Dividends payable represents dividend payable to non-controlling shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Recent Cooperations and Acquisitions

Yancheng Chunzhu

In August 2015, the Group invested RMB84 million for the acquisition of a 30% equity interest in Yancheng Chunzhu Flavour Limited ("Yancheng Chunzhu"), with an option to purchase a further 30% equity interest in five years at the same price. Yancheng Chunzhu is a leading flavour raw materials company in China and some of its important flavour raw materials products are in global leading position. Its major customers are internationally renowned flavour and fragrance companies. The successful acquisition of Yancheng Chunzhu represents not only an important step towards executing the Group's "Multi-pronged, Focused Growth" strategy, but also a strategic move towards the whole industry chain for the year. The Company, by virtue of its leading position in the industry and strong scientific research capability, as well as Yancheng Chunzhu's competitive edges in the related industry, region and supportive resources, will accelerate the strategic development in the flavour raw materials segment and build a leading flavour raw materials production base in both Asia and the world.

Hongta Blue Eagle

Yunnan Hongta Blue Eagle Paper Co., Ltd. ("Hongta Blue Eagle") is a Sino-foreign joint venture mainly engaged in the production of A-Class cigarette paper. It is the principal cigarette paper supplier under Hongta Group. It has rich experience and advanced technology in related product manufacturing. To execute the Group's "Multi-pronged, Focused Growth" strategy, the Group entered into a share transfer agreement in September 2015 with the second largest shareholder of Hongta Blue Eagle to purchase all of its 25.1% equity interest in Hongta Blue Eagle, for approximately RMB102 million. The entering of the share transfer agreement will play an important role for the Group in extending the industrial chain, expanding the product lines and providing the fully integrated solution for the tobacco industry. It will also strengthen the strategic partnership between the Group and tobacco companies of China.

Quotation of shares on the New Third Board- Xiamen Amber

The Group's main subsidiary, Xiamen Amber Daily Chemical Technology Co., Ltd. ("Xiamen Amber"), was successfully admitted by the National Equities Exchange and Quotation (the "NEEQ") in August 2015, which marked the entry of the domestic professional fragrance company into the NEEQ capital market. The quotation of the shares of Xiamen Amber is a good opportunity for the Company's future development. The Group will integrate all of its competitive resources and make concerted efforts to "develop new products and expand into new fields" in line with the business philosophy of "pursuing excellence for continuous operation "in order to build an enterprise with comprehensive competitive edge in fragrance production, further enlarge and strengthen the Company, and make "Xiamen Amber" (厦門琥珀) a renowned brand in China, thereby rewarding investors in the future.

Industry Review

Tobacco industry overview

As a result of various domestic and international factors, China's economic growth was 6.9% for the first three quarters, being a record low since the second quarter of 2009. Chinese economy shows a feature of natural slowdown under the new normal. With the increasing downward pressure of the Chinese economy, the tobacco industry is facing a more severe situation. In the first half of 2015, the domestic cigarette industry produced a total of 25.13 million cases of cigarettes, decreased by approximately 0.81 million cases or 3.1% from last year; sales volume of cigarettes amounted to 26.06 million cases, decreased by approximately 0.59 million cases or 2.2% from last year. On the other hand, premium cigarette showed accelerated growth, and the overall product structure continued to improve. Class I and Class II cigarettes bucked the market trend to keep an upward momentum. Sales volume of Class I cigarettes was close to 6.15 million cases, representing an increase of approximately 10% over the corresponding period last year; sales volume of Class II cigarettes was close to 3.2 million cases, representing an increase of approximately 13.6% over the corresponding period last year. Class I and II cigarettes accounted for 35.6% of total sales volume of all cigarettes, representing an increase of 4 percentage points over the corresponding period last year. It remained the trend of "the strong ones get stronger" for the 28 key brands in terms of sales revenue. Sales of both top 15 brands reached RMB638.4 billion, accounted for 84% of total cigarette sales, up 0.8 percentage point. With the upgraded product structure, the average unit wholesale price increased by 7.2%, reaching RMB29,300 per case. The total industrial and commercial profit tax of the industry reached RMB624.2 billion for the first half year, representing an increase of approximately RMB44 billion or 7.6% over the corresponding period last year. To achieve the profit tax growth target of "seven-ten-trillion", tobacco industry has been strictly controlling its cost and expenses, which affected the sales of tobacco flavors. (Source: State Tobacco Monopoly Administration).

Although the product structure was improved in cigarette sales, from the overall perspective, industrial and commercial inventories in China remained high. In late August, the industrial and commercial inventory of cigarette in PRC was approximately 4.33 million cases, which was an increase of approximately 0.45 million cases or 11.5% from last year, In particular, industrial inventory was approximately 1.66 million cases, representing an increase of approximately 0.17 million cases from last year; commercial inventory was 2.67 million cases, representing an increase of approximately 0.28 million cases from last year. It is expected that the industry's inventory level will remain high for the foreseeable period of time and clearing inventory is still the key task of the industry. (Source: "China Tobacco")

Food and beverage industry overview

For the first half of 2015, domestic food production industry maintained steady growth, but with a declining growth rate. National food industry added value grew by 5.3% compared with previous year, lower by one percentage point than the national industry added value. Affected by poor macro-economic performance, consumers' spending on food and beverage weakened and large retailers' growth in food product sales continued to decline compared with last year. For the first half year, the total revenue of the food manufacturing industry was over RMB1 trillion, but the growth rate was only 6.6% compared with previous year, signaling the end of double-digit growth for the first time in years. The food and beverage industry is now characterized by the phenomenon of "two-low one-high", namely, low growth, low profits, and high revenues. This is a common feature of the fast moving consumer goods industry. With the improvement in the living standards and heightened health awareness, people became more selective for food products.

Healthy, personalized, natural and functional food products became more and more popular among consumers of all ages. In terms of market needs, there were not only affordable products which met public needs, but also personalized products which met the needs of particular consumer groups. In terms of product development trend, consumption pattern shifted from the products simply adequate for food and clothing towards the products with special flavor, nutrition, enjoyment or even special functions. In terms of consumer needs, consumers preferred more natural and light flavor, fruit and vegetable based content products became more popular. In terms of sector development trends, the biscuit sector was declining while the baking product sector such as steamed cake and minced pork pie emerged. On the other hand, the newly revised Food Safety Law of the People's Republic of China came into effect on 1 October 2015. The legislation is widely regarded as the "strictest ever" food safety law. The revised food safety law imposes the strictest whole process control on production, sale, food and beverage services, imposes greater responsibility on food manufacturers and enhances the recourse system. The law also establishes the most ever stringent supervision and punishment system, increases penalties for violations, expands the scope of accountability of local governments' persons in-charge and relevant regulators and where the circumstances constitute a crime, criminal liability shall be pursued in accordance with the law. In the context of these increasingly stringent national policies, the food industry will experience a reshuffle where many small and medium food production enterprises will be forced to upgrade or otherwise be eliminated.

Fragrances industry overview

During the first half of 2015, the fragrances industry business index of China entered into a downward trend and the profit growth rate differed among different sectors with a wide disparity. During the reporting period, cosmetic manufacturing sector and oral care products manufacturing sector realized profit growth whereas soap and synthetic detergent sectors reported a decline in their profits. With the strong rise of the cosmetic and skin care market, product innovation and further segmentation of the fragrances industry had some impacts on the industry. Along with the development of the society and economic progress as well as greater awareness of environmental protection, the two traditional industries of incense and disinfectants declined in growth rate. On the other hand, with the improved living standards, people's consumption pattern evolves toward enjoyment and sharing, accompanied with significant surge in market share for semi-end/high-end products within the entire fragrances market.

Low tar cigarettes and reconstituted tobacco leaves ("RTL") industry overview

In the first half of 2015, sales volume of low tar cigarettes (tar content less than 8 mg/stick) in China was 3.5 million cases, accounted for approximately 13% of total cigarettes sales, representing a decrease of approximately 6.4% compared with the corresponding period last year. Sales volume of low tar cigarettes (tar content less than 6 mg/stick) in China was 0.48 million cases, accounted for approximately 1.8% of total cigarettes sales, representing an increase of 15.9% compared with the corresponding period last year. After a couple of years' rapid development, the low tar cigarettes sector was facing "effects of three aspects" resulting from previous market investments. The outcomes are: firstly, weak potential growth for traditional brands inhibited the business potential of low-tar cigarettes; secondly, for those cigarette brands which had been seeking expansion in the low-tar cigarette market through adjustments of the labels, their sales declined through the year; thirdly, for those brands which developed the low tar cigarette through modification of their low-end products, they were facing a slowdown in business development.

Apart from the tremendous pressure on cigarette inventory, the inventory of tobacco leaves was also facing a severe situation. In the first half of this year, the inventory level in the PRC was up to 37 months' supply, which was far beyond the optimal level of inventory for "nature aging" of tobacco leaves (being 24 to 28 months). The reserve of tobacco leaves locked up funds of approximately RMB380 billion, increased by approximately 11% over the corresponding period last year. Accordingly, the STMA has formulated a three-year adjustment plan with respect to the production of tobacco leaves. The high inventory level of tobacco leaves, to a certain extent, has discouraged tobacco enterprises to further use innovative tobacco materials such as RTL to produce low tar cigarette products. (Source: China Tobacco)

Innovative tobacco products (e-cigarettes) industry overview

In recent years, in response to tax increases and tightened no-smoking policy, innovative tobacco products featuring "low harm" has become a strategic choice for the tobacco industry under transformation. Among new tobacco products, the e-cigarettes development is brisk and vibrant and tops other tobacco products in terms of business growth, consumer growth and market impacts. It is expected that global e-cigarette market size will reach USD7.88 billion in 2015 and may increase to USD18.52 billion by 2019, with a compound annual growth rate of 23.8%. North American market is still the world's largest e-cigarettes market. While e-cigarettes is still at an early stage in the Asia-Pacific region, consumers' lifestyle and preference change will be a driver for e-cigarette business to emerge as an important market in this region in the next few years, which indicates immense growth potential.

Taking advantage of the enormous growth potential of the e-cigarette market, several major international tobacco companies have begun to unfold the e-cigarette market. In the United Kingdom, British American Tobacco has set up a department of "Next Generation of Tobacco Products", seeking to become the leader in new tobacco products. In the United States, the major tobacco companies and e-cigarette companies compete for market shares by targeting convenience stores and e-cigarette sales in the country reached USD1 billion for 2014. In Asia, governments in Japan and Korea raised cigarette taxes sharply last year and expanded the coverage of no-smoking areas in order to protect public health, leading to an explosive growth of e-cigarette market. Market demand for e-cigarettes in Japan and Korea is expected to continue growing this year. It is obvious that market potential for e-cigarettes is huge and should not be underestimated.

	Market Share	
	2014	2019 Forecast
North America	33.3%	46.5%
Western Europe	27.9%	18.1%
Central and Eastern Europe	26.6%	15.7%
Latin America	2.2%	2.2%
Asia-Pacific Region	8.1%	14%
Others	1.8%	3.5%

(Source: 2015-2019 Global Market of E-cigarettes)

RESULTS

For the six months ended 30 September 2015, the Group's sales revenue reached approximately HKD1,693 million, representing a decrease of approximately 21.3% over the corresponding period last year. Gross profit margin reached approximately 69.2%, representing a decrease of approximately 0.1 percentage point as compared with the corresponding period last year. EBIT margin reached approximately 43.3%, representing a decrease of 11.6 percentage points as compared with the corresponding period last year. Profit attributable to equity holders of the Company was approximately HKD565 million, representing a decrease of approximately 42.5% over the corresponding period last year. Basic earning per share was HK18.20 cents, representing a decrease of approximately 42.6% over the corresponding period last year.

Business Review

Review of flavours business

For the six months ended 30 September 2015, sales revenue of flavours business of the Group amounted to HKD1,355,311,000, representing a decrease of approximately 14.4% from HKD1,584,179,000 for the corresponding period last year, while the revenue accounted for approximately 80.1% of the Group's total revenues. Operating profits of the flavours business amounted to HKD665,658,000, representing a decrease of approximately 30.9% compared with the corresponding period last year. The EBIT margin was approximately 49.1%, decreased by approximately 11.7 percentage points from 60.8% for the corresponding period last year. The decline in sales and profits of the tobacco flavours sector was primarily due to the impacts of the macro-economic policies, the decrease in production volume of cigarettes and the destocking of tobacco auxiliary materials. Exports of food flavors dropped sharply due to the adverse effect of macro-economic slowdown.

For tobacco market in the first half year of 2015, cigarette sales continued to show a downward trend. Though Class I and Class II cigarettes continued their steady sales growth, Class III and lower classes reported greater drops. Sales volume of low end cigarettes declined. However, sales volume of high-end cigarettes was not sufficient to offset the shortfall. Sales expansion of those new Class I cigarettes offered by some industrial companies has not yet become substantial, failing to make up for the decline in the sales of low end sector and hence affecting negatively the Company's sales performance. On the other hand, in order to achieve the profit growth target of "seven-ten-trillion", tobacco industry strictly has been controlling its cost and expenses, which affected the sales of tobacco flavors.

As to tobacco flavours, the Group made significant improvement on technology upgrading and the expansion of industrial chain with reference to the industry trends. Focus was placed on development and production of unique flavours and fragrances materials with high added value. Differentiated and unique auxiliary materials solutions were developed starting from unique RTLs and tobacco stems, by leveraging the integrated design capability of Cigarette Overall Taste and expertise in cigarette flavours. We have the business opportunities brought by the internationalization of China tobacco through executing the differentiated service strategy.

In respect of food and beverages business, the concurrent implementation of the newly revised Food Safety Law and its supporting regulations, namely, the Measures for the Administration of Food Production Licenses and the Administrative Measures on Food Operation License, suggested more stringent requests on production safety. Therefore, to ensure safe production and safe quality has become the Group's top priority. Guangzhou Huabao Flavour & Fragrances Company Limited ("Guangzhou Huabao") continued to expand the markets for its two major businesses of confectionary snacks and meat products. In the area of new product development, Guangzhou Huabao's food and beverage ingredients have penetrated the market and efforts will be kept up while fresh taste and baking products will be strongly promoted in the second half year. Shanghai H&K Flavours & Fragrances Co. Ltd. will further focus on home grown enterprises and help them with their business transformation process. In particular, its sales team will work with other teams in the areas of flavour application, formulation and marketing to promote its products to industry players of other dairy products by replicating the success story of "lactic acid bacteria beverage project". With the recovery of the domestic food industry, Guangdong Zhaoqing Fragrances Limited saw considerable increase in the sale of its small canned products this year, and higher priced products represented a higher proportion of sales compared with last year. Sales contributed by Asia markets remained stable. The Group is working on developing large clients in Europe and America and this large client strategy has been paid off. For the first half year, direct sales to end-users increased by 13.6% from last year. Meanwhile, major efforts have been put to explore potential end-users, and multi-facets and multi-channel marketing program for our technical services is being launched to provide customers with technical solutions, and to exploit new food manufacturers and end-users. As China's economy enters into a sustained stabilization of the new normal, the food industry has gradually entered into adjustment stage. The Group will continue to adhere to the "Multi-pronged, Focused Growth" strategic guideline. Moreover, making use of the transformation and upgrade of China's home grown companies, the Group's promotion effort will be placed on healthy, personalized, natural and functional food flavours and fragrances. More new functional products will be gradually introduced, so that we can take advantage of future opportunities from the transition of the food industry and grow our business steadily.

Review of RTL business

For the six months ended 30 September 2015, sales revenue of the Group's RTL business was HKD263,165,000, representing a decrease of approximately 45.3% as compared to HKD481,156,000 for the corresponding period last year, while the percentage to the total revenue of the Group was approximately 15.5%. Operating profit of RTL segment was HKD80,219,000, representing a decrease of approximately 63.1% from the corresponding period last year. EBIT margin was approximately 30.5%, representing a decrease of 14.7 percentage points from 45.2% for the corresponding period last year. The decline in orders for RTL in the reporting period, mainly due to the following reasons: firstly, new RTL capacities have been emerging from areas such as Jiangsu, Yunnan, and Anhui, which had changed the industry landscape; secondly, as the inventory of tobacco companies remained at relatively high levels, under the policy of "accelerate inventory turnover and effectively reduce raw material levels" from the STMA, the purchase volume of RTL had been affected to a certain extent. The adoption rate of RTL has not obviously changed. With the tobacco industry downturn and drop in production and sales volumes, China tobacco companies needed to clear the inventories, which in turn resulted in the significant drop in RTL segment.

In response to the adverse factors in the first half of the year and intensifying competition within the industry, the Group adopted certain measures to ensure a healthy and stable development of the RTL business. The Group is actively working with the tobacco clients in China in its tobacco revitalization project, which is to transform the tobacco leaves inventory not suitable for cigarette production into usable raw materials. Meanwhile, Guangdong Province Jinye Reconstituted Tobacco Leaves Technology Development Company Limited officially kicked off its refined management upgrade project, which aimed to achieve a full-scale upgrade in production management, minimization of production costs and reduction of management and operational costs in terms of procurement costs, warehouse costs and yield of primary product by strict observation of its basic guidelines, i.e. "regulating site management, reducing costs and enhancing Jinye's competitiveness", which met with significant improvement in the stability of product quality and colour composition for high-end products in the first half of the year.

Review of new materials business

For the six months ended 30 September 2015, the Group's sales revenue from new materials was HKD35,700,000, representing a decrease of approximately 18.6% from HKD43,868,000 for the corresponding period last year. Operating profit from the new materials segment was HKD2,351,000, representing a decrease of 69.1%. EBIT margin was approximately 6.6%, representing a decrease of 10.7 percentage points from 17.3% for the corresponding period last year. The significant drop in the revenue was mainly due to the decline in the sales volume in tobacco industry and the decline in sales revenue resulting from clearance of inventory.

In recent years, with the development of technologies, customers became increasingly concerned about tar content reduction. The Group will continue to strengthen the strategic partnership with China tobacco companies, put more effort in R&D, and introduce more new products. The Group has established a number of technology platforms in the areas such as cigarette smoke transmission, innovative tobacco stem processing and specialized RTL. During the reporting period, the Group achieved a breakthrough in its technology platform for innovative tobacco stem treatment and the relevant products. The successful registration of our stem expansion technology with a combination of microwave and steam with the national authorities represented a technological breakthrough, following which we will begin the research on the slicing process. The project effectively reduced the content of semi cellulose in the stem and speeded up the reduction of polysaccharides into fragrance components, which increased the ductility of tobacco stem and further strengthened the industrial applicability of expanded tobacco stems. On the other hand, the Group successfully developed and introduced "dual-capsule", "rotating grain bars", "sound particles stick" and other technology products, and strive to provide our clients with comprehensive and diverse solutions.

Review of fragrances business

For the six months ended 30 September 2015, sales revenue of the Group's fragrances business amounted to HKD38,843,000, representing a decrease of approximately 7.4% from HKD41,934,000 for the corresponding period last year, accounting for approximately 2.3% of the total revenue of the Group. Operating profit of the fragrances segment reached HKD2,957,000, representing a decrease of approximately 56.8% from the corresponding period last year; EBIT margin was approximately 7.6%, representing a decrease of 8.7 percentage points from 16.3% of the corresponding period last year, mainly due to the quotation of Xiamen Amber on China's NEEQ, which resulted in a significant increase in the professional and intermediary fees and a drop in operating profits.

Xiamen Amber previously had a significant market share in the incense and disinfectant sectors. However, along with the development of the society and economic progress, as well as greater awareness of environmental protection, these two traditional sectors have been stalling and even shrinking in the last two years, indicating declines at different levels according to sales figures. The Company saw opportunities arising from the rapid growth of laundry detergents in the domestic market, as its fragrances segment maintained a growth trend in the fragrance products for laundry detergents and soap in the first half of the year. Although Xiamen Amber started relatively late in respect of laundry detergent and soap fragrance products, it managed to gradually expand its presence in the fragrance market relying on its strong R&D capabilities, prudent sales strategies, a clear direction and with the strong support of the Group. The quotation of the shares of Xiamen

Amber on the New Third Board poses a great opportunity for itself. As the Company has got a new launch pad, the team's morale has been enhanced. While actively adjusting the corporate structure and personnel structure, the relevant business segments of the Group are also actively preparing for the adjustment of product structure and customer structure, whereby old products and small customers will gradually migrate to new products and big customers, and the demand-oriented sales model will gradually transit to a sales model featuring both marketing and sales, i.e. a combination of promotion of new products and sales of old products popular among the existing customers.

Latest development of e-cigarette

In June 2015, SPV upgraded and launched its independently-developed refresher SPV2.0 – the Noctilucent Model, which is portable, compact and can be reused by changing the smoke generator, and moreover, the cigarette pack can be used as a mobile charger for cell phones. Following the launch of the cool-looking SPV noctilucent charger, the latest generation of the refresher jointly developed by SPV and the manufacturer of the online seller in America, was launched in China in August 2015. This features a streamlined design with a spiral cap on top to prevent leakage of tobacco oil and also a transparent body made of glass to show the remaining level of liquid inside, with a refillable system to offer consumers more choices of flavours. The product is especially attractive as it is fashionable, safe and convenient. In addition to its basic functions of refreshing and inspiring, being free of nicotine, healthy and environment-friendly are also the key factors that make SPV refresher popular among consumers,.

In addition to its constant efforts to upgrade the existing products and develop new products, SPV managed to build up good reputation and attract positive comments in the market while enhancing its brand awareness through a series of marketing initiatives such as online playback of micro movies, broadcasting at the SPV News Bureau, blogging and Wechat friend circle relay by celebrities and VIPs as well as acting as the official sponsor of the Storm Electronic Music Festival. As for channel building, the Group has been striving to build a comprehensive online and offline sales network. For the online part, in addition to boosting sales of its Tmall flagship store through further integration of resources, the Group also plans to open an e-cigarette mart on Tmall.com and provide its customers with more choices by introducing a variety of products of domestic and international brands. For the offline part, the Group plans to launch its promotional campaign across some universities in China gradually and in batch while preparing for promotion in KTV clubs and internet cafes. In addition to actively accelerating the construction of brands and channels, SPV plans to deepen its cooperation with the leading cigarette and e-cigarette companies in China and abroad in the fields of tobacco oil technology and so on, aiming to expand its product line. Meanwhile, it will continue its merger and acquisition in China and abroad. In the future the Group aims to become an industry-leading e-cigarette and electronic tobacco oil supplier, which will be a powerful driver for the growth of the Group.

Research and development ("R&D") and innovation capability

The Group has a leading R&D platform in China's flavours and fragrances industry and a R&D team of international calibre. The Group has constructed a State-recognised technical centre and a post-doctorate scientific research workstation in Shanghai, and has established joint laboratories with several major tobacco enterprises. It has also established a designated RTL production and R&D base in Shantou, Guangdong province authorised by the STMA and overseas R&D centres in Germany and the U.S.. The Group possesses a R&D team that is comprised of experienced personnel, both domestically and abroad, with its R&D capability continuing to lead the domestic industry. For the six months ended 30 September 2015, R&D expenses of the Group were approximately HKD111,250,000, accounting for approximately 6.6% of total sales revenue.

FUTURE PROSPECTS

The management is cautiously optimistic about the business outlook for the full year, and believes that, with the inventory backlog of tobacco leaves and cigarettes further cleared, the Group's business will continue to expand steadily in the second half of the year. Moving forward, the management will maintain "Multi-pronged, Focused Growth" as its basic strategy for business portfolio development. Regarding "core flavour and fragrance technology" as its starting point of diversification, the management will progressively strengthen and develop multi-layered core competencies including "maintaining close partnership with the China tobacco companies" and "developing food additives channels", and build a diversified strategic investment holding group, with a view to achieving diversified business portfolio group. At the same time, by leveraging on a multi-dimensional platform covering unique materials, open frame R&D system, innovative channels and business incubators, and further diversifying product lines through increased efforts in domestic and overseas M&A, the Group will become the "leader to a better life" in enhancing the ecological environment for relevant industries in various areas, thereby achieving an overall uplift in business development and striving to create higher value and returns for its shareholders.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2015

Sales revenue

The Group's sales revenue amounted to HKD1,693,019,000 for the six months ended 30 September 2015, representing a decrease of 21.3% as compared with HKD2,151,137,000 for the corresponding period last year. The decrease of the sales revenue is mainly attributable to various degrees of declining sales from all segments due to the sluggishness of macroeconomics. For the six months ended 30 September 2015, sales revenue from flavours decreased by 14.4% to HKD1,355,311,000; sales revenue from RTL decreased by 45.3% to HKD263,165,000; sales revenue from new materials decreased by 18.6% to HKD35,700,000; sales revenue from fragrances decreased by 7.4% to HKD38,843,000.

Cost of goods sold

The Group's cost of goods sold amounted to HKD521,283,000 for the six months ended 30 September 2015, representing a decrease of 21.0% as compared with HKD659,771,000 for the corresponding period last year. This was mainly due to the decrease of sales revenue and effective cost control of the Group.

Gross profit and gross profit margin

The gross profit of the Group decreased from HKD1,491,366,000 for the six months ended 30 September 2014 to HKD1,171,736,000 for the six months ended 30 September 2015, representing a decrease of 21.4%. The Group's gross profit margin for the first half of the year is about 69.2%, which was almost the same as 69.3% compared to the same period of last year. This was mainly due to the good cost control of the Group.

Other income and other gains – net

Other income and other gains – net of the Group was HKD70,215,000 for the six months ended 30 September 2015, representing an decrease of HKD65,616,000 as compared with HKD135,831,000 for the six months ended 30 September 2014. The decrease in other income was mainly attributable to the significant decrease in government grants.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly traveling expenses, transportation cost, salaries and office expenses. The selling and marketing expenses of the Group for the six months ended 30 September 2015 were HKD118,603,000, representing an increase of 25.8% as compared with HKD94,260,000 for the corresponding period last year. Selling and marketing expenses to total sales revenue for the six months ended 30 September 2015 and 2014 amounted to approximately 7.0% and 4.4% respectively. The increase in such ratio was mainly attributable to an increase in e-cigarette marketing promotion expenses and to the Group stepping up its selling efforts which resulted in an increase in related expenses.

Administrative expenses

The Group's administrative expenses amounted to HKD389,539,000 for the six months ended 30 September 2015, representing an increase of 10.6% as compared with HKD352,363,000 for the corresponding period last year. The ratio of administrative expenses to total sales was approximately 23.0%, representing an increase of 6.6 percentage points as compared with 16.4% for the corresponding period last year. The increase in the ratio of administrative expenses to total sales revenue was mainly attributable to the increase of the expenses in hiring international consulting firm for the Group's strategic planning and the increase of travelling expenses in overseas mergers and acquisitions, etc.

Operating profit

The operating profit of the Group for the six months ended 30 September 2015 was HKD733,809,000, representing a decrease of approximately 37.8% as compared with HKD1,180,574,000 for the corresponding period last year, while the operating profit margin decreased by 11.6 percentage points to approximately 43.3% during the first half of the year from approximately 54.9% for the first half of last year. The decrease in operating profit was mainly attributable to the decrease of sales revenue and other income, and the increase of marketing promotion expenses.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2015 was HKD187,318,000, representing a decrease of 12.8% as compared with HKD214,937,000 for the corresponding period last year. Income tax rate of the current period was approximately 24.6%, representing an increase of 6.8 percentage points as compared with 17.8% for the corresponding period of last year. It was mainly attributable to the increase of withholding tax resulting from increase in distribution of profits by PRC subsidiaries due to the reorganization and the change of the Group's business structure.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD565,340,000 for the six months ended 30 September 2015, representing an decrease of 42.5% as compared with HKD984,013,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2015, the net current asset value of the Group was HKD4,787,881,000 (31 March 2015: HKD4,454,334,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2015, the Group's cash and bank balances amounted to HKD3,618,722,000 (31 March 2015: HKD3,626,091,000). The Group neither had any forex hedging products nor structured investment products.

Bank borrowings and gearing ratio

As at 30 September 2015, the Group had bank borrowings of HKD601,165,000 (31 March 2015: HKD750,278,000), all of which were due within one year and unsecured loan with interest calculated based on inter-banks borrowings rate. For the six months ended 30 September 2015, the average annual interest rate of such unsecured loan was 1.86% (2014: 2.35%); the average annual interest rate of the secured loan which has been fully repaid was 6.30% (2014: 6.30%). As at 30 September 2015, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 6.4%, which was further lowered from 8.2% as of 31 March 2015.

Trade receivables turnover period

Trade receivables turnover period is calculated on the basis of the average amount of trade receivables as at the beginning and at the end of a relevant financial period divided by the total sales revenue for the corresponding period and multiplied by 180 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 six months ended 30 September 2015, the Group's average trade receivables turnover period was 100 days, representing an increase of 21 days as compared with 79 days for the last financial year ended 31 March 2015, and an increase of 19 days as compared with 81 days for the corresponding period last year. The increase of the trade receivables turnover rate is mainly attributable to better payment terms granted to our clients due to the sluggishness of the industry.

Trade payables turnover period

Trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 180 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. The Group's average trade payables turnover period was 115 days, representing a decrease of 1 day as compared with 116 days for the last financial year ended 31 March 2015, and maintained at the same level as compared with the corresponding period last year. This rate is stable.

Inventory and inventory turnover period

As at 30 September 2015, the Group's inventory balance amounted to HKD826,448,000 (31 March 2015: HKD818,433,000). For the six months ended 30 September 2015, the inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 180 days) was 284 days, representing an increase of 52 days as compared with 232 days for the last financial year ended 31 March 2015. The increase in inventory turnover period was mainly attributable to the relatively stable inventory balance.

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 is denominated in foreign currency such as USD or EUR. The Group is of the view that the risk of RMB depreciating is very low. As a result, the Group's exposure to exchange rate risk is relatively low.

Pledge of assets

As at 30 September 2015, the secured bank loan of the Group has been fully repaid.

Capital Commitments

As at 30 September 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 for in the financial statements amounting to approximately HKD362,492,000 (31 March 2015: HKD285,779,000), majority of which related to investments in technology innovation sector and investments in an associated company.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2015.

Human resources

As at 30 September 2015, the Group employed a total of 2,311 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea. In order to cater for the Group's future business expansion and upgrade the Group to the international standard in terms of technology and management, the Group proactively attracts and recruits outstanding talents. The High Potential Talent Project (HPTP) undertaken this year will effectively enhance human capital. HPTP is of great significance to organizational strategy implementation, business development and talent pool optimization and construction. The Group expects to, through comprehensive training, cultivate a group of high-calibre talents with excellent quality, outstanding ability, extensive knowledge and high potential, so as to provide a reliable source of talents for the sake of the Group's rapid development.

Meanwhile, on the occasion of the first year of Huabao's second venture, the Group collaborates with Hay Group, a well-known human resource consulting firm, in optimizing the Group's human resource system, establishing a corporate jobs hierarchy, carrying out job evaluation, management and control at the group level, compensation package design and performance management as well as long-term incentive compensation, achieving internal equity and external competitiveness, encouraging human capital value creation, and tapping employees' potential to the greatest extent by effectively incorporating scientific consulting into the Group's work practices, with a view to attaining the Group's strategic objectives.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Throughout the reporting period, 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, A.4.1 and E.1.2:

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") since 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.

Code provision E.1.2 stipulates that the chairman of the board who should also invite chairmen of sub-board committees to attend the annual general meeting. Ms. CHU Lam Yiu, the Chairwoman of the Board and chairwoman of Nomination Committee of the Company, due to business trip, had been unable to attend the annual general meeting of the Company held on 6 August 2015 (the "2015 AGM"). In order to ensure smooth holding of the 2015 AGM, the Chairwoman of the Board authorized and the Directors attended the meeting elected Mr. POON Chiu Kwok, the Executive Director of the Company, to chair the meeting on behalf of the Chairwoman of the Board. Respective chairmen of the Audit and Remuneration Committees and members of Nomination Committee of the Company were present and answered relevant questions at the 2015 AGM.

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 six months ended 30 September 2015.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2015 (2014: interim dividend of HK9.52 cents per share and special dividend of HK22.20 cents per share).

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

During the six months ended 30 September 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 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. The Audit Committee and the Board have reviewed and approved the Group's unaudited condensed consolidated interim financial information for the six months ended 30 September 2015.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim 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 2015-16 interim 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, 18 November 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.