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 2017

FINANCIAL HIGHLIGHTS

Compared to last financial year:

- Sales increased by approximately 8.8% to RMB3,482,894,000
- Gross profit increased by approximately 3.0%, gross profit margin decreased by approximately 3.7 percentage points
- Operating profit decreased by approximately 5.9% to RMB1,339,522,000
- Profit attributable to the equity holders of the Company decreased by approximately 9.8% to RMB1,065,424,000
- Basic earnings per share decreased by approximately 9.9% to RMB34.29 cents
- Net cash+ reached RMB4,826,455,000, increased by 65.3% as compared with 31 March 2016
- The Board proposed a final dividend of HK22.00 cents per share for the year ended 31 March 2017, dividend payout ratio reached approximately 57% for the year

\+ *"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
	2017	2016	percentage
	RMB'000	*RMB'000*	
		(Restated)	
Sales	**3,482,894**	3,200,436	+8.8%
Gross profit	**2,270,823**	2,203,988	+3.0%
Gross profit margin	***65.2%***	*68.9%*	
Operating profit	**1,339,522**	1,424,232	-5.9%
EBITDA margin[≠]	***44.7%***	*50.1%*	
EBIT margin	***38.5%***	*44.5%*	
Profit before income tax	**1,409,112**	1,493,331	-5.6%
Profit attributable to the equity holders of the Company	**1,065,424**	1,181,562	-9.8%
Adjusted profit attributable to the equity holders of the Company[#]	**1,097,184**	1,181,562	-7.1%
Net cash[+]	**4,826,455**	2,919,463	+65.3%
Earnings per share			
– Basic	***RMB34.29 cents***	*RMB38.04 cents*	-9.9%
– Diluted	***RMB34.29 cents***	*RMB38.01 cents*	-9.8%
Adjusted basic earnings per share[#]	***RMB35.31 cents***	*RMB38.04 cents*	-7.2%
Final dividend per share *(note 7)*	***HK22.00 cents***	–	

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

\# *Excluding provision for impairment of goodwill of VMR Products, LLC and its subsidiaries ("VMR") of RMB22,710,000 and expenses directly related to spin-off of RMB9,050,000 attributable to the equity holders of the Company for the year ended 31 March 2017.*

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 2017 together with the comparative figures for the year ended 31 March 2016.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March	
		2017	2016
	Note	***RMB'000***	*RMB'000*
			(Restated)
Sales	*2*	**3,482,894**	3,200,436
Cost of goods sold	*3*	**(1,212,071)**	(996,448)
Gross profit		**2,270,823**	2,203,988
Other income and other gains – net	*4*	**239,526**	160,850
Selling and marketing expenses	*3*	**(255,589)**	(206,409)
Administrative expenses	*3*	**(915,238)**	(734,197)
Operating profit		**1,339,522**	1,424,232
Finance income		**57,140**	70,045
Finance costs		**(4,793)**	(10,232)
Finance income – net		**52,347**	59,813
Share of profit of associates and a jointly controlled entity		**17,243**	9,286
Profit before income tax		**1,409,112**	1,493,331
Income tax expense	*5*	**(294,573)**	(297,686)
Profit for the year		**1,114,539**	1,195,645
Attributable to:			
Equity holders of the Company		**1,065,424**	1,181,562
Non-controlling interests		**49,115**	14,083
		1,114,539	1,195,645
Earnings per share for profit attributable to the Company's equity holders for the year			
– Basic	*6(a)*	**RMB34.29 cents**	RMB38.04 cents
– Diluted	*6(b)*	**RMB34.29 cents**	RMB38.01 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**1,114,539**	1,195,645
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**(34,435)**	(7,875)
Transfer of reserves to income statement upon disposal of available-for-sale financial assets, net of tax	**(34,189)**	(6,993)
Currency translation differences on foreign operations	**122,004**	19,914
Other comprehensive income for the year, net of tax	**53,380**	5,046
Total comprehensive income for the year, net of tax	**1,167,919**	1,200,691
Total comprehensive income attributable to:		
Equity holders of the Company	**1,121,296**	1,186,786
Non-controlling interests	**46,623**	13,905
	1,167,919	1,200,691

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March		
	Note	**2017**	2016	2015
		RMB'000	*RMB'000*	*RMB'000*
			(Restated)	(Restated)
ASSETS				
Non-current assets				
Property, plant and equipment		**995,622**	1,089,740	1,113,279
Land use rights		**150,713**	154,724	153,713
Intangible assets		**2,657,656**	2,717,758	2,294,976
Investments in associates		**379,106**	281,319	180,434
Investments in a jointly controlled entity		**–**	–	5,534
Available-for-sale financial assets		**115,938**	185,388	178,392
Deferred income tax assets		**66,744**	66,483	51,639
		4,365,779	4,495,412	3,977,967
Current assets				
Inventories		**693,490**	694,951	648,272
Trade and other receivables	*8*	**1,425,527**	1,200,455	1,037,395
Financial assets at fair value through profit or loss		**–**	190,938	98,643
Available-for-sale financial assets		**111,000**	138,000	–
Restricted bank deposit		**–**	97,599	–
Short-term time deposits		**724,148**	183,754	753,913
Cash and cash equivalents		**4,177,807**	2,653,110	2,118,278
		7,131,972	5,158,807	4,656,501
Total assets		**11,497,751**	9,654,219	8,634,468
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital		**318,647**	318,534	318,344
Reserves		**979,764**	381,113	290,710
Retained earnings		**8,528,166**	7,788,871	6,653,656
		9,826,577	8,488,518	7,262,710
Non-controlling interests		**780,335**	285,953	185,979
Total equity		**10,606,912**	8,774,471	7,448,689
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities		**56,307**	71,100	57,512
Trade and other payables	*10*	**16,721**	32,031	–
		73,028	103,131	57,512
Current liabilities				
Borrowings	*9*	**75,500**	15,000	594,288
Trade and other payables	*10*	**561,604**	662,166	445,178
Current income tax liabilities		**180,707**	99,451	88,801
		817,811	776,617	1,128,267
Total liabilities		**890,839**	879,748	1,185,779
Total equity and liabilities		**11,497,751**	9,654,219	8,634,468

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Cash flows from operating activities		
Cash generated from operations	**1,517,407**	1,492,086
Income tax paid	**(213,698)**	(303,090)
Net cash generated from operating activities	**1,303,709**	1,188,996
Cash flows from investing activities		
Acquisitions of subsidiaries	**–**	(243,626)
Purchases of available-for-sale financial assets	**(1,055,204)**	(190,675)
Proceeds from disposal of available-for-sale financial assets	**1,064,305**	31,984
Deposit paid for acquisition of available-for-sale financial assets	**–**	(36,000)
Deposit paid for additional investment in an associate	**(14,560)**	–
Acquisition of associates	**(127,328)**	(4,329)
Proceeds from disposal of a jointly controlled entity	**–**	5,281
Purchases of property, plant and equipment, land use rights and intangible assets	**(56,011)**	(114,373)
Proceeds from disposal of property, plant and equipment	**429**	252
Short-term time deposits (placed)/released	**(540,394)**	570,159
Release/(increase) in restricted bank deposits	**97,599**	(97,599)
Dividend received	**9,096**	17,077
Interest received	**59,288**	73,482
Net cash (used in)/generated from investing activities	**(562,780)**	11,633
Cash flows from financing activities		
Dividends paid to non-controlling interests	**(186,886)**	(40,605)
Acquisition of additional interests in a subsidiary from non-controlling interests	**(5,250)**	–
Capital contributions from non-controlling interests	**850,454**	2,700
Proceeds from issue of shares in connection with exercise of share options	**–**	8,037
New short-term bank borrowings	**81,500**	–
Repayment of short-term bank borrowings	**(21,000)**	(630,478)
Interest paid	**(4,653)**	(11,594)
Repurchase of shares from non-controlling interests	**–**	(212)
Net cash generated from/(used in) financing activities	**714,165**	(672,152)
Net increase in cash and cash equivalents	**1,455,094**	528,477
Cash and cash equivalents at 1 April	**2,653,110**	2,118,278
Effects of currency translation on cash and cash equivalents	**69,603**	6,355
Cash and cash equivalents at 31 March	**4,177,807**	2,653,110

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) Change of presentation currency by the Group

Having considered that most of the Group's revenue and business activities are conducted in mainland China and the functional currency of those subsidiaries in mainland China is RMB, the Group has decided to adopt and use RMB as the presentation currency in presenting the financial performance and the financial position of the Group effective from 1 October 2016, so as to better reflect the underlying performance of the Group and for better alignment with the underlying business operations of the Group. As a result, the Group changed its presentation currency from HKD to RMB for the preparation of its financial statements.

The change in presentation currency has been applied retrospectively. The comparative figures in this consolidated financial statements were then translated from HKD to RMB using the applicable closing rates for assets and liabilities in the consolidated statement of financial position and applicable average rates that approximated to actual rates for items in the consolidated income statement. Share capital, share premium and reserves were translated at the exchange rate at the date when the respective amounts were determined (i.e. historical exchange rates).

(b) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2016:

Amendments to HKAS 1	"Disclosure initiative"
Amendments to HKFRS 11	"Accounting for acquisitions of interests in joint operations"
Amendments to HKAS 16 and HKAS 38	"Clarification of acceptable methods of depreciation and amortisation"
Annual improvements to HKFRSs 2012-2014 cycle	

The adoption of these amendments starting from 1 April 2016 did not have significant impact on the Group's results of operation and financial position for the year ended 31 March 2017.

(c) New standards and interpretations not yet adopted:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

	Effective for annual periods beginning on or after
HKFRS 9 "Financial instruments"	1 January 2018
HKFRS 15 "Revenue from contracts with customers"	1 January 2018
HKFRS 16 "Leases"	1 January 2019

2. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours and fragrances;

(2) Tobacco raw materials;

(3) Aroma raw materials; and

(4) Innovative tobacco products.

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.

During the current reporting period, the Group conducted an internal organisational restructuring. As a result of the restructuring, the operating segment changed in response to the change in internal reporting. The original flavours segment and fragrances segment were combined into a new segment – flavours and fragrances segment. Reconstituted tobacco leaves segment and new materials segment were combined into a new segment – tobacco raw materials segment. VMR, the subsidiary acquired in last financial year, together with other existing entities with similar business formed a new segment – innovative tobacco products segment. Aroma raw materials segment remains unchanged. The comparative figures of last year have been restated according to the new segment information.

The Executive Directors consider the business from the operation perspective and assess the performance of flavours and fragrances, tobacco raw materials, aroma raw materials and innovative tobacco products segments.

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

2) Tobacco raw materials segment includes research and development, production and sale of paper-making reconstituted tobacco leaves and new materials products that are innovative, functional and applicable to tobacco industry.

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 processes.

4) Innovative tobacco products segment includes research and development, production and sale of e-cigarette.

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 2017 is presented below:

	Year ended 31 March 2017					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Innovative tobacco products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total turnover	2,105,715	712,010	445,184	271,039	1,717	3,535,665
Inter-segment sales	(40,981)	(6,029)	(5,734)	(27)	–	(52,771)
Segment turnover – net	2,064,734	705,981	439,450	271,012	1,717	3,482,894
Segment result	1,205,063	256,053	70,870	(110,984)	(81,480)	1,339,522
Finance income						57,140
Finance costs						(4,793)
Finance income – net						52,347
Share of profit of associates						17,243
Profit before income tax						1,409,112
Income tax expense						(294,573)
Profit for the year						1,114,539
Depreciation	38,873	79,518	11,269	5,666	288	135,614
Amortisation	23,848	7,568	17,019	31,555	576	80,566

	As at 31 March 2017					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Innovative tobacco products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	5,580,878	1,956,731	589,854	310,422	3,059,866	11,497,751

The segment information for the year ended 31 March 2016 is presented below:

	Year ended 31 March 2016 (Restated)					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Innovative tobacco products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total turnover	2,275,430	631,044	286,445	73,309	12,671	3,278,899
Inter-segment sales	(73,060)	(1,258)	(3,273)	–	(872)	(78,463)
Segment turnover – net	2,202,370	629,786	283,172	73,309	11,799	3,200,436
Segment result	1,345,381	218,766	48,229	(88,232)	(99,912)	1,424,232
Finance income						70,045
Finance costs						(10,232)
Finance income – net						59,813
Share of profit of associates and a jointly controlled entity						9,286
Profit before income tax						1,493,331
Income tax expense						(297,686)
Profit for the year						1,195,645
Depreciation	37,717	82,679	8,027	1,541	272	130,236
Amortisation	25,392	6,357	7,299	10,336	295	49,679

	As at 31 March 2016 (Restated)					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Innovative tobacco products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	4,373,706	2,069,909	677,892	375,651	2,157,061	9,654,219

Segment result represents the profit earned by each segment without inclusion of unallocated corporate 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 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 analysed according to their nature (with the exception of "research and development expenses" which are shown as a single item and analysed according to their nature in note (a) below) as follows:

	Note	**Year ended 31 March** **2017** ***RMB'000***	2016 *RMB'000* (Restated)
Depreciation		**113,352**	107,635
Provision for impairment on property, plant and equipment		**2,768**	12,268
Amortisation		**78,071**	49,260
Changes in inventories of finished goods and work in progress		**225,203**	24,413
Raw materials and consumables used		**734,866**	728,640
Provision for impairment on goodwill		**22,710**	–
Provision for impairment on inventories		**7,014**	–
Provision for impairment on trade receivables		**6,514**	6,445
Lease rentals		**47,800**	32,946
Auditor's remuneration		**10,880**	8,881
Travelling expenses		**87,275**	74,669
Employee benefit expenses		**345,938**	291,029
Research and development expenses	*(a)*	**241,787**	195,262
Delivery expenses		**39,603**	31,947
Utilities expenses		**67,902**	67,524
Motor vehicle expenses		**16,118**	15,543
Maintenance expenses		**23,706**	25,781
Advertising and promotion expenses		**110,601**	74,444
Office administrative and communication expenses		**19,300**	18,906
Other surcharges		**6,910**	11,240
Others		**174,580**	160,221
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**2,382,898**	1,937,054

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

	Year ended 31 March **2017** ***RMB'000***	2016 *RMB'000* (Restated)
Depreciation	**22,262**	22,601
Amortisation	**2,495**	419
Employee benefit expenses	**90,111**	76,794

4. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 March	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Changes in fair value of financial assets at fair value through profit or loss	**33,190**	48,058
Gain on disposal of available-for-sale financial assets	**5,305**	2,686
Transfer of reserves to income statement upon disposal of available-for-sale financial assets	**44,910**	–
Government grants	**159,169**	155,984
Foreign exchange loss – net	**(5,365)**	(33,073)
Change in fair value of previously held interests in an associate upon acquisition as a subsidiary	**–**	(11,555)
Others	**2,317**	(1,250)
	239,526	160,850

5. INCOME TAX EXPENSE

		Year ended 31 March	
		2017	2016
	Note	***RMB'000***	*RMB'000*
			(Restated)
Current income tax			
– Hong Kong profits tax	*(a)*	**10,381**	8,748
– PRC corporate income tax	*(b)*	**283,611**	306,232
– Germany company income tax	*(c)*	**106**	116
– Botswana company income tax	*(d)*	**1,018**	975
Deferred income tax		**(543)**	(18,385)
		294,573	297,686

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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% (2016: 15%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15% (2016: 15%) on the estimated assessable profit for the year.

(e) The subsidiary in U.S. is a limited partnership and is not chargeable for income tax at the partnership level. The corporate owners of the partnership pay tax on its share of the partnership'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.

6. 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	
	2017	2016 (Restated)
Profit attributable to equity holders of the Company *(RMB'000)*	**1,065,424**	1,181,562
Weighted average number of ordinary shares in issue *('000)*	**3,107,091**	3,106,435
Basic earnings per share *(RMB cents per share)*	**34.29**	38.04

(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 issued. For the year ended 31 March 2017, 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 and awarded share 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	
	2017	2016 (Restated)
Profit attributable to equity holders of the Company *(RMB'000)*	**1,065,424**	1,181,562
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,107,091**	3,106,435
Adjustment for: share options and share award *('000)*	**290**	1,973
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,107,381**	3,108,408
Diluted earnings per share *(RMB cents per share)*	**34.29**	38.01

7. DIVIDENDS

	As at 31 March 2017 RMB'000	2016 RMB'000 (Restated)
Proposed final dividend of HK22.00 cents (2016:nil) per share	**607,028**	–

On 16 June 2017, the Board proposed a final dividend of HK22.00 cents (2016: nil) per share, totaling approximately RMB607,028,000 (2016: nil) for the year ended 31 March 2017. The proposed dividends in respect of the year ended 31 March 2017 are calculated based on the total number of shares in issue as at the date of this announcement. The proposed dividends are subject to the shareholder's approval at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this dividend payable.

8. TRADE AND OTHER RECEIVABLES

	Note	As at 31 March 2017 *RMB'000*	2016 *RMB'000* (Restated)
Trade receivables	*(a)*	**1,049,955**	829,041
Less: Provision for impairment of receivables		**(14,558)**	(11,468)
Trade receivables – net		**1,035,397**	817,573
Notes receivable		**180,758**	160,523
Prepayments and other receivables		**190,266**	193,256
Advances to staff		**5,740**	12,544
Others		**13,366**	16,559
		1,425,527	1,200,455

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

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 March 2017 and 2016, 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 2017 *RMB'000*	2016 *RMB'000* (Restated)
0 – 90 days	**934,268**	724,288
91 – 180 days	**77,758**	46,277
181 – 360 days	**15,899**	34,832
Over 360 days	**22,030**	23,644
	1,049,955	829,041

As at 31 March 2017, unbilled trade receivables of RMB449,225,000 (2016: RMB309,796,000) was categorised in the aging of 0-90 days.

9. BORROWINGS

	Note	As at 31 March 2017 RMB'000	2016 RMB'000 (Restated)
Current			
– Secured bank borrowing	*(a)*	–	11,000
– Unsecured bank borrowings	*(b)*	**75,500**	4,000
Total borrowings		**75,500**	15,000

a) The borrowing was fully repaid during the year.

(b) Unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 3.97% (2016: 1.90%) per annum.

Borrowings are financial liabilities categorised under "financial liabilities measured at amortised cost". The fair values of the borrowings approximate their carrying amounts. All the borrowings are denominated in RMB.

Interest expense on bank borrowings for the year ended 31 March 2017 amounted to RMB2,473,000 (2016: RMB8,510,000). No interest expense (2016: nil) was capitalised during the year.

10. TRADE AND OTHER PAYABLES

	Note	As at 31 March 2017 RMB'000	2016 RMB'000 (Restated)
Trade payables	*(a)*	**288,422**	309,355
Dividends payable		**2,251**	7,455
Wages payable		**49,619**	43,878
Other taxes payable		**84,345**	64,164
Accruals for expenses		**23,860**	62,870
Advances from customers		**23,773**	5,936
Payable for acquisition of an associate		–	97,329
Payable for license fee		**30,481**	36,214
Other payables		**75,574**	66,996
		578,325	694,197

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

(a) As at 31 March 2017 and 2016, 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 2017 RMB'000	2016 RMB'000 (Restated)
0 – 90 days	**231,307**	241,542
91 – 180 days	**33,747**	46,857
181 – 360 days	**2,425**	5,454
Over 360 days	**20,943**	15,502
	288,422	309,355

MANAGEMENT DISCUSSION AND ANALYSIS

Major events during the reporting period

Huabao Flavours completed stock reform and successfully introduced new investors

In September 2016, Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavors", formerly known as Huabao Food Flavours & Fragrances (Shanghai) Co., Ltd.), an indirect wholly-owned subsidiary of the Group, completed its stock reform and successfully introduced new investors, including Gongqingcheng S-Land Investment Management Partnership (Limited Partnership), Gongqingcheng Orient Securities Tianxin Investment Investment Management Partnership (Limited Partnership) and Qushui Innovation Development Co., Ltd.. Huabao Flavours entered into an agreement with its new investors regarding the capital increase and share expansion, pursuant to which, it issued an aggregate of 54,290,000 shares valued at RMB846,924,000 to its investors, which accounted for approximately 9.8% of the total issued shares after the completion of capital increase and share expansion. The registered capital of Huabao Flavours therefore increased from RMB500,000,000 to RMB554,290,000. The introduction of the new investors strengthened the capital foundation of Huabao Flavours, which was in line with the Group's interests.

Proposed spin-off approved by Hong Kong Stock Exchange and the Extraordinary General Meeting

In August 2016, upon approval from the Board of Directors, the Group submitted an application and other relevant documents regarding the Proposed Spin-off and Proposed A Share Listing of the business of Huabao Flavours ("Spin-off Company") and its subsidiaries ("Spin-off Group") by way of separate listing on Shenzhen Stock Exchange. In October 2016, Hong Kong Stock Exchange approved the application and confirmed that the Group could continue to proceed with the Proposed Spin-off and the Proposed A Share Listing and granted a waiver from strict compliance with applicable requirements in relations to the assured entitlement of A Shares to the shareholders under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

In April 2017, the Company held an extraordinary general meeting, where the proposal to spin-off Huabao Flavours and have it independently listed on Shenzhen Stock Exchange and other matters were considered and approved by the shareholders with a high passing rate. The meeting authorised the directors of the Company to make all possible necessary or expedient actions, sign all relevant documents and make all relevant transactions and arrangements on behalf of the Company. The Proposed Spin-off and Proposed Separate A Share Listing will increase the liquidity and value of the shares of the spin-off company, provide an independent financing platform for the Spin-off Group and the remaining Group, and enhance the transparency.

Progress of the spin-off

Currently, the work of proposed spin-off and separate listing is still in progress. The Spin-off Company has submitted application documents regarding the initial public offering ("IPO") of RMB common shares (A shares) and the listing on the growth enterprise market ("GEM") of Shenzhen Stock Exchange to China Securities Regulatory Commission, and is being accepted for processing. However, it is still pending for approval from the relevant regulators (including China Securities Regulatory Commission) and fulfilment of other relevant conditions.

In this offering, Huabao Flavours will offer not more than 61,590,000 offer shares (no less than 10% of the total share capital of the Huabao Flavours after completion of the Proposed A Share Listing) and approximately 81.2% of share capital of Huabao Flavours will still be indirectly owned by the Group after share issuance. Upon the completion of the Proposed Spin-off and the Proposed A share listing, the Spin-off Group will be mainly engaged in flavour and fragrance businesses while the remaining group will be mainly engaged in tobacco raw materials (including reconstituted tobacco leaves and new materials and products applicable for the tobacco industry), aroma raw materials, as well as other sectors businesses (including innovative tobacco products and financial investment.)

The Spin-off Company will continue to be one of the principal subsidiaries of the Group, and the Company will still be its ultimate controlling shareholder, continue to consolidate the financial statements of the Spin-off Group and continue to enjoy the benefits arising from the future development and growth of the Spin-off Group. By building up a new financing platform in China as result of the Proposed Spin-off and the Proposed A Share Listing, it is expected that, among others, the corporate governance structure of the Group will be further enhanced and strengthened.

INDUSTRY OVERVIEW

Tobacco Industry Overview

In 2016, despite the continuous downturn of the world economy and the complex domestic and international situation, China's economy still maintained a relatively high growth rate, developing slowly but surely and soundly. Due to some unfavorable factors, such as tax-induced price hike and radical smoking control policies, the tobacco industry experienced a critical situation of a sharp decline in sales volume and rise in inventory level. The State Tobacco Monopoly Administration ("STMA") actively pushed forward the supply-side structural reform, tightly controlled the production scale of tobacco leaves, proactively reduced the planned production and sales volume for cigarettes and exceeded the target of reducing inventory. Under the control policy of "total amount control, production-marketing coordination and tight balance", the STMA took some extraordinary measures to improve the relationship between supply and demand, and adjusted the market status. In 2016, the annual planned sales volume of cigarettes had been reduced by 2 million cases and the annual planned production volume of cigarettes had been reduced by more than 2.2 million cases. The social stock had been reduced from 5.88 million cases at the beginning of the year to 4.08 million cases.

Throughout 2016, the cigarette sales volume in China was approximately 47.01 million cases, representing a decrease of 2.79 million cases or 5.6% as compared to last year. The cigarette production volume was 47.10 million cases, representing a decrease of 4.14 million cases or 8.1% as compared to last year. Despite the unfavorable situation of decreased production and sales volumes of cigarettes, the tobacco industry still overcame numerous difficulties, realized profit tax of RMB1.0795 trillion, and handed over to the state treasury department over RMB1.0006 trillion, continuing to maintain "two super trillions" in terms of total amount of profit tax and total payment to the state treasury department, and made significant contributions to the country's fiscal revenue.

Even though the overall cigarette consumption market showed a trend of decline, the partial niche markets still have room to grow. Among them, slim cigarettes continued its upward trend of development throughout the year where its sales volume reached approximately 1.39 million cases, representing an increase of 89% as compared to last year and accounting for 3% of the total sales of the industry. The sales scale of slim cigarettes is rapidly expanding and the market coverage is more extensive. Additionally, some premium cigarettes maintained substantial growth in sales volume, and some key brands, regions and enterprises formed multiple "hundreds of billions" patterns, which played key supporting roles.

In terms of tobacco leaf production, being a foundation for industry development, the sustained development of tobacco leaf production is closely related to the overall industry development. Due to the continued decrease in cigarette production volume, continued decrease of total usage of tobacco leaves, renewal of processing equipments, as well as the rise of slim cigarettes sales in recent years, the consumption of tobacco leaves per case by tobacco enterprises in the industry continued to decline. The relationship between supply and demand in the tobacco leaf market is changing profoundly. The total supply of tobacco leaves greatly exceeds the demand of tobacco leaves, and the inventory of tobacco leaves remains high. Before the Chinese Lunar New Year, the total inventory of tobacco leaves in the country reached 4.6 million metric tons, which occupied capital of RMB412.6 billion and were available for use for over 37 months.

In order to guarantee the healthy development of the tobacco leaf market in the future, STMA made a "Three-year Adjustment Plan" strategic plan and resolutely implemented the annual target on tobacco leaf scale, and each production measure, resulting in the stable development of tobacco leaf production. 2016 was the final year of the years for macro control on tobacco leaves. Through three years of adjustment and control, total tobacco leaf planting area all over the country were gradually reduced by more than 5 million mu and the purchase volume were gradually reduced by more than 600,000 metric tons, which successfully reached the goal of scale control. *(Source: China Tobacco and East Tobacco)*

Overview of food, beverage and fragrance industries

In recent years, the sustained development of China's macro-economy has provided a good opportunity for the enterprises. As the economy has shifted from international demands to domestic demands, the quality and sustainability of economic growth are gradually improving. According to the data from National Bureau of Statistics, from January to December of 2016, the main business revenue of food processing enterprises of industrial scale reached RMB11.1 trillion, representing an increase of 6.8% as compared to last year, and the total profit reached RMB724.77 billion, representing an increase of 6.5%, of which, the agricultural product processing industry rose by 6.1% as compared to last year, the food processing industry rose by 8.8% as compared to last year, and the alcohol, beverage and refined tea processing industry rose by 8.0% as compared to last year. Overall, the food industry's economic benefits maintained steady and rapid growth and the profitability tended to be stable. *(Source: National Bureau of Statistics)*

Over years of sustained development, the food industry has gradually entered into a stage where quantity is stable and quality is improving. Moreover, with the continued increase in per capita income, people are pursuing an increasingly higher quality of life. The food industry is in the process of constantly adjusting to optimization and upgrading. On one hand, foreign invested enterprises are accelerating the layouts of China's market. On the other hand, the domestic enterprises are striving to improve their industrial structure and actively expand into the food ingredient industry.

Food ingredient products are a major component of food. In recent years, the international food ingredient industry has been developing rapidly, covering almost all food production and application, including snacks, soft drinks, children's food, fast food and so on. There is a huge potential for the demands from the food ingredient market and the booming development of the downstream food industries also drives the rapid development of the food ingredient industry. However, due to the impact of varying dietary habits in different regions, the food ingredient industry shows strong regional character. A lot of brands can only cover their own regional markets or subdivided fields and the food ingredient industry is less centralized. With the continued increase in investment, brand awareness of consumers and industrial competitions, the centralization of the food ingredient industry will further increase and the consumption level will also gradually improve."

The food safety regulation system of China has been continually strengthened and the food industry has been regulated more tightly. Especially the implement of the most stringent Food Safety Law in October 2015 and a series of food safety related laws and regulations in the first half of 2016, all of which have had higher requirements on food safety supervision and management and mainly showed higher production standards, more detailed sales supervision and more stringent punishments for illegal activities. The new regulations have increased enterprises' productions costs, sped up the elimination and merges of small-and-medium-sized food enterprises. Meanwhile, they have also pushed the industry to innovate and engage in high standard of development, created a better consumption environment for consumers, and benefited a healthy and sustainable development of the food industry.

In terms of fragrance industry, according to statistics from National Bureau of Statistics on enterprises above designated size, the main business income from soap and synthetic detergents manufacturing in 2016 reached RMB183.25 billion, representing an increase of 6.3% as compared to last year. The main business income from cosmetics manufacturing reached RMB160.95 billion, representing an increase of 5.7%. The fragrance industry grows steadily, of which, fragrances used for detergent products have room to grow as the industry grows. However, the household disinfectant market has changed and the market for traditional coiled mosquito-repellent incense and bug spray has been shrunk year by year. *(Source: China Cleaning Industry Association)*

To sum up, with the accelerated race of China's urbanization, the consumption demands continued to grow and the consumption power of urban and rural residents improved steadily. The consumer market continued to maintain stable and fast development, while pulling effect of consumption on the economy became more obvious and the consumer market structure continued to be optimized. Throughout 2016, the total retail sales of consumer goods reached RMB33 trillion, representing an increase of 10.4% as compared to last year. The scale of the consumer market continues to expand steadily. *(Source: National Bureau of Statistics)*

Latest developments of innovative tobacco products

Due to intensified efforts on smoking control, and progressive tax burden, the market of traditional tobacco products was developing slowly whereas the sales and profits of cigarettes continued to decline. In order to maintain a competitive edge, tobacco manufactures around the world were shifting their focus to the R&D and promotion of new tobacco products, as well as developing towards the direction of diversified and intelligent products.

New tobacco products mainly consist of three categories: smoke-free tobacco products, heat-not-burn products and e-cigarette. Among them, e-cigarettes, due to lower entry barriers, have developed rapidly by rolling out new, novel and customized products that have diversified flavours. In 2016, the global sales of e-cigarettes reached approximately USD6.4 billion. The North America market remained the largest market, accounting for 40% of global sales volumes. *(Source: "Tobacco China")*

In March 2016, the European Union adopted e-cigarette products into the *Revision of the Tobacco Products Directive*, which stipulates specific criteria for the sales of e-cigarettes, including using warnings package, reducing nicotine content, etc. In May, the U.S. Food and Drug Administration ("FDA") also enacted a bill, for the first time, to include e-cigarettes into authorities' supervision, which prohibited e-cigarette sales to American citizens under the age of 18, and also stipulated that a list of components and a series of descriptions indicating the health effects of the products should be provided with all e-cigarette products. The enactment of this bill indicates that the e-cigarette market in the U.S. will enter into a cooling period, meaning that without FDA's permission, there will be no more new products shown in the market. In addition to the FDA bill, a number of states in the U.S., including Pennsylvania and California, are putting pressure on the e-cigarette industry by way of imposing more taxes. The enactment of various regulations has increased the entry barrier for the industry and increased production costs, which will impact the development of the e-cigarette industry.

RESULTS

For the twelve months ended 31 March 2017, the Group's sales revenue reached approximately RMB3.483 billion, representing an increase of approximately 8.8% over last financial year. Gross profit margin reached approximately 65.2%, representing a decrease of approximately 3.7 percentage points as compared to last financial year. EBIT margin reached approximately 38.5%, representing a decrease of 6.0 percentage points as compared to last financial year. Profit attributable to equity holders of the Company was approximately RMB1.065 billion, representing a decrease of approximately 9.8% as compared to last financial year. Basic earnings per share was RMB34.29 cents, representing a decrease of approximately 9.9% as compared to last financial year.

BUSINESS REVIEW

In order to implement and promote the Group's overall strategy as well as to facilitate the integration of various segments and to fully benefit from their synergies, the Group has made necessary adjustments to the organizational structure during the reporting period. In particular, the fragrances segment was combined with the food flavours segment to form the flavours and fragrances business segment, which are principally engaged in the research and development ("R&D"), production and sales of flavour products. Reconstituted tobacco leaves ("RTL") segment and the new materials segment were merged into the tobacco raw materials segment, the main business of which includes research and development, production and sales of paper-making reconstituted tobacco leaves and new materials products that are innovative, functional and applicable to tobacco industry. Other segments include the aroma raw materials segment, innovative tobacco products segment and other business.

Review of flavours and fragrances business

For the year ended 31 March 2017, sales revenue of the flavours and fragrances business of the Group amounted to RMB2.065 billion, representing a decrease of approximately 6.2% from the last financial year. The operating profit of the flavours and fragrances segment was about RMB1.205 billion, representing a decrease of 10.4% as compared to approximately RMB1.345 billion for the last financial year. The EBIT margin of the flavours and fragrances segment was approximately 58.4%, representing a decrease of 2.7 percentage points as compared to approximately 61.1% for the last financial year.

a) Flavours

Due to the severe situations of decline in both the production and sales and high inventory level in the tobacco industry, traditional selling styles for flavours used for tobacco were challenged. The Group has been actively taking corresponding measures by using market demands as a starting point, insight into the new trends, new technologies and new fields in the development of domestic and foreign flavour industries, and further strengthening team building, product development and business model upgrade. On one hand, the Group adjusted the products structure, promoted the updates and upgrades of the customers' existing products, and increased the market penetration rate of the customers' existing products. On the other hand, the Group took the opportunity for consumption upgrade, through insight into and exploration of exploring new market opportunities for customers, providing a package of solutions, developing new products and new business markets, so as to constantly perfect the company's core product structure, enrich the product line and satisfy customers' demands for diversity.

The Group is equipped with better technologies in the markets of dairy beverages and roasted nuts. The Group has sophisticated customer resources and its clientele covers a majority of famous enterprises in the country. Its emulsification technology, extraction technology and other technologies are the leaders in the industry. During the reporting period, Shanghai H&K Flavours & Fragrances Co., Ltd. ("Huabao Kongque"), with its brand superiority, targeted the niche markets by using bakery and dairy industries as breakthrough and established a platform for food flavours and food ingredients, which resulted in good effects. Despite the beverage industry and the confectionery industry encountering gloomy situations, Huabao Kongque still managed to make certain business growth by virtue of the technical strength of R&D and stable customer resources. Among these achievements, in addition to guaranteeing the quality and service of traditional products, the focus of R&D for roast flavours was shifted to medium and top grade nuts, resulting in winning new big customers. In addition, despite the dairy industry showing a downturn, the sales revenue of dairy flavours of Huabao Kongque achieved growth against the market, mainly due to new products development to its existing big customers and the development of new customers, including customers in the beer industry.

Guangzhou Huabao Food Co., Ltd. ("Guangzhou Huabao"), by virtue of the Group's advantages, has made a variety of breakthroughs and achievements in natural and organic food ingredients, natural extracts & functional ingredients, special food ingredient for dietary uses, as well as substitutes for polypeptide and oil. In terms of the flavours of snack food, puffed food is still the Company's key product, which is highly recognized by the industry. Guangzhou Huabao attaches great importance to the development of culinary flavours by actively developing potential meat product customers, and it also developed a series of products that had culinary flavours during the reporting period.

In terms of food ingredients, since the active cooperation with the biggest dairy manufacturer in Germany to promote the special oil products, certain accomplishments in sales have been achieved. The Group is planning to further expand the food ingredient production lines, which are expected to become the new highlights attracting new customers and new profits growth points for the Company; The Group will fully utilize the direct sales to big customers and the distribution network to strengthen the Company's abilities in package solutions.

With the improvement of the Company's technology, transformation of input into output, breakthrough of winning new customers, the market share of the food flavours will gradually increase. The Group will strive to upgrade its big customer business mode, by putting links, such as R&D, design and service on the frontline, to provide its customers with high-quality and customized direct sales services so as to increase the market share of big customers. Meanwhile, the Group will fully make good use of its marketing channels, which are widely distributed with rich resources, to expand the technical service to its core customers in the channels so as to increase the market share of small and medium-sized customers.

b) *Fragrances*

In terms of fragrances, Xiamen Amber Daily Chemical Technology Co., Ltd. ("Xiamen Amber") has been a leader in the markets of incense and household disinfection & insecticide products. Despite a decrease in demands for incense flavours in the domestic market, Xiamen Amber managed to make full use of its R&D advantage and influence in the industry, to actively develop new fragrance products that are suitable for domestic and overseas markets, to expand exports and to actively adjust the product structure, which resulted in some achievements. In terms of the disinfection product market, Xiamen Amber has successfully developed an auxiliary fragrance product designed for a specific type of bug spray, satisfying the demands of some new markets. Moreover, the sales volume in some Southeast Asian markets is increasing year by year, which partly made up for the shortfall of the domestic market.

During the reporting period, the proportion of sales of incense and deinfection fragrances of Xiamen Amber decreased by 5.37% while the proportion of sales of detergent fragrances increased by 2.31% and the proportion of sales of other fragrances also increased by more than 3% as compared to the same period last year. The decrease of sales of incense and disinfection products was offset by the sales of other fragrances. The adjustment of product structure made some progress. In terms of detergent fragrances, Xiamen Amber, in 2016, successfully developed a laundry tablet fragrance, which is widely recognized by the customers, making it the most important factor for the growth of detergent fragrances during the reporting period. In the future, in terms of laundry detergents and soap, especially laundry detergent fragrances, Xiamen Amber will continue to maintain this growth. Even though the price of some imported raw materials increased a lot last year, the management took some measures, such as increasing orders during the low season and reducing time of payment, to offset the increase of costs in that period, resulting in the relative growth in gross profit from sales.

During the reporting period, Xiamen Amber was awarded by Xiamen Science and Technology Bureau and other departments as "Xiamen City Small & Micro Enterprises Excelling in Professionalization, Refined Management, Uniqueness and Novelty", "Xiamen City Innovative Enterprise", "Xiamen City Technology Small Giant Enterprise", etc. In the future, the Group will further consolidate and expand its advantage in the incense and disinfection market through technology innovations and technical services, and centralize the superior resources from Xiamen Amber, such as products and technologies, to greatly develop the daily chemical washing product market, and in the meantime, vigorously push forward the construction of the sales team to improve sales, to fully exploit the advantage of the company's products, and expand the market share.

Review of tobacco raw materials business

For the year ended 31 March 2017, sales revenue of the tobacco raw material sector of the Group amounted to RMB706 million, representing an increase of approximately 12.1% from the last financial year. The operating profit of the sector was about RMB256 million, representing an increase of 17.0% as compared to RMB219 million for the last financial year. The EBIT margin of the sector was approximately 36.3%, representing an increase of 1.6 percentage points as compared to approximately 34.7% for the last financial year. The increase in sales revenue of tobacco raw materials was mainly due to the increase in sales volume after clearing the RTL inventory of tobacco industry, but the situation continued to be grim for RTL industry.

With the release of the productivity in reconstituted tobacco industry last year, due to the unchanged inclusion level, and the high inventory of virgin tobacco leaves, the supplies of the reconstituted tobacco still exceeded the demands of reconstituted tobacco. The excessive productivity contributed to fierce competition in the industry. In the face of this negative situation, Guangdong Golden Leaf used "led by strategy, driven by innovation" as its guiding principle and the improvement on integrated management and control level as its core to tighten its work on technology innovation and lean management, as wells striving to reduce costs and increase profits, resulted in great achievements.

During the reporting period, on one hand, Guangdong Golden Leaf Technology Development Co., Ltd. ("Guangdong Jinye") was making great efforts in optimizing production modes, enhancing productivity and lowering production related energy consumption. On the other hand, it was activity pushing forward the technology innovation and modification projects for its workshops and accelerating the enhancement of product yields. Meanwhile, it continued to push forward the target cost management on the basis of comprehensive budgets, resulting in great achievements. In the future, Guangdong Jinye will make more efforts to expand the overseas market and continue to strengthen process technology innovation. While actively upgrading the quality of existing products, it will strive to develop new products and speed up the process technology innovation on key processes. In the meantime, it will observe the needs for its customers' new products, market distinctive functional tobacco sheets with reference to the characteristics of cigarettes, help customers improve the product value and balance the relationship between production and sales.

During the reporting period, Guangdong Jinye was accredited by Guangdong Province Science & Technology Association as Guangdong Province Work Station for Academics and Experts. This accreditation highlights the powerful strength of Guangdong Jinye in enterprise technology innovation, and plays an important role in the Company's continuing to master core technologies of reconstituted tobacco industry and consolidating the leading position in technology in the industry.

At present, the new tobacco materials are still in their development stage. With the continued launches of tobacco new products, to some extent, customers have had more demands on tobacco materials. Currently, main products include cigarette capsule, wired conductor, smiling-faced shape filter, etc., among which, capsules and wire conductors have the fastest development. There are a wide variety of capsules, of which water-soluble capsules have made progress. During the reporting period, the new tobacco material business grew markedly, and the clientele also grew greatly as compared to the previous stage. The Group, by working with the new material company of China tobacco, successfully established a production platform for filters, and continued to maintain the existing strategic collaboration relationships with the major customers.

The R&D for new products is the key to the development of new tobacco materials. With more participants entering into the market, the market competition will become fiercer in the future. The Group will continue to perfect its technology platform and teamwork, enrich its production lines and establish technology systems and technology superiorities, and at the same time, attach great importance to the development of key products and form a business foundation. Moreover, based on the development requirements from China tobacco companies and by combining independent R&D with external R&D, the Group will actively play an important role in the technologies of appearance, aroma supplement, flavor supplement, style, heat-not-burn product flavouring, etc.

Review of aroma raw materials business

For the year ended 31 March 2017, sales revenue of the aroma raw materials segment reached RMB439 million, representing an increase of 55.2% from the last year, achieved high growth. Operating profit of the segment reached RMB70.87 million, representing an increase of approximately 46.9% from the last financial year. The EBIT margin was approximately 16.1%, representing a decrease of 0.9 percentage points as compared to approximately 17.0% for the last financial year. The increases in sales revenue and operating profit of this segment were mainly due to the consolidation of Yancheng City Chunzhu Aroma Co., Ltd. ("Yancheng Chunzhu")'s financial statements into the Group's consolidated financial statements upon the acquisition. Profit margin declined was mainly due to the amortisation of intangible assets recognized in the acquisition of the Yancheng Chunzhu.

Driven by downstream end-consumer goods and flavour and fragrance industry, domestic and foreign aroma material industry was stable with some rises. With good product quality, complete range of products and stable sales channels, as well as the Group's rich industry resources and strong financial strength, aroma raw materials segment developed rapidly during the reporting period. In this segment, Yancheng Chunzhu had rapid development momentum. In addition to continuing to maintain long-term stable collaborative relationship with big international customers, it actively researched and developed new product by taking advantage of the Group; the varieties and quantities of the products are increasing year by year. During the reporting period, many reserved new products have been launched, and some have formed a certain market scale. Currently, the principle new products have been recognised and accepted by large international aroma companies, and the average market share in global market is increasing year by year. While insisting on the cooperation policy of "big customer, big brand", Zhaoqing Perfumery Co., Ltd. (Guangdong) put more efforts to increase channel sales. During the reporting period, the sales grew steadily, and exports remained stable.

During the reporting period, the new product Glibenolide researched and developed by Yancheng Chunzhu was identified as high-tech product by the Jiangsu Provincial Department of Science and Technology; In the same year, Yancheng Chunzhu was awarded the honorary title of "Green Low Carbon Enterprise" by Jiangsu Province as well.

Aroma raw material segment is growing rapidly. As the country elevates environmental protection standards and manufacturing safety requirements, small-scale workshop-style factories will be bound to be phased out. The Group will seize the opportunity of industry consolidation and reinforce its efforts to develop the aroma raw materials business. However, it is difficult to meet the continuous growing needs of customers due to the shortage of existing capacity of this segment. The Group is actively exploring the integration of industries and the allocation of industry resources, and plans to build a production base of professional aroma raw materials with an annual output of over 10,000 tonnes. In the future, the aroma raw material business of the Group will be stable. It will lead the industry towards new, safer and environment-friendly standards, and also create greater profit margins.

Review of innovative tobacco products business

For the year ended 31 March 2017, sales revenue of the aroma raw materials segment reached RMB271 million, representing a substantial increase of 269.7% from the last year. Operating loss of the segment was about RMB110.98 million. The substantial increase of the sales revenue and operating profit was mainly due to the consolidation of VMR's financial statements into the Group's consolidated financial statements upon the acquisition. However, VMR was still in loss position during the reporting period.

In terms of the domestic market, during the reporting period, Standpoint Electronic Technology Development (Shanghai) Co., Ltd. ("Stand Point") introduced closed type smoke bomb system smoking set which was more convenient for end customers, and it improved consumer experience and customer reviews. Stand Point took an active part in the electronic cigarette exhibition held in Shenzhen in April 2016, and made efforts in product development and marketing to build SPV brand. In terms of sales channels, the Group was still working hard to build an online and offline complete sales network. In addition to flagship stores on jd.com and Tmall, it also successfully launched on the Orient Shopping Channel and returned to TV by using satellite TV as its medium. In terms of offline sales, in addition to continued to operate Brookstone flagship store distribution channels, it was also actively developing direct marketing. In July 2016, it opened its first physical store, and successfully settled in the central commercial landmark Shanghai Moon Star Global Harbour in Putuo District, Shanghai. The open of the physical store is conducive to the establishment of healthy operation mode of e-cigarette, and will play a good demonstration role in the development of the future offline direct stores.

In terms of international market, due to the gradually strengthened regulatory impact of FDA and the fiercely competitive market, the sales of VMR in international market have been seriously challenged. During the reporting period, VMR's revenue was flat as compared to last year and the losses declined. But its actual performance still did not reach expectation and management expected that the future development of e-cigarette would still be challenging. The Group, according to the principle of goodwill impairment and principle of prudence, decided to write off part of the goodwill arising from the acquisition of VMR by RMB22,710,000.

Review of R&D

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 RMB242 million, representing an increase of RMB46.53 million as compared to the last financial year. R&D cost represented approximately 6.9% of sales revenue, such ratio increased 0.8 percentage points as compared to approximately 6.1% of the last financial year. Technology is an important part of maintaining leadership in the industry, and the company will continue to increase investment in technology, equipment and basic research.

Human resources and corporate culture construction

As at 31 March 2017, the Group employed over 2,200 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea, and last year was approximately 2,465 employees. The labour costs for the year (including pension and mandatory provident fund, etc.) amounted to RMB436 million, representing an increase of RMB68 million from RMB368 million of the last financial year. The increase in the labour costs was primarily attributable to the increase of the average number of employees last year.

2016 was the year of human resource management transforming from transactional management to modern human resource management. Modern human resource management is to assist the Company to face the constant changes, improve staff quality and skills, and achieve the Company's strategic development goals. In the aspect of human resource management and development, in order to further improve the basic work of human resource management, while strengthening the effective combination of fixed posts and personnel, human resources training and development, human resource management informatization and human resource management system construction, the Group continued to broaden the vision of human resources managers, grasp the dynamics of human resources and absorb the advanced ideas and concepts of external human resources management to reform and innovate in human resource management. Through the good talent introduction mechanism, the Group strengthened the personnel training plan and cleared talent development goals, optimised human resources institutions reasonably, and established a first-class talents team. At the same time, it established a salary system, employee performance appraisal system and employee motivation system that matched the market to attract and stabilise excellent talents.

Future development strategy

In order to align with the Group's development and strategic upgrading and build a multi-level capital platform, the Group's Board of Directors will comprehensively promote the Proposed Spin-off and Separate Listing of Huabao Flavours by way of Proposed A Share Listing on the Shenzhen Stock Exchange. At present, the transaction has been approved by the extraordinary general meeting, and has submitted the application documents to the China Securities Regulatory Commission regarding the initial public offering of RMB ordinary shares (A shares) and listing on the GEM of Shenzhen Stock Exchange, and is being accepted for processing. But the application is still subject to the approval from relevant Chinese regulatory authorities (including the China Securities Regulatory Commission, etc.) and fulfilment of other relevant conditions.

In the future, with the accumulation of years of industry status, brand advantages, market advantages and scale advantages, the Group will grasp the trend of consumption upgrade, build consumer insight, and actively develop new customers, new products and new business. While promoting the balanced development of the business, the Group will gradually expand its production capacity and strengthen the domestic and international customer base, continue to maintain and strive to improve its industry status. At the same time, through mergers and acquisitions, industry integration and other means, it will enhance its international competitiveness, deepen the enterprise group and international operations, and comprehensively promote the construction of investment holding group based on China's fast-moving consumer goods market. It will integrate relevant industry knowledge, integration ability and social capital through multi-capital platform, multi-channel cooperation and a variety of investment cooperation model and create greater value for shareholders.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2017

Sales revenue

The Group's sales revenue amounted to RMB3,482,894,000 for the year ended 31 March 2017, representing an increase of approximately 8.8% as compared with RMB3,200,436,000 for the last financial year. The sales revenue increased mainly due to the increase in sales revenue of tobacco raw materials as compared to last year, and increase in sales revenue of aroma raw materials and innovative tobacco products due to the consolidation of financial statements of Yancheng Chunzhu and VMR after last year's acquisition. However, the increase was partly offset by the fall in sales revenue of the flavours and fragrances segment due to the sluggishness of macroeconomics. For the year ended 31 March 2017, sales revenue from flavours and fragrances reached RMB2,064,734,000, contributing approximately 59.3% of total sales revenue; sales revenue from tobacco raw materials reached RMB705,981,000, contributing approximately 20.3% of total sales revenue, sales revenue from aroma raw material reached RMB439,450,000, contributing approximately 12.6% of total sales revenue; sales revenue from innovative tobacco products reached RMB271,012,000, contributing approximately 7.8% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to RMB1,212,071,000 for the year ended 31 March 2017, representing an increase of approximately 21.6% as compared to RMB996,448,000 for the last financial year.

Gross profit and gross profit margin

Gross profit of the Group increased from RMB2,203,988,000 for the last financial year to RMB2,270,823,000 for the year ended 31 March 2017, representing an increase of approximately 3.0%; gross profit margin was 65.2%, representing a decrease of 3.7 percentage points from 68.9% of the last financial year. The decrease in gross profit margin was mainly because sales revenue of products with relatively lower gross margin accounted for a higher proportion than the last year.

Other income and other gains – net

Other income and other gains – net of the Group was RMB239,526,000 for the year ended 31 March 2017, representing an increase of RMB78,676,000 as compared to RMB160,850,000 for the last financial year. The increase in other income is mainly attributable to a decrease in foreign exchange loss as compared with last year and transfer of reserves to income statement upon disposal of available-for-sale financial asset during the year.

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 2017 were RMB255,589,000, representing an increase of approximately 23.8% as compared with RMB206,409,000 for the last financial year. Selling and marketing expenses to total sales revenue for the year ended 31 March 2017 and 2016 amounted to approximately 7.3% and 6.4% respectively. The increase of such ratio was mainly attributable to the consolidation of VMR and its selling and marketing expenses to sales revenue ratio, which was higher than the average ratio of the Group.

Administrative expenses

The Group's administrative expenses amounted to RMB915,238,000 for the year ended 31 March 2017, representing an increase of approximately 24.7% as compared with RMB734,197,000 for the last financial year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 26.3%, representing an increase of approximately 3.4 percentage points as compared with 22.9% for the last financial year. The increase in the administrative expenses was mainly attributable to an increase in administrative expenses of new tobacco products segment, an increase in amortisation expense of intangible assets arising from acquisition of VMR and Yancheng Chunzhu, and the provision of impairment for part of VMR's goodwill during the reporting period.

Operating profit

Operating profit of the Group for the year ended 31 March 2017 was RMB1,339,522,000, representing an decrease of approximately 5.9% as compared with RMB1,424,232,000 for the last financial year, while the operating profit margin decreased to approximately 38.5% of the current financial year from approximately 44.5% of the last financial year. The decrease in operating profit was mainly attributable to the sharp increase in selling expenses, marketing promotion expenses and administrative expenses.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2017 was RMB294,573,000, representing a decrease of approximately 1.0% as compared with RMB297,686,000 for the last financial year. Income tax rate of the current year was approximately 20.9%, which was slightly increased by approximately 1.0 percentage points as compared with last financial year.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was RMB1,065,424,000 for the year ended 31 March 2017, representing a decrease of 9.8% as compared with RMB1,181,562,000 for the last financial year. If the provision for goodwill impairment of VMR of RMB22,710,000 and spin-off related direct expenses of RMB9,050,000 were excluded, the profit attributable to the equity holders of the Company would become RMB1,097,184,000, representing a decrease of 7.1% as compared to last financial year.

Net current asset value and financial resources

As at 31 March 2017, the net current asset value of the Group was RMB6,314,161,000 (2016: RMB4,382,190,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 March 2017, the Group's cash and bank balances amounted to RMB4,901,955,000 (2016: RMB2,934,463,000), over 70% of which was held in RMB. In addition, the Group hold structured investment products of RMB111,000,000 (2016: RMB138,000,000) which was classified as available for sales financial assets.

Bank borrowings and debt ratio

As at 31 March 2017, the Group had bank borrowings of RMB75,500,000 (2016: RMB15,000,000), all of which were due within one year. Among which, RMB75,500,000 (2016: RMB4,000,000) were unsecured loan with average annual interest rate of 3.97% (2016: 1.90%). The secured loan of RMB11,000,000 as at 31 March 2016 has been fully repaid during the year. As at 31 March 2017, the Group's debt ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 0.8%, representing a slight increase as compared with 0.2% as at 31 March 2016.

Investing activities

The Group's investing activities were for the purchase of property, plant and equipment, financial assets investment and the strategically development strategies for M&As. For the year ended 31 March 2017, the net cash used in investing activities amounted to RMB562,780,000, mainly used for new placement of short-term deposits, acquisition of associates and addition of available-for-sale financial assets. For the year ended 31 March 2016, the net cash generated from investing activities amounted to RMB11,633,000.

Financing activities

For the year ended 31 March 2017, the net cash generated from financing activities amounted to RMB714,165,000, mainly from the capital contribution from non-controlling interests. For the year ended 31 March 2016, the net cash used in financing activities amounted to RMB672,152,000.

Trade receivables 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 2017, the Group's average debtors' turnover period was 97 days, representing an increase of 9 days as compared with 88 days for the last financial year ended 31 March 2016. The increase of trade receivables turnover days was mainly attributable to better payment terms granted to the clients due to the sluggishness of the industry.

Trade payable 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 2017, the Group's average creditors' turnover period was 89 days, representing a decrease of 23 days as compared with 112 days for the last financial year ended 31 March 2016. The decrease of trade payable turnover day was mainly due to the acquisition of Yancheng Chunzhu and VMR with relatively shorter turnover period, which affected the Group's consolidated figures.

Inventory and inventory turnover period

As at 31 March 2017, the Group's inventory balance amounted to RMB693,490,000 (2016: RMB694,951,000). For the year ended 31 March 2017, 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 206 days, representing a decrease of 37 days as compared with 243 days for the last financial year. The decrease in inventory turnover period was mainly attributable to the effective implementation of the Group's destocking policy.

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. Management concurs the views of the People's Bank of China on the RMB exchange rate, that is, the RMB exchange rate has the capability to continuously remain basically stable within reasonable range of equilibrium.

Pledge of assets

As at 31 March 2017, the secured bank loan of the Group has been fully repaid.

Capital Commitments

As at 31 March 2017, the Group had capital commitments in respect of the purchase of property, plant, equipment, available-for-sale financial assets and investments in associates, contracted for but not provided in the financial statements amounting to approximately RMB149,329,000 (2016: RMB138,914,000), mainly was investment in high-tech fund amounted to RMB91,176,000.

Contingent liabilities

Based on the information available to the Board, the Group had no contingent liabilities as at 31 March 2017.

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 Listing Rules and, where appropriate, adopted the recommended best practice as set out in the code provisions, except for code provisions A.2.1 and A.4.1:

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

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The Independent Non-executive Directors ("INEDs") of the Company were not appointed for a specific term as they are subject to retirement by rotation no later than the third annual general meeting of the Company since their last appointment or re-election and are eligible for re-election in accordance with the Company's bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the directors of the Company. Having made specific enquiries of all directors, the Company has received their written confirmations that they have complied with the required standard as set out in the Model Code throughout the reporting period.

FINAL DIVIDEND

The Board proposes to declare a final dividend of HK22 cents per share (2016: Nil) in cash (amounting to RMB607 million in aggregate) for the year ended 31 March 2017, which are expected to be paid on or about 18 August 2017, to shareholders whose names appear on the register of members of the Company as at 9 August 2017. The payment of the final dividend is subject to shareholders' approval at the annual general meeting ("AGM") which is scheduled to be held on 1 August 2017.

CLOSE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

In order to determine the entitlement of shareholders to attend and vote at the AGM of the Company which is scheduled to be held on 1 August 2017, the register of members of the Company will be closed from 27 July 2017 to 1 August 2017, 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 26 July 2017. Shareholders whose names are recorded in the register of members of the Company on 1 August 2017 are entitled to attend and vote at the AGM.

CLOSE OF REGISTER OF MEMBERS FOR PAYMENT OF FINAL DIVIDEND

In order to determine shareholders who qualify for the proposed final dividend, the register of members of the Company will be closed from 7 August 2017 to 9 August 2017, 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 2017. Shareholders whose names are recorded in the register of members of the Company on 9 August 2017 are entitled to receive the final dividend in cash for the year ended 31 March 2017.

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

During the year ended 31 March 2017, 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, Mr. LEE Luk Shiu, Ms. MA Yun Yan, Dr. DING Ningning 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 2017.

The figures in respect of the 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 2017 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 this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of HKExnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2016-17 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, 16 June 2017

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