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 2016

FINANCIAL HIGHLIGHTS

Compared with last financial year:

- Sales decreased by approximately 9.2% to HKD3,928,217,000
- Gross profit decreased by approximately 10.6%, gross profit margin remained stable
- Operating profit decreased by approximately 24.7% to HKD1,748,103,000
- Profit attributable to the equity holders of the Company decreased by approximately 27.0% to HKD1,450,250,000
- Basic earnings per share decreased by approximately 27.1% to HK46.69 cents
- Net cash+ reached HKD3,503,706,000, increased by approximately 21.8% as compared with 31 March 2015
- The Board does not recommend the payment of any final dividend for the year ended 31 March 2016

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

* *For identification purpose only*

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 March		Change in
	2016	2015	percentage
	HK$'000	*HK$'000*	
Sales	**3,928,217**	4,326,486	-9.2%
Gross profit	**2,705,176**	3,025,317	-10.6%
Gross profit margin	***68.9%***	*69.9%*	
Operating profit	**1,748,103**	2,320,145	-24.7%
EBIT margin	***44.5%***	*53.6%*	
Profit before income tax	**1,832,915**	2,386,247	-23.2%
Profit attributable to the equity holders of the Company	**1,450,250**	1,986,584	-27.0%
Net cash+	**3,503,706**	2,875,813	+21.8%
Earnings per share			
– Basic	***46.69 HK cents***	*64.02 HK cents*	-27.1%
– Diluted	***46.66 HK cents***	*63.93 HK cents*	-27.0%
Interim and final dividend per share	***– HK cents***	*9.52 HK cents*	
Special dividend per share	***– HK cents***	*22.20 HK cents*	

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 2016 together with the comparative figures for the year ended 31 March 2015.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Sales	*2*	**3,928,217**	4,326,486
Cost of goods sold	*3*	**(1,223,041)**	(1,301,169)
Gross profit		**2,705,176**	3,025,317
Other income and other gains – net	*4*	**197,427**	263,205
Selling and marketing expenses	*3*	**(253,346)**	(204,650)
Administrative expenses	*3*	**(901,154)**	(763,727)
Operating profit		**1,748,103**	2,320,145
Finance income		**85,973**	83,095
Finance costs		**(12,558)**	(13,988)
Finance income – net	*5*	**73,415**	69,107
Share of profit/(loss) of associates and a jointly controlled entity		**11,397**	(3,005)
Profit before income tax		**1,832,915**	2,386,247
Income tax expense	*6*	**(365,380)**	(391,054)
Profit for the year		**1,467,535**	1,995,193
Attributable to:			
Equity holders of the Company		**1,450,250**	1,986,584
Non-controlling interests		**17,285**	8,609
		1,467,535	1,995,193
Earnings per share for profit attributable to the Company's equity holders for the year			
– Basic *(HK cents)*	*7(a)*	**46.69**	64.02
– Diluted *(HK cents)*	*7(b)*	**46.66**	63.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
Profit for the year	**1,467,535**	1,995,193
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**(9,451)**	13,461
Transfer of reserves to income statement upon sale of available-for-sale financial assets, net of tax	**(8,392)**	–
Currency translation differences on foreign operations	**(472,346)**	6,341
Other comprehensive income for the year, net of tax	**(490,189)**	19,802
Total comprehensive income for the year, net of tax	**977,346**	2,014,995
Total comprehensive income attributable to:		
Equity holders of the Company	**971,149**	2,006,322
Non-controlling interests	**6,197**	8,673
	977,346	2,014,995

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2016	2015
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,307,819**	1,405,495
Land use rights		**185,688**	194,060
Intangible assets		**3,261,635**	2,897,367
Investments in associates		**337,616**	227,795
Investments in a jointly controlled entity		**–**	6,987
Available-for-sale financial assets		**222,488**	225,217
Deferred income tax assets		**79,788**	65,194
		5,395,034	5,022,115
Current assets			
Inventories		**834,024**	818,433
Trade and other receivables	*9*	**1,440,690**	1,309,693
Financial assets at fair value through profit or loss		**229,149**	124,535
Available-for-sale financial assets		**165,617**	–
Restricted bank deposit		**117,130**	–
Short-term time deposits		**220,527**	951,802
Cash and cash equivalents		**3,184,051**	2,674,289
		6,191,188	5,878,752
Total assets		**11,586,222**	10,900,867
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**310,666**	310,432
Reserves		**813,203**	1,188,606
Retained earnings		**9,063,371**	7,670,008
		10,187,240	9,169,046
Non-controlling interests		**343,178**	234,796
Total equity		**10,530,418**	9,403,842
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**85,329**	72,607
Trade and other payables	*11*	**38,441**	–
		123,770	72,607
Current liabilities			
Borrowings	*10*	**18,002**	750,278
Trade and other payables	*11*	**794,679**	562,030
Current income tax liabilities		**119,353**	112,110
		932,034	1,424,418
Total liabilities		**1,055,804**	1,497,025
Total equity and liabilities		**11,586,222**	10,900,867

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**1,835,973**	2,582,464
Income tax paid	**(363,744)**	(440,569)
Net cash generated from operating activities	**1,472,229**	2,141,895
Cash flows from investing activities		
Acquisitions of subsidiaries	**(294,497)**	–
Purchases of available-for-sale financial assets	**(228,833)**	(52,558)
Proceeds from disposal of available-for-sale financial assets	**38,384**	–
Deposits paid for acquisition of available-for-sale financial assets	**(43,204)**	–
Acquisition of an associate	**(5,196)**	–
Proceeds from disposal of a jointly controlled entity/an associate	**6,338**	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	**(137,262)**	(154,179)
Proceeds from disposal of property, plant and equipment	**302**	375
Short-term time deposits released/(placed)	**684,259**	(144,425)
Increase in restricted bank deposit	**(117,130)**	–
Dividend received	**20,495**	3,089
Interest received	**90,192**	83,088
Net cash generated from/(used in) investing activities	**13,848**	(349,535)
Cash flows from financing activities		
Dividends paid to shareholders and non-controlling interests	**(48,731)**	(1,565,695)
Acquisition of additional interests in subsidiaries from non-controlling interests	**–**	(58,669)
Capital contributions from non-controlling interests	**3,240**	–
Proceeds from issue of shares in connection with exercise of share options	**9,865**	9,271
New short-term bank borrowings	**–**	290,150
Repayment of short-term bank borrowings	**(756,649)**	(65,150)
Repayment to a shareholder	**–**	(93,985)
Interest paid	**(14,231)**	(13,489)
Repurchases of shares from non-controlling interests	**(254)**	–
Net cash used in financing activities	**(806,760)**	(1,497,567)
Net increase in cash and cash equivalents	**679,317**	294,793
Cash and cash equivalents at 1 April	**2,674,289**	2,375,345
Effects of currency translation on cash and cash equivalents	**(169,555)**	4,151
Cash and cash equivalents at 31 March	**3,184,051**	2,674,289

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 standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party disclosures'.

Amendments from annual improvements to HKFRSs – 2011 – 2013 Cycle, on HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'.

The Group early adopted amendments to HKAS 16 and HKAS 41 on Agriculture: bearer plants. The Group newly acquired certain bearer plants in current year and were recognised as property, plant and equipment amounting to approximately HKD3,396,000 (2015: None).

The impact of adoption of the improvements and amendments are not material to the Group.

(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
HKFRS 14 "Regulatory deferral accounts"	1 January 2016
HKFRS 11 (Amendment) on accounting for acquisitions of interests in joint operations	1 January 2016
HKAS 16 and HKAS 38 (Amendment) on clarification of acceptable methods of depreciation and amortisation	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 2018
HKFRS 9 "Financial instruments"	1 January 2018
HKFRS 16 "Leases"	1 January 2019

2. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours;

(2) Reconstituted tobacco leaves;

(3) Aroma raw materials;

(4) Fragrances; and

(5) New materials.

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. Due to the change in the structure of the internal organisation, the newly acquired subsidiary Yancheng City Chunzhu Aroma Co., Ltd. ("Yancheng Chunzhu") together with existing entities with similar products which were previously classified in the flavour segment are now disclosed as a new operating segment – aroma raw materials segment. Accordingly, the comparative figures of last year have been reclassified.

The Executive Directors consider the business from the operation's perspective and assess the performance of flavours, reconstituted tobacco leaves, aroma raw materials, fragrances and new materials segments:

(1) Flavours segment includes research and development, production and sale of flavours products.

(2) Reconstituted tobacco leaves segment includes research and development, production and sale of paper-making reconstituted tobacco leaves.

(3) Aroma raw materials segment includes research and development, manufacture and sale of aroma raw materials products that are extracted from natural material or generated from chemical process.

(4) Fragrances segment includes research and development, production and sale of fragrances products.

(5) The new materials segment includes research and development, manufacture 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 2016 is presented below:

	Year ended 31 March 2016							
	Flavours *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Aroma raw materials *HK$'000*	Fragrances *HK$'000*	New materials *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Total turnover	2,809,731	699,794	351,583	82,033	74,750	4,017,891	–	4,017,891
Inter-segment sales	(84,110)	(1,544)	(4,018)	(2)	–	(89,674)	–	(89,674)
Segment turnover – net	2,725,621	698,250	347,565	82,031	74,750	3,928,217	–	3,928,217
Segment result	1,463,848	229,729	57,327	7,237	13,580	1,771,721	(23,618)	1,748,103
Finance income								85,973
Finance costs								(12,558)
Finance income – net								73,415
Share of profit of associates and a jointly controlled entity								11,397
Profit before income tax								1,832,915
Income tax expense								(365,380)
Profit for the year								1,467,535
Depreciation	47,496	86,890	9,853	1,669	13,937	159,845	7	159,852
Amortization	45,222	7,588	7,338	826	2	60,976	–	60,976

	As at 31 March 2016							
	Flavours *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Aroma raw materials *HK$'000*	Fragrances *HK$'000*	New materials *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Segment assets	6,861,856	3,315,418	807,058	153,430	222,692	11,360,454	225,768	11,586,222

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

	Year ended 31 March 2015							
	Flavours	Reconstituted tobacco leaves	Aroma raw materials	Fragrances	New materials	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total turnover	2,954,577	974,301	275,219	85,075	86,769	4,375,941	–	4,375,941
Inter-segment sales	(16,273)	(28,727)	(4,424)	(31)	–	(49,455)	–	(49,455)
Segment turnover – net	2,938,304	945,574	270,795	85,044	86,769	4,326,486	–	4,326,486
Segment result	1,852,235	417,891	45,930	10,654	15,311	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
Depreciation	44,322	83,619	8,110	1,682	13,403	151,136	8	151,144
Amortization	30,739	12,063	1,546	842	–	45,190	–	45,190

	As at 31 March 2015							
	Flavours	Reconstituted tobacco leaves	Aroma raw materials	Fragrances	New materials	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	6,705,890	3,353,107	499,051	164,299	161,573	10,883,920	16,947	10,900,867

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	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Depreciation		**132,111**	124,596
Provision for impairment on property, plant and equipment		**15,058**	–
Amortization		**60,462**	44,304
Changes in inventories of finished goods and work in progress		**29,964**	8,873
Raw materials and consumables used		**894,333**	1,026,344
Provision for/(reversal of) impairment on trade receivables		**7,910**	(507)
Lease rentals		**40,438**	38,153
Auditor's remuneration		**10,901**	8,360
Travelling expenses		**91,649**	49,443
Employee benefit expenses		**357,209**	337,764
Research and development expenses	*(a)*	**239,665**	256,205
Delivery expenses		**39,212**	49,621
Utilities expenses		**82,879**	84,368
Motor vehicle expenses		**19,077**	21,237
Maintenance expenses		**31,644**	25,217
Advertising and promotion expenses		**91,373**	43,518
Office administrative and communication expenses		**23,205**	14,167
Other surcharges		**13,796**	12,921
Others		**196,655**	124,962
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**2,377,541**	2,269,546

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

	Year ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
Depreciation	**27,741**	26,548
Amortization	**514**	886
Employee benefit expenses	**94,257**	94,727

4. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 March 2016 HK$'000	2015 HK$'000
Changes in fair value of financial assets at fair value through profit or loss	**68,045**	28,658
Loss on disposal of financial assets at fair value through profit or loss	**(9,058)**	–
Gain on disposal of available-for-sale financial assets	**3,296**	–
Gain on disposal of an associate	**–**	3,487
Gain on disposal of a subsidiary	**–**	2,180
Government grants	**191,455**	229,442
Foreign exchange loss – net	**(40,595)**	(5,549)
Change in fair value of previously held interests in an associate upon acquisition as a subsidiary	**(14,182)**	–
Others	**(1,534)**	4,987
	197,427	263,205

5. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March 2016 HK$'000	2015 HK$'000
Finance income:		
Interest income on bank deposits	**85,973**	83,095
Finance costs:		
Interest expense on bank borrowings and others	**(12,558)**	(13,988)
Finance income – net	**73,415**	69,107

6. INCOME TAX EXPENSE

	Note	Year ended 31 March 2016 HK$'000	2015 HK$'000
Current income tax			
– Hong Kong profits tax	*(a)*	**10,737**	13,408
– PRC corporate income tax	*(b)*	**375,870**	400,000
– Germany company income tax	*(c)*	**142**	139
– Botswana company income tax	*(d)*	**1,197**	1,023
Deferred income tax		**(22,566)**	(23,516)
		365,380	391,054

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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% (2015: 15%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15% (2015: 15%) on the estimated assessable profit for the year.

(e) The subsidiary in U.S. is a limited partnership and does not chargeable to income tax at partnership level. The corporate owners of the partnership pay tax on its share of the entity's taxable income at the rate of 35% for the year.

(f) No provision for income tax in other jurisdictions has been made as the Group had 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	
	2016	2015
Profit attributable to equity holders of the Company *(HK$'000)*	**1,450,250**	1,986,584
Weighted average number of ordinary shares in issue *('000)*	**3,106,435**	3,103,145
Basic earnings per share *(HK cents per share)*	**46.69**	64.02

(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 2016, the share options and awarded shares granted by the Company have potential dilutive effect on the earnings per share.

The weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised and awarded shares were granted. 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	
	2016	2015
Profit attributable to equity holders of the Company *(HK$'000)*	**1,450,250**	1,986,584
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,106,435**	3,103,145
Adjustment for: exercise of share options *('000)*	**1,628**	4,170
grant of awarded shares *('000)*	**345**	–
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,108,408**	3,107,315
Diluted earnings per share *(HK cents per share)*	**46.66**	63.93

8. DIVIDENDS

	Year ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
Interim dividend: nil (2015: HK9.52 cents) per share	**–**	295,531
Proposed final dividend: nil (2015: nil) per share	**–**	–
	–	295,531
Special dividend: nil (2015: HK22.20 cents) per share	**–**	689,158
	–	984,689

No final dividend (2015: nil) is proposed at the meeting of the Board held on 22 June 2016.

9. TRADE AND OTHER RECEIVABLES

		As at 31 March	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Trade receivables	*(a)*	**994,949**	936,735
Less: Provision for impairment of receivables		**(13,763)**	(7,044)
Trade receivables – net		**981,186**	929,691
Note receivables		**192,647**	224,940
Prepayments and other receivables		**231,930**	106,060
Advances to staff		**15,054**	13,473
Others		**19,873**	35,529
		1,440,690	1,309,693

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. As at 31 March 2016 and 2015, 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	
	2016	2015
	HK$'000	*HK$'000*
0 – 90 days	**869,233**	837,444
91 – 180 days	**55,538**	47,365
181 – 360 days	**41,803**	14,087
Over 360 days	**28,375**	37,839
	994,949	936,735

As at 31 March 2016, unbilled trade receivables of HKD371,792,000 (2015: HKD457,111,000) was categorised in the aging of 0-90 days.

10. BORROWINGS

	Note	As at 31 March 2016 HK$'000	2015 HK$'000
Current			
– Secured bank borrowing	(a)	**13,201**	15,150
– Unsecured bank borrowings	(b)	**4,801**	735,128
Total borrowings		**18,002**	750,278

(a) As at 31 March 2016, the bank borrowing is secured by a pledge of land and buildings located in Jiangsu Province owned by a subsidiary, Yancheng Chunzhu. The borrowing is denominated in RMB and is repayable within one year. During the year, the average interest rate was 6.38%.

(b) The unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 1.90% (2015: 2.24%) 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 borrowings for the year ended 31 March 2016 amounted to HKD10,445,000 (2015: HKD13,878,000.

11. TRADE AND OTHER PAYABLES

	Note	As at 31 March 2016 HK$'000	2015 HK$'000
Trade payables	(a)	**371,263**	394,759
Dividends payable		**8,947**	–
Wages payable		**52,659**	70,723
Other taxes payable		**77,004**	39,378
Accruals for expenses		**75,452**	9,454
Advances from customers		**7,124**	2,345
Payable for acquisition of an associate		**116,806**	–
Payable for licence fee		**43,462**	–
Other payables		**80,403**	45,371
		833,120	562,030

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

(a) As at 31 March 2016 and 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 31 March 2016 HK$'000	2015 HK$'000
0 – 90 days	**289,879**	271,306
91 – 180 days	**56,234**	88,508
181 – 360 days	**6,546**	12,296
Over 360 days	**18,604**	22,649
	371,263	394,759

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisitions completed during the year

Yancheng Chunzhu

In August and December 2015, the Group successfully acquired 60% equity interest in Yancheng City Chunzhu Aroma Co., Ltd. ("Yancheng Chunzhu") at a total cash consideration of HKD204,228,000 (equivalent to approximately RMB168 million), making it one of the non-major subsidiaries of the Group. Yancheng Chunzhu is a leading company of aroma raw materials in China and some of its key aroma raw material products hold leading positions globally. Its major customers are renowned international flavour and fragrance companies. To build an integrated platform for aroma raw materials, the Group acquired extra 23.59% shares of Yancheng Chunzhu by way of share swap through the equity restructuring of its wholly-owned subsidiary Zhaoqing Perfumery Co., Ltd. (Guangdong) ("Guangdong Zhaoqing"), and thereby the Group's total interest in Yancheng Chunzhu reached 83.59%. The successful acquisition and reorganization of Yancheng Chunzhu represents not only an important step towards the Group's execution of the strategy "Multi-pronged, Focused Growth", but also a strategic move towards the whole industry value chain in the year. Huabao, 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 aroma raw materials segment and build a leading production base of aroma raw materials 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. Hongta Blue Eagle is the only cigarette paper manufacturer in Yunnan Province, and also 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 HKD121,342,000 (equivalent to approximately RMB102 million). The share transfer agreement will play an important role in extending the industry value chain and expanding the product lines of the Group, as well as providing a fully integrated solution for the tobacco industry. It will also strengthen the strategic partnership between the Group and the tobacco companies in China.

VMR

In December 2015, the Group acquired a 51% equity interest in VMR Products, LLC ("VMR"), a US e-cigarette company, at a total consideration of HKD177,884,000 (equivalent to approximately US$22.95 million). Founded in 2009, VMR is a U.S. company independently engaged in research and development, production and sales of electronic cigarettes ("e-cigarette(s)"), and is one of the largest online retailers of e-cigarettes in the U.S.. It owns flagship brands such as V2, V2Pro, Vapour2, and so on. VMR has strong research and development capability, and is an industry leader in terms of patents and patent applications. The successful acquisition of VMR will positively promote the integration of the Group's e-cigarette and reflect the Group's strategy of "Multi-pronged, Focused Growth". The acquisition is also business conducive to our future development on e-cigarette sales and active expansion in overseas market.

Quotation of shares on the New Third Board – Xiamen Amber

The Group's 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 capital market. The quotation of the shares of Xiamen Amber on the NEEQ is a good opportunity for its future development. The Group will integrate all of its quality 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, to further grow and strengthen Xiamen Amber, and to make "Xiamen Amber" a renowned brand in China, thereby rewarding investors in the future.

RESULTS

For the year ended 31 March 2016, sales revenue of the Group decreased by approximately 9.2% year-on-year to approximately HKD3,928 million. Gross profit margin reached approximately 68.9%, representing a slight decrease of 1.0 percentage point over last financial year. EBIT margin reached approximately 44.5%, representing a decrease of 9.1 percentage points over last financial year. Profit attributable to equity holders of the Company was approximately HKD1,450 million, representing a decrease of approximately 27.0% over last financial year. Basic EPS was HK46.69 cents, representing a decrease of approximately 27.1% over last financial year.

BUSINESS REVIEW

Review of flavours business

For the year ended 31 March 2016, sales revenue of the flavours business of the Group amounted to HKD2,725,621,000, representing a decrease of approximately 7.2% from the last financial year. The operating profit of the flavours segment was about HKD1,463,848,000, representing a decrease of 21.0% as compared with approximately HKD1,852,235,000 for the last financial year. The EBIT margin of the flavours segment was approximately 53.7%, representing a decrease of 9.3 percentage points as compared with approximately 63.0% for the last financial year. The EBITDA margin was approximately 57.1%, representing a decrease of approximately 8.5 percentage points as compared with approximately 65.6% for the last financial year. The decline in sales and profits of the tobacco flavours business was primarily due to the impacts of the sluggish macroeconomics, the decrease in production volume of cigarettes and the destocking of raw materials of tobacco industry.

In 2015, the GDP annual growth rate in China was 6.9%, which fell to the record low of twenty-five years. With the slowdown of China's economy, the stepping up efforts to ban or control smoking and the rising awareness of public health, the traditional tobacco industry faced increasing pressure, both production and sales declined simultaneously. According to statistical data, sales volume of cigarettes in 2015 was about 49.79 million cases, representing a decrease of approximately 1.20 million cases or 2.4% as compared with last year; production volume of cigarettes amounted to 51.24 million cases, representing a decrease of 0.46 million cases or 0.9% as compared with last year, and it was the first decline since 2000.

The performance of the tobacco industry in the first quarter of 2016 was not optimistic either. The production volume of cigarettes in the PRC amounted to approximately 12.36 million cases, representing a decrease of 0.95 million cases or 7.1% as compared with the corresponding period last year. The sales volume of cigarettes in the PRC amounted to 13.23 million cases, representing a decrease of 0.97 million cases or 6.8% as compared with the corresponding period last year. In particular, the production and sales volume of major brands decreased by 4.0 and by 2.2 percentage points respectively, which almost offset all the benefits from tax hike and price rise. The total industrial and commercial profits tax also fell sharply. The realized profit tax was RMB342.3 billion, representing a decrease of RMB26.0 billion or 7.1% as compared with the corresponding period last year, and total industry profit tax decreased by 13.3%. On the other hand, the inventories of cigarettes remained high. As of the end of March 2016, total industrial and commercial inventories of the cigarettes were 5.85 million cases, representing an increase of 1.55 million cases or 36.0% as compared with the corresponding period last year.

Due to the severe situation of declining in both production and sales and high inventory level in the tobacco industry, the traditional business model became inadequate. The Group has been taking appropriate measures to provide a package solution by using the systematic solution approach and the whole cigarette design approach. In addition, the Group has been working on transforming itself from a traditional manufacturer into a systematic service provider, enlarging growth points and enhancing business structure. At the same time, the Group has strengthened strategic partnership with tobacco companies, and made efforts to upgrade its technology, service and business structure and to expand its business scope.

During the reporting period, the tobacco flavours business received a number of honors and awards. In the 2015 outstanding enterprises annual assessment activities of Jiading District, Shanghai, Huabao Food Flavours & Fragrances (Shanghai) Company Limited won the "2015 Integrated Strength Silver Award (Advanced Manufacturing) of Jiading District, Shanghai" and the "Integrated Strength Gold Award (Advanced Manufacturing) of Jiading Industrial Zone"; Shanghai Huabao Biological Technology Co., Ltd. won the 2015 annual honorary title of "Little Giant Enterprise of Jiading District, Shanghai" and "Technology Innovation Award" in the assessment activities of Jiading District and Jiading Industrial Zone. The numerous awards are the recognition from Jiading District Government and the Management Committee of Jiading Industrial Zone for the achievements of the Group in business management, company strength, technological innovation and other aspects, and give great impetus for the Group to further accelerate its business development in the future.

For food and beverage business, as China's economy generally entered into the "new normal", the food industry has been slowing down for five consecutive years and profit margins continued to decline. Due to the increasing competition and rising operating costs, the food industry in China is suffering from being squeezed by "rising costs" and "falling prices", which resulted in the declines in both revenue and profit. Meanwhile, with fundamental changes in domestic supply and demand condition and continuing upgrades of domestic food consumption, the proportion of expenditure on general commodities and basic necessities is going down gradually, while the proportion of expenditure on quality life and lifestyle is increasing yearly. In addition, the rise of e-commerce enables more food brands to achieve the retail transformation from offline to online and the online platform has accordingly become the fastest growing distribution channel.

Facing with such complex operating environment, the Group further optimized its customer base by adhering to the development strategy of “Big Customers, Big Brands” and achieved satisfactory results. During the financial year, in addition to keeping the relationship with existing large customers, Shanghai H&K Flavours & Fragrances Co., Ltd. (“Huabao Kongque”) has also actively developed new domestic and overseas customers, and has introduced new products, based on the original flavours, which are catered to market needs and adapted to the new trend, including characteristic flavours, special creams and enzyme flavours. These new products received good feedbacks from new and old customers. In April 2015, Huabao Kongque was honored as the “Outstanding Contributions Enterprise” and the “Outstanding Contributions Enterprise in China Roasted Nuts Industry 2005-2015” by The Specialized Committee for Nuts and Roasted Seeds of China National Food Industry Association. In following April, Huabao Kongque again won the title of “2015 top 20 Quality Service Suppliers for Nuts and Roasted foods industry (flavours)”.

The customers of Guangzhou Huabao Food Co., Ltd (formerly known as “Guangzhou Huabao Flavours & Fragrances Co., Ltd”) (“Guangzhou Huabao”) still mainly consist of local snack food companies, and the business growth is mainly driven by the major products of large customers. The big customers from traditional meat industry are stable, which have high brand recognition and are in a rising trend. The sales to baking food industry are mainly in dealer distribution model. In the future, the company will continue to support the transformation of products to large customers towards health concept and the optimization of old products so as to increase the competitive edge. At the same time, Guangzhou Huabao will actively develop the catering market with the brand “hanfang” and focus on the development of fresh condiments. Seasoning bag has become a successful case for Guangzhou Huabao to enter the fresh food production enterprises. Going forward, Guangzhou Huabao will continue to develop its business in the catering market and condiment market. In particular, by combining plant extract products with seasoning technology, Guangzhou Huabao seeks to improve product value and satisfy customers’ needs for delicious, convenient and fast foods. In October 2015, Guangzhou Huabao was awarded two honorary titles by Guangdong Province, namely the “High-tech Enterprises of Guangdong Province” and “Engineering Technology Research Center of Guangdong Province”.

In October 2015, the Chinese government has officially implemented the most stringent food safety law in history, which imposed stricter requirements on food safety management. The state has also proposed clearly to establish a food safety trace-back system, to put in place the most stringent regulatory system, the most extreme punishment and the tightest accountability. The Group will take food safety as the starting point and strengthen raw material supply management, raw materials trace-back management and manufacturing process management while strengthening the maintenance of infrastructures and manufacturing facilities of our plants and proactively identifying food safety risks associated with raw materials and production process.

Under the traditional sales model, food enterprises are generally subject to geographical restrictions. However, the rise and development of the Internet offer broader market space to food enterprises, and the mobile Internet even creates a “borderless” market, allowing the food segment to operate at lower cost and higher efficiency. In November 2015, the Group’s Kongque B2B Mall (http://www.kqfine.com) was officially launched, marking an important step for the Group’s “Internet + traditional industries”. Currently, the online orders in the mall are mainly from computer terminals, supplemented by mobile phone APPs. By taking full advantage of Internet technology, the Group has realized one stop logistics services in a high efficient and fast way, including self-order, internal audit, production, and delivery. From customer feedbacks on preliminary visits and user experiences are encouraging. Looking forward, the mall will develop a platform for food additives and build a one-stop purchasing platform for food additives. Furthermore, the mall will drive website traffic, promote platform services and create new growth points through the set-up of certain online modules including industry news and new product updates.

Review of RTL business

For the year ended 31 March 2016, sales revenue of the reconstituted tobacco leaves ("RTL") business of the Group reached HKD698,250,000, representing a decrease of approximately 26.2% from the last financial year. Operating profit of the segment was approximately HKD229,729,000, representing a decrease of 45.0% as compared with HKD417,891,000 for the last financial year. EBIT margin reached approximately 32.9%, representing a decrease of 11.3 percentage points as compared with approximately 44.2% of the last financial year. The decrease in sales revenue of the RTL segment was 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 State Tobacco Monopoly Administration, the purchase volume of RTL had been affected to a certain extent.

In response to the adverse factors of high inventories of tobacco leaves and the intensifying competition in RTL industry, the Group adopted certain measures to ensure healthy and stable development of the RTL business while it made efforts to improve the RTL product qualities. On one hand, the Group tried to improve features of RTL products and produce RTL products with different features according to various cigarette brands; on the other hand, the Group tried to improve the functionality for RTL products, while improving cigarette taste and reducing the tar and harm.

Review for aroma raw materials business

The aroma raw materials segment is a newly established segment which mainly includes the business of Guangdong Zhaoqing and the newly purchased Yancheng Chunzhu. For the year ended 31 March 2016, sales revenue of the aroma raw materials segment reached HKD347,565,000, representing an increase of approximately 28.3% from the last financial year. Operating profit of the segment reached HKD57,327,000, representing an increase of 24.8% from the last financial year. The increase of the sales revenue and operation profit of this segment are mainly due to the completion of acquisition of Yancheng Chunzhu in December 2015, whose performance began to be consolidated in the annual results.

Established in 1986, Yancheng Chunzhu is one of the leading aroma raw materials enterprises in China with a history of more than 20 years and specializes in manufacturing of natural and synthetic aroma. Yancheng Chunzhu is a pacesetter in aroma industry in China, and a high-tech company of Jiangsu Province. It is also one of the earliest aroma enterprises in China being granted KOF-K certification and ISO9000 certification, and most of its customers are internationally-renowned flavour and fragrance companies. Yancheng Chunzhu is one of the leading manufacturer of aroma raw materials in China with operation strength, advanced facilities and sophisticated production technologies. It maintains a group of experienced engineers who lead a professional technical team to consistently develop new products. Products of "Chunzhu" brand not only are sold throughout the China market, but also are popular in Europe, North America and Latin America, and through this brand, the company has built up long-term business relationship with customers in the U.S., France, Germany, India and Russia and so on.

The successful acquisition of Yancheng Chunzhu marked an important step to carry out the Group's "Multi-pronged, Focused Growth" strategy and represented a major achievement in building up a complete industry value chain, and had a positive effect on the establishment and expansion of the aroma raw materials segment. Leveraging its advantageous position as an industry leader as well as its superior R&D capacity, Huabao is establishing a leading production base of aroma raw materials in Asia and even in the world by capitalizing on Yancheng Chunzhu's industrial and regional advantages.

Guangdong Zhaoqing made efforts in the synthetic aroma technologies, which not only improved the products qualities but also effectively controlled the products costs. On one hand, Guangdong Zhaoqing adhered to its collaboration strategy of "Big Customers, Big Brands" and actively developed its pool of big customers. It strived to secure full-year orders from the capable groups by utilizing flexible pricing policy and maintaining good customer relationship; on the other hand, it seeked opportunities for market breakthroughs, cooperated with prestigious flavour companies and put more efforts in brand promotion, and formed a sound channel marketing network which included capital cities as the core and spread out to tier-2 and 3 cities. During the reporting period, Guangdong Zhaoqing's sales to its major clients increased by 29.7% as compared with the last financial year. Export sales increased by 21.4% as compared with the last financial year, which was benefited from the increase in the number of end users in the market of Southeast Asia and Japan where more orders were generated. At the same time, the e-commerce platform is moving forward satisfactorily. In November 2015, the e-shop in Taobao upgraded to enterprise store, which enhanced customers' confidence. Last year the annual turnover amount was over RMB300,000, which represented an increase of 103% as compared with the last financial year. In September 2015, the "Research on Clean Production Process for Ethyl Maltol" of Guangdong Zhaoqing was recognized as Technology Plan Project by the city of Zhaoqing, with a technology contract being signed in the following month; and in October 2015, it was granted the certification for a high-tech enterprise for a term of three years.

Review of fragrances business

For the year ended 31 March 2016, the sales revenue of the fragrances business of the Group amounted to HKD82,031,000, representing a decrease of approximately 3.5% from the last financial year. Operating profit of the segment amounted to approximately HKD7,237,000, representing a decrease of approximately 32.1% as compared with HKD10,654,000 for the last financial year, mainly due to the quotation of Xiamen Amber's shares on China's NEEQ, which resulted in a significant increase in the professional and intermediary fees and a drop in operating profits.

In recent years, with the introduction of a series of policies designed to stimulate domestic demand by the Chinese government, some three- or four- tier cities and the vast rural market have become the main battlefield of fragrance industry. As the increase of the disposable income of urban and rural residents, the consumption of daily chemical products in China has also been increasing year after year. However, sales of traditional black mosquito coils and aerosol insecticides have been shrinking over the years and the products have been replaced by clean and convenient liquid electrical mosquito repellants and flavours-free odorless liquid mosquito repellants. Considering its large market share in the field of incense and disinfection, in the unfavorable market environment, Xiamen Amber, had to make structural adjustments, through its technical advantages and influences in the market segment, stable product qualities and excellent services, to continue to play a leading role.

As to the product sales structure, the sales proportion of incense and disinfection fragrances decreased by around 2.2% in the year while the sales proportion of detergent fragrances increased by 4.3%, reflecting that the company's effort on restructuring the product mix has gained positive results. As analyzed by product category, the sales of detergent fragrances recorded a significant growth of 11.5% as compared with last year, and the sales of incense and disinfection fragrances basically stabilized after experiencing a sharp decline in previous years. At the same time, Xiamen Amber stepped up its efforts on product research & development, technical services and marketing development for small and medium-sized detergent and soap enterprises. As a result, sales of detergent and soap fragrances climbed up to about 29.5% and its proportion in total sales revenue increased by nearly 5 percentage points. The export business was still concentrated on incense and disinfection fragrances and products were mainly sold to Indonesia, Thailand, Vietnam and other Southeast Asian countries.

In August 2015, Xiamen Amber was successfully admitted by the NEEQ. Immediately following the quotation of the company's shares, the Group continued to hold 51% equity interests in Xiamen Amber. The quotation will enable the Group to capitalize the value of its existing investment in Xiamen Amber, to provide independent fund-raising platforms for Xiamen Amber for its operation and future expansion, and to provide a mechanism to attract and motivate the managements of Xiamen Amber to be responsible for the operating and financial performance of Xiamen Amber independently.

During the reporting period, Xiamen Amber was assessed as a 2014 annual major taxpayer and the fragrance brand name "Amber" were recognized as "Xiamen Quality Brand" by the Xiamen Municipal Government. In October of the same year, Xiamen Amber was again awarded the High-Tech Enterprise Status.

Review of new materials business

For the year ended 31 March 2016, the Group's revenue from sales of new materials amounted to HK$74,750,000, representing a decrease of approximately 13.9% as compared with the last financial year. The operating profit of the segment was approximately HKD13,580,000, the EBIT ratio was approximately 18.2%, representing an increase of 0.6 percentage point as compared with approximately 17.6% for the last financial year. The significant drop in revenue from the sales of new materials was mainly due to the decline in the sales volume in tobacco industry.

Although the tobacco new materials are still under development, with the continuous launching of new cigarette products, customers' demands on cigarette materials increased dramatically. During the reporting period, the Group has made some progress in the combination of dry-pressed RTLs and filters, the sales of particle stems have been stabilizing, and made some breakthroughs in business. The Group planned to work with tobacco new materials companies to build a filter production platform. In the future, the Group will continue to improve its technology of the platform and technical team, diversify product lines, and build up technology system and technical edges. At the same time, the group will focus on key products promotion, build business foundation, and combine the development of whole cigarette design and packaged solutions together with corporate transformation.

The latest development of new tobacco products

The global e-cigarette market experienced rapid growth over the past five years, and it's expected that the compound annual growth rate could reach 31% till 2019. The U.S. and Europe remained the major markets for e-cigarettes, while Japan, South Korea and some Southeast Asian countries are emerging e-cigarette markets. The e-cigarette market in China has great potential while the current size of the market is still limited. As the world's largest suppliers of e-cigarette products, 80% of the e-cigarettes in the U.S. are made in China. The Chinese enterprises, with a complete industrial value chain and grasp of existing technology of smoking devices, batteries and foggers, have inherent industrial experience and cost advantages to develop e-cigarette business.

In December 2015, the Group acquired 51% equity interests in VMR, America's leading e-cigarette manufacturer, at a consideration of HK$177,884,000 (about US$22.95 million). VMR is a U.S. company independently engaged in e-cigarette design, production and sales and owns its own flagship brands such as V2, V2Pro, Vapour2 and so on. It employs a vertically integrated business model which manages the entire production cycle to ensure high commitment of quality control and customer services. The partnership with Standpoint Electronic Technology Development (Shanghai) Co., Ltd. ("SPV") will have positive impact on VMR's development of new fogging technologies and penetration into the Asian market, especially China market (including Hong Kong, Taiwan). VMR's online and offline network, innovative and independent research and development capability, together with Huabao's capital accumulation and the big platform concept of SPV, have built a solid foundation for the establishment of e-cigarette segment.

After the successful acquisition of VMR, SPV will continue to undergo its industry integration and brand upgrade, from previous product brand to a channel brand, and explore its online and offline sales. SPV established a PV (Professional Vapor) testing centre in 2015, aiming to urge the manufacturers to improve their products quality and service quality through evaluation, so as to provide end-users with better consumer experience and establish an e-cigarette credit system. The PV testing centre focuses on testing of products' safety and performance as well as providing professional training and other related technical services. Integrated with the international frontier, the PV testing centre will strive to make the testing results be accepted by distributors, be recognised by manufacturers and be trusted by consumers.

In June 2015, SPV successfully launched New Product Release Conference in Shanghai for its SPV Refresher 2.0. Besides the noctilucent series and high-end series, there were customized celebrity models. At the same time when SPV worked on the brand building, it continued the promotion work on both domestic and overseas markets. SPV, besides continued sponsorship on the 2015 Storm Music Festival held in Shanghai and Shenzhen, and sponsored the China E-Sports Premier League (CPEL) and the CIG League, securing the title sponsorship of the competition; meanwhile, it gained popularity through recommendations by the Internet celebrities, such as micro-blog VIPs and live show hosts and hostesses. In international market, SPV was invited to the third VapExpo-Paris, and attended the Global Tobacco Networking Forum (GTNF) in Italy, where it won the "2015 Golden Leaf Awards for the Best New Tobacco Company"; in October, SPV, as the first Chinese enterprise being invited, attended the first meeting with FDA in Washington, D.C., U.S. to discuss how to set up new international standards on new tobacco, and joined the VTA E-cigarette Technology Association.

Through brand building, SPV started to build online and offline channels. For online channels, in addition to the Tmall flagship store, SPV actively connected with jd.com and vip.com and opened online stores in Wechat, expanding online sales at the mobile end. And JD included SPV as a strategic customer in the e-cigarette catalog and provided supports in data flow, JingDong self-operating and other promotional activities. Through the joint operations with the e-commerce companies, SPV has turned from the original agent model to the distributor model. For offline channels, SPV improved its reputation mainly through offline experience and event sponsorship. During the reporting period, SPV entered into a strategic partnership with Sanpower Group, and made appearance in Brookstone on the opening day of its Nanjing flagship store. Meanwhile, SPV entered into strategic cooperation with PVGO, China's first venture professional capability developing platform for university students, and rolled out promotional activities in universities.

Financial investment, industry investment & incubation business (in progress)

2015 was the year of the Group for its gradual implementation of transformation after thoughtful consideration. During that period, the economy of China was also in the process of a transformation, the tobacco industry and consumer goods industry faced challenges. Based on the principle of prudence, relied on the strong financial support of the Group, the Group took successful experiences and lessons learned from the transformation of other non-state owned companies and took the recommendations from external consultants and professional advisors. The Group's financial investment, industrial investment and innovation and incubation businesses are developing steadily.

In terms of high-tech investments, the Group invested in the Singulariteam VC Fund from Tel Aviv, Israel and the BAT Angel Fund in Beijing, China. The Singulariteam Fund mainly provides funds, incubation coaching and specialized management services for new technology companies with revolutionary technologies in Israel; while BAT Fund is an Angel Fund focusing on the area of Technology, Media and Telecom (TMT). Both funds rendered brilliant results during the reporting period, and various projects entered the second round of financing or further. According to Israel's latest research report, Singulariteam Fund, as a medium size fund, had 12 investment projects surpassing the other venture capital funds in 2015, and was honoured with the "Best New Venture Capital Award" by Israel's Venture Capital Research Centre.

On the other hand, in order to promote the second venture and strategy upgrade, the Group is actively preparing for the establishment of the Industrial Investment and Innovation Division. This division will be responsible for the Company's investment management, and mergers and acquisitions, innovative business services and incubation management, which are related to the Company's principal businesses. The purpose is to catch the trends of consumption upgrades and explore towards better life; it will provide the required infrastructure and a range of supporting services for small start-up businesses, and make early incubation investments, driving innovation with incubation and driving exploration with investment.

Review of research and development ("R&D")

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. The Group pays great attention to constantly enhancing the capacity of R&D. During the financial year, the Group's R&D cost amounted to HKD239,665,000, representing an decrease of HKD16,540,000 as compared with the last financial year. R&D cost represented approximately 6.1% of sales revenue, such ratio slightly increased by 0.2 percentage point as compared with approximately 5.9% of the last financial year.

Future development strategy

During the past three years, China's economy experienced dramatic changes and went through a structural adjustment, which contributed to the general trend of consumption upgrades in China. After rounds of in-depth reviews and argumentations, the management considers that it is an inevitable course for Huabao's strategic upgrading and second venture to focus on the consumption sector, a beneficiary of consumption upgrading, by taking high-tech innovation, and to establish capital platforms through strategic investments.

To promote the second venture and strategic transformation, the Group, tackling at high-tech innovation and leveraging the flexibility of its fund structure, stood at the forefront of high-tech development in short order via investments in overseas high-tech venture capital funds and domestic angel venture capital funds, and assessed with big data analytics and reviewed from a crossover perspective. On the other hand, the Group actively promoted direct investment in China's fast moving consumer goods industry, and captured several valuable and strategic segment markets as well as new channels and micro customers to adapt to the "long-tail phenomenon" of the fast moving consumer goods market. Moreover, through a series of capital operations, the Group strives to develop itself into a well-established investment holding group. It would be very important for the Group to build various capital platforms, and it will continue to carry the relevant projects forward in the future, to couple with its business development.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2016

Sales revenue

The Group's sales revenue amounted to HKD3,928,217,000 for the year ended 31 March 2016, representing a decrease of approximately 9.2% as compared with HKD4,326,486,000 for the last financial year. Except for the sales revenue of aroma raw materials increased mainly due to acquisition of Yancheng Chunzhu during the year, the sales revenue of other segments fell, due to sluggishness of macroeconomics. For the year ended 31 March 2016, sales revenue from flavours reached HKD2,725,621,000, contributing approximately 69.4% of total sales revenue; sales revenue from RTL reached HKD698,250,000, contributing approximately 17.8% of total sales revenue; sales revenue from new materials reached HKD74,750,000, contributing approximately 1.9% of total sales revenue; sales revenue from fragrances reached HKD82,031,000, contributing approximately 2.1% of total sales revenue; while sales revenue from aroma raw materials reached HKD347,565,000, contributing approximately 8.8% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to HKD1,223,041,000 for the year ended 31 March 2016, representing a decrease of approximately 6.0% as compared with HKD1,301,169,000 for the last financial year.

Gross profit and gross profit margin

Gross profit of the Group decreased from HKD3,025,317,000 for the year ended 31 March 2015 to HKD2,705,176,000 for the year ended 31 March 2016, representing a decrease of approximately 10.6%; gross profit margin was 68.9%, representing a decrease of 1.0 percentage point from 69.9% of the last financial year. Gross profit margin remained stable.

Other income and other gains – net

Other income and other gains – net of the Group was HKD197,427,000 for the year ended 31 March 2016, representing a decrease of HKD65,778,000 as compared with HKD263,205,000 for the last financial year. The decrease in other income is mainly attributable to a decrease in government grants and increase in foreign exchange loss.

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 2016 were HKD253,346,000, representing an increase of approximately 23.8% as compared with HKD204,650,000 for the last financial year. Selling and marketing expenses to total sales revenue for the year ended 31 March 2016 and 2015 amounted to approximately 6.4% and 4.7% respectively. The increase of such ratio was mainly attributable to a significant increase in marketing promotion expenses for new tobacco products 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 HKD901,154,000 for the year ended 31 March 2016, representing an increase of approximately 18.0% as compared with HKD763,727,000 for the last financial year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 22.9%, representing an increase of approximately 5.2 percentage points as compared with 17.7% for the last financial year. The increase in the ratio of administrative expenses to total sales revenue was mainly attributable to an increase in administrative expenses for new tobacco products; an increase in amortization expense of intangible assets arising from acquisition of VMR and Yancheng Chunzhu; engagement of international consulting firm for the Group's strategic planning during the reporting period and the increase in travelling expenses resulted from overseas mergers and acquisitions projects.

Operating profit

Operating profit of the Group for the year ended 31 March 2016 was HKD1,748,103,000, representing a decrease of approximately 24.7% as compared with HKD2,320,145,000 for the last financial year, while the operating profit margin decreased to approximately 44.5% of the current financial year from approximately 53.6% of the last financial year. The decrease in operating profit and operating profit margin were mainly attributable to the decrease of sales revenue and other income, and the increase of marketing promotion expenses and travelling expenses.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2016 was HKD365,380,000, representing a decrease of approximately 6.6% as compared with HKD391,054,000 for the last financial year. Income tax rate of the current year was approximately 19.9%, which was increased by approximately 3.5 percentage points as compared with last financial year. It was mainly attributable to the significant increase in withholding tax resulting from distribution of profits by PRC subsidiaries due to group reorganization.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD1,450,250,000 for the year ended 31 March 2016, representing an decrease of approximately 27.0% as compared with HKD1,986,584,000 for the last financial year but representing an improvement as compare with the decrease of 42.5% for the first half of the financial year.

Net current asset value and financial resources

As at 31 March 2016, the net current asset value of the Group was HKD5,259,154,000 (2015: HKD4,454,334,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 March 2016, the Group's cash and bank balances amounted to HKD3,521,708,000 (2015: HKD3,626,091,000), over 70% of which was held in RMB. The Group hold structured investment products of HKD165,617,000 which was classified as available for sales financial assets.

Bank borrowings and debt ratio

As at 31 March 2016, the Group had bank borrowings of HKD18,002,000 (2015: HKD750,278,000), all of which were due within one year. Among which, HKD13,201,000 are secured loan with average annual interest of 6.4%. HKD4,801,000 are unsecured loan with average annual interest rate of 6.1%. As at 31 March 2016, the Group's debt ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) decreased to 0.2% (2015: 8.2%). The debt ratio lowered further.

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 mergers and acquisitions. For the year ended 31 March 2016, the net cash generated from investing activities amounted to HKD13,848,000, mainly from the release of short-term time deposits, and used for mergers and acquisitions of subsidiaries, investment in associates, procurement of properties, plant and equipment and acquisition of structured investment products. For the year ended 31 March 2015, the net cash used in investing activities amounted to HKD349,535,000.

Financing activities

For the year ended 31 March 2016, the net cash used in financing activities amounted to HKD806,760,000, mainly used for repayments of bank loans. For the year ended 31 March 2015, the net cash used in financing activities amounted to HKD1,497,567,000.

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 2016, the Group's average debtors' turnover period was 89 days, representing an increase of 10 days as compared with 79 days for the last financial year ended 31 March 2015. The increase of trade receivables turnover days was mainly attributable to better payment terms granted to our customers due to the sluggishness of the industry and to the consolidation of Yancheng Chunzhu and VMR's trade receivable balances at balance sheet date.

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 2016, the Group's average creditors' turnover period was 113 days, representing a decrease of 3 days as compared with 116 days for the last financial year ended 31 March 2015. Creditors' turnover period remains stable.

Inventory and inventory turnover period

As at 31 March 2016, the Group's inventory balance amounted to HKD834,024,000 (2015: HKD818,433,000). For the year ended 31 March 2016, 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 243 days, representing an increase of 11 days as compared with 232 days for the last financial year but representing a decrease of 41 days as compared with 284 days for the first half year of the financial year. The increase in inventory balance and inventory turnover period was mainly attributable to the consolidation of VMR's closing inventory resulted from the acquisition of VMR in December 2015.

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's bank deposits are mainly denominated in RMB, USD and HKD and the depreciation risk of which is not significant.

Pledge of assets

As at 31 March 2016, the secured bank loan of the Group amounted to RMB11,000,000 (2015: RMB12,000,000).

Capital Commitments

As at 31 March 2016, 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 amounted to approximately HKD166,714,000 (2015: HKD274,175,000), with investment in high-tech fund amounted to HKD130,120,000.

Contingent liabilities

Based on the information available to the Board, the Group did not have any material contingent liabilities as at 31 March 2016.

Human Resources and Corporate Culture construction

As at 31 March 2016, the Group employed a total of approximately 2,465 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea as compared with approximately 2,300 employees last year. The labor costs for the year (including pension and mandatory provident fund, etc.) amounted to HKD451,466,000, representing an increase of HKD18,975,000 from HKD432,491,000 of the last financial year. The increase in the labor costs was primarily attributable to the increase in number of employee.

Based on the new strategically starting point of the Group, human capital becomes the dominant factor for valuation creation of the Group. The Group collaborated with a professional 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, to achieve internal equity and external competitiveness, encourage human capital value creation. The Group taps 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 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, 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 ("Ms. Chu"), 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") 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, the Chairwoman of the Board and chairwoman of Nomination Committee of the Company, due to attendance of another business commitment of the Company, 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 financial year.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 March 2016 (2015: Nil).

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 9 August 2016 (the "2016 AGM"), the register of members of the Company will be closed from 5 August 2016 to 9 August 2016, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 4 August 2016. Shareholders whose names are recorded in the register of members of the Company on 9 August 2016 are entitled to attend and vote at the 2016 AGM.

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

During the year ended 31 March 2016, neither the Company nor any of its subsidiaries had 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 2016.

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 2016 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

The annual 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 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, 22 June 2016

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 and 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.