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 2013

FINANCIAL HIGHLIGHTS

- Sales increased by approximately 10.1% to HK$3,645,940,000

- Operating profit decreased by approximately 1.9% to HK$2,024,668,000, if the amounts of Exchange Gain (please refer to the Table of Financial Highlights on P.3 for definition) were excluded, it represented a growth of approximately 0.8% over the corresponding period last year

- Profit attributable to the equity holders of the Company decreased by approximately 1.9% to HK$1,716,375,000, if the amounts of Exchange Gain were excluded, it represented a growth of approximately 1.2% over the corresponding period last year

- Net cash generated from operating activities increased by approximately 4.9% to HK$1,615,626,000

- Cash and bank balances[#] increased by approximately 1.6% to HK$2,323,349,000 as compared with 31 March 2012, net cash[+] reached HK$1,858,349,000

- Proposed final dividends of HK9.40 cents per share and a special dividend of HK2.80 cents per share, representing a total dividend payout ratio of approximately 41% for the whole year, which was increased by approximately 2 percentage points from last year

[#] *"Cash and bank balances" equals to "Short-term time deposits" plus "Cash and cash equivalents".*

[+] *"Net cash" equals to "Short-term time deposits" plus "Cash and cash equivalents" minus "Short-term borrowings".*

* *For identification purpose only*

RESULTS HIGHLIGHTS

- Second phase of reconstituted tobacco leaves ("RTL") production line completed and commenced production in November 2012, RTL business realized rapid growth

- Gross profit margin of 69.1% improved from 68.1% from the first half this year

- Operating profit margin of 55.5% improved from 53.3% from the first half this year

- Very sound financial position, net cash reached HK$1,860 million, representing an increase of 36.7% as compared with 31 March 2012

AREAS OF DEFICIENCY

- Sales of fragrances segment decreased due to change in revenue mix of business with lower gross profit margin, though profitability has seen improvement

- Sales of RTL marginally lower than management's target, mainly affected by progress of capacity ramp-up

- Selling and marketing expenses as well as administrative expenses increased 26.5% from last financial year, but has slightly improved from 27.3% from the first half this year

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 March		Change in percentage
	2013	2012	
	HK$'000	*HK$'000*	
Sales	**3,645,940**	3,311,304	+10.1%
Gross profit	**2,518,909**	2,335,996	+7.8%
Gross profit margin	***69.1%***	*70.5%*	
Operating profit	**2,024,668**	2,064,051	-1.9%
EBIT margin	***55.5%***	*62.3%*	
Profit before income tax	**2,047,404**	2,080,989	-1.6%
Profit attributable to the equity holders of the Company	**1,716,375**	1,750,419	-1.9%
Exchange Gain *(note 4)*	**8,316**	62,777	
Operating profit before Exchange Gain	**2,016,352**	2,001,274	+0.8%
Profit attributable to the equity holders of the Company before Exchange Gain	**1,708,059**	1,687,642	+1.2%
Net cash generated from operating activities	**1,615,626**	1,540,158	+4.9%
Earnings per share			
– Basic	**54.53 *HK cents***	55.48 *HK cents*	-1.7%
– Diluted	**54.49 *HK cents***	55.31 *HK cents*	-1.5%
Interim and final dividends per share for the year *(note 8)*	**16.88 *HK cents***	16.68 *HK cents*	+1.2%
Aggregated special dividends per share for the year *(note 8)*	**5.28 *HK cents***	5.18 *HK cents*	+1.9%
Dividend payout ratio	**41%**	39%	

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 2013 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 March **2013** *HK$'000*	2012 *HK$'000*
Sales	*2*	**3,645,940**	3,311,304
Cost of goods sold	*3*	**(1,127,031)**	(975,308)
Gross profit		**2,518,909**	2,335,996
Other income	*4*	**176,692**	258,551
Selling and marketing expenses	*3*	**(139,464)**	(105,807)
Administrative expenses	*3*	**(531,469)**	(424,689)
Operating profit		**2,024,668**	2,064,051
Finance income		**41,277**	33,168
Finance costs		**(19,079)**	(16,373)
Finance income – net	*5*	**22,198**	16,795
Share of profit of associates		**538**	143
Profit before income tax		**2,047,404**	2,080,989
Income tax expense	*6*	**(314,804)**	(314,250)
Profit for the year		**1,732,600**	1,766,739
Attributable to:			
Equity holders of the Company		**1,716,375**	1,750,419
Non-controlling interests		**16,225**	16,320
		1,732,600	1,766,739
Earnings per share for profit attributable to the Company's equity holders for the year (expressed in HK cents per share)			
– Basic	*7(a)*	**54.53**	55.48
– Diluted	*7(b)*	**54.49**	55.31
Interim and final dividends	*8*	**526,515**	527,064
Special dividends	*8*	**164,748**	163,680
		691,263	690,744

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**1,732,600**	1,766,739
Other comprehensive income:		
Fair value changes on available-for-sale financial assets, net of tax	**(3,155)**	12,466
Exchange differences on translating foreign operations	**39,555**	152,280
Other comprehensive income for the year, net of tax	**36,400**	164,746
Total comprehensive income for the year, net of tax	**1,769,000**	1,931,485
Total comprehensive income attributable to:		
Equity holders of the Company	**1,750,950**	1,903,668
Non-controlling interests	**18,050**	27,817
	1,769,000	1,931,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,443,810**	1,115,382
Land use rights		**204,045**	209,233
Intangible assets		**2,925,745**	2,931,975
Investments in associates		**102,299**	101,545
Available-for-sale financial assets		**67,648**	65,931
Deferred income tax assets		**48,710**	44,436
		4,792,257	4,468,502
Current assets			
Inventories		**702,316**	667,871
Trade and other receivables	9	**1,059,769**	928,969
Assets held for sale		**5,102**	–
Short-term time deposits		**437,166**	–
Cash and cash equivalents		**1,886,183**	2,286,577
		4,090,536	3,883,417
Total assets		**8,882,793**	8,351,919
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**311,013**	315,985
Reserves		**914,597**	867,402
Retained earnings			
– Proposed final dividend		**291,524**	280,595
– Proposed special dividend		**86,837**	–
– Others		**5,675,440**	4,854,325
		7,279,411	6,318,307
Non-controlling interests		**346,265**	331,942
Total equity		**7,625,676**	6,650,249
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**62,628**	72,788
Current liabilities			
Borrowings	10	**465,000**	927,500
Trade and other payables	11	**585,683**	584,226
Current income tax liabilities		**143,806**	117,156
		1,194,489	1,628,882
Total liabilities		**1,257,117**	1,701,670
Total equity and liabilities		**8,882,793**	8,351,919
Net current assets		**2,896,047**	2,254,535
Total assets less current liabilities		**7,688,304**	6,723,037

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash generated from operations	**1,907,337**	1,890,949
Income tax paid	**(291,711)**	(350,791)
Net cash generated from operating activities	**1,615,626**	1,540,158
Cash flows from investing activities		
Acquisition of subsidiaries	**(4,889)**	(39,619)
Capital injection in available-for-sale financial assets	**(1,230)**	(13,736)
Purchases of property, plant and equipment, land use right and intangible assets	**(335,257)**	(597,204)
Proceeds from disposal of property, plant and equipment	**1,515**	11,961
Short-term time deposits placed	**(437,166)**	–
Interests received	**41,277**	33,168
Net cash used in investing activities	**(735,750)**	(605,430)
Cash flows from financing activities		
Dividends paid to shareholders	**(628,118)**	(668,923)
Acquisition of additional interests of subsidiary from non-controlling interests	**(9,808)**	–
Capital contributions from holders of non-controlling interests	**35,141**	48,912
Proceeds from issue of shares in connection with exercise of share options	**–**	35,800
Repurchase of shares	**(199,661)**	–
Short-term bank borrowings	**77,500**	387,500
Repayment of borrowings	**(540,000)**	(203,701)
Interest paid	**(21,038)**	(11,550)
Net cash used in financing activities	**(1,285,984)**	(411,962)
Net (decrease)/increase in cash and cash equivalents	**(406,108)**	522,766
Cash and cash equivalents at 1 April	**2,286,577**	1,676,410
Effects of exchange rate changes on cash and cash equivalents	**5,714**	87,401
Cash and cash equivalents at 31 March	**1,886,183**	2,286,577

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRS') issued by the Hong Kong Institute of Certified Public Accountants (the 'HKICPA'). The consolidated financial statements have been prepared under the historical cost convention, as modified by remeasurement of available-for-sale financial assets.

(a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 April 2012, but are not currently relevant or do not have significant impact to the Group's operations (although they may affect the accounting for future transactions and events):

HKAS 12 (Amendment)	'Deferred tax: Recovery of underlying assets' is effective for annual periods beginning on or after 1 January 2012.
HKFRS 1 (Amendment)	'Severe hyperinflation and removal of fixed dates for first-time adopters' is effective for annual periods beginning on or after 1 July 2011.
HKFRS 7 (Amendment)	'Disclosures – Transfers of financial assets' is effective for annual periods beginning on or after 1 July 2011.

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

	Effective for annual periods beginning on or after
HKAS 1 (Amendment) Presentation of Financial Statements – Other Comprehensive Income	1 July 2012
HKFRS 7 (Amendment) Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 10 (Amendment) Consolidated Financial Statements	1 January 2013
HKFRS 11 (Amendment) Joint arrangements	1 January 2013
HKFRS 12 (Amendment) Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13 Fair value measurement	1 January 2013
HKAS 19 (Amendment) Employee Benefits	1 January 2013
HKAS 27 (Revised 2011) Separate Financial Statements	1 January 2013
HKAS 28 (Revised 2011) Investments in Associate and Joint Venture	1 January 2013
HKFRS 1 (Amendments) First time adoption of HKFRS	1 January 2013
HKAS 1 (Amendment) Presentation of Financial statements	1 January 2013
HKAS 16 (Amendment) Property, plant and equipment	1 January 2013
HKAS 32 (Amendment) Financial instruments: Presentation	1 January 2013
HKAS 34 (Amendment) Interim financial reporting	1 January 2013
HK(IFRIC) Int 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
HKAS 32 (Amendment) Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 9 Financial Instruments	1 January 2015
HKFRS 9 and HKFRS 7 (Amendments) Mandatory Effective Date of HKFRS 9 and Transition Disclosure	1 January 2015

2. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours;

(2) Fragrances; and

(3) Reconstituted tobacco leaves.

The chief operating decision-makers have been identified as the executive directors (the 'Executive Directors'). The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Directors consider the business from the operation perspective and assess the performance of flavours, fragrances and reconstituted tobacco leaves segments. Flavours include research and development, production and sale of flavours products. Fragrances include research and development, production and sale of fragrances products. Reconstituted tobacco leaves include research and development, production and sale of reconstituted tobacco leaves. The Executive Directors assesses the performance of the operating segments based on a measure of operating profit.

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

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

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

The segment information for the year ended 31 March 2012 is presented below:

	Year ended 31 March 2012					
	Flavours	Fragrances	Reconstituted tobacco leaves	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total turnover	2,905,260	180,590	253,072	3,338,922	–	3,338,922
Inter-segment sales	(24,974)	(2,644)	–	(27,618)	–	(27,618)
Net turnover/segment sales	2,880,286	177,946	253,072	3,311,304	–	3,311,304
Segment result	1,980,782	8,016	85,316	2,074,114	(10,063)	2,064,051
Finance income						33,168
Finance costs						(16,373)
Finance income – net						16,795
Share of profit of associates						143
Profit before income tax						2,080,989
Income tax expense						(314,250)
Profit for the year						1,766,739

	As at 31 March 2012					
	Flavours	Fragrances	Reconstituted tobacco leaves	Total segments	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	5,827,643	222,140	2,289,627	8,339,410	12,509	8,351,919

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 (except for the item of "Research and development expenses", amount related to research and development were excluded from each expenses item) as follows:

		Year ended 31 March	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Depreciation		**77,848**	51,433
Amortization		**43,858**	48,876
Changes in inventories of finished goods and work in progress		**(18,418)**	(17,942)
Raw materials and consumables used		**950,079**	835,241
Provision for impairment on trade receivables		**212**	3,859
Lease rentals		**18,505**	12,143
Auditor's remuneration		**7,940**	10,371
Travelling expenses		**28,218**	24,277
Entertainment expenses		**31,052**	25,763
Employee benefit expenses, excluding share option compensation expenses		**217,443**	133,268
Share option compensation expenses		**–**	75
Research and development expenses	*(a)*	**213,491**	186,382
Delivery expenses		**38,783**	32,116
Utilities		**54,199**	36,759
Motor vehicle expenses		**18,268**	14,969
Others		**116,486**	108,214
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**1,797,964**	1,505,804

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

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
Employee benefit expenses	**82,850**	58,865
Depreciation	**11,904**	9,835
Amortization	**6,167**	–

4. OTHER INCOME

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
Government grants	**147,474**	139,910
Exchange gain – net	**8,316**	62,777
Others	**20,902**	55,864
	176,692	258,551

5. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
Financial income:		
Interest income on bank deposits	**41,277**	33,168
Financial cost:		
Interest expenses on bank borrowings and others	**(19,079)**	(16,373)
Finance income -net	**22,198**	16,795

6. INCOME TAX EXPENSE

		Year ended 31 March	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Current income tax			
– Hong Kong profits tax	*(a)*	**9,308**	12,553
– PRC corporate income tax	*(b)*	**323,436**	332,853
– Germany company income tax	*(c)*	**150**	87
– Botswana company income tax	*(d)*	**89**	774
Deferred income tax		**(18,179)**	(32,017)
		314,804	314,250

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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% (2012: 15%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15% (2012: 15%) on the estimated assessable profit for the year.

(e) No provision for income tax in other jurisdictions has been made as the Group has no assessable profit in those jurisdictions during the year.

7. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 March	
	2013	2012
Profit attributable to equity holders of the Company *(HK$'000)*	**1,716,375**	1,750,419
Weighted average number of ordinary shares in issue *('000)*	**3,147,638**	3,155,203
Basic earnings per share *(HK cents per share)*	**54.53**	55.48

(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 2013, the Company has one type of dilutive potential ordinary shares i.e. share options.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 March	
	2013	2012
Profit attributable to equity holders of the Company *(HK$'000)*	**1,716,375**	1,750,419
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,147,638**	3,155,203
Adjustment for – exercise of share options *('000)*	**2,409**	9,587
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,150,047**	3,164,790
Diluted earnings per share *(HK cents per share)*	**54.49**	55.31

8. DIVIDENDS

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
Interim dividend paid of HK7.48 cents (2012: HK7.80 cents) per share	**234,991**	246,469
Proposed final dividend of HK9.40 cents (2012: HK8.88 cents) per share	**291,524**	280,595
	526,515	527,064
Special dividend paid of HK2.48 cents (2012: HK5.18 cents) per share	**77,911**	163,680
Proposed special dividend of HK2.80 cents (2012: nil) per share	**86,837**	–
	164,748	163,680
	691,263	690,744

During the year ended 31 March 2013, an interim dividend of HK$234,991,000 (HK7.48 cents per share) (2012: HK7.80 cents per share) and a special dividend of HK$77,911,000 (HK2.48 cents per share) (2012: HK5.18 cents per share) have been paid by the Company. A final dividend of HK9.40 cents per share (2012: HK8.88 cents per share), HK$291,524,000 in aggregate (2012: HK$280,595,000), together with a special dividend of HK2.80 cents per share (2012: nil), HK$86,837,000 in aggregate (2012: nil), are proposed at the meeting of the Board held on 18 June 2013 which is subject to the shareholders' approval at the forthcoming annual general meeting. These consolidated financial statements do not reflect these proposed dividends. The aggregate amounts of the dividends paid and proposed during 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

9. TRADE AND OTHER RECEIVABLES

		As at 31 March	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Trade receivables	*(a)*	**822,863**	635,047
Less: Provision for impairment of receivables		**(7,356)**	(7,175)
Trade receivables – net		**815,507**	627,872
Note receivables		**118,196**	169,760
Prepayments and other receivables		**90,317**	110,640
Advances to staff		**4,990**	6,996
Others		**30,759**	13,701
		1,059,769	928,969

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

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 March 2013 and 2012, 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	
	2013	2012
	HK$'000	*HK$'000*
0 – 90 days	**737,855**	566,547
91 – 180 days	**53,875**	40,636
181 – 360 days	**15,439**	10,078
Over 360 days	**15,694**	17,786
	822,863	635,047

10. BORROWINGS

	As at 31 March	
	2013	2012
	HK$'000	*HK$'000*
Current		
– Unsecured bank loans	**465,000**	927,500
Total borrowings	**465,000**	927,500

Movement in borrowings is analysed as follows:

	Year ended 31 March	
	2013	2012
	HK$'000	*HK$'000*
At 1 April	**927,500**	743,562
New short-term bank loan	**77,500**	387,500
Repayment of bank loan	**(540,000)**	(203,701)
Exchange differences	**–**	139
At 31 March	**465,000**	927,500

The unsecured bank loans are denominated in HKD and are repayable within one year. During the year, the average interest rate is 2.47% (2012: 2.13%) per annum.

The carrying amounts of the borrowings approximate to their fair values.

Interest expense on bank borrowings for the year ended 31 March 2013 amounted to HKD19,016,000 (2012: HKD16,373,000).

11. TRADE AND OTHER PAYABLES

		As at 31 March	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Trade payables	*(a)*	**378,162**	359,310
Non-trade payables to related parties		**123,985**	123,985
Dividends payable		**2,652**	14,497
Wages payable		**19,593**	11,806
Other taxes payable		**18,092**	25,069
Accrued expenses		**13,730**	12,303
Advances from customers		**983**	5,333
Other payables		**28,486**	31,923
		585,683	584,226

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

(a) As at 31 March 2013 and 2012, the ageing analyses of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates were as follows:

	As at 31 March	
	2013	2012
	HK$'000	*HK$'000*
0 – 90 days	**317,433**	285,947
91 – 180 days	**33,532**	43,625
181 – 360 days	**3,910**	7,831
Over 360 days	**23,287**	21,907
	378,162	359,310

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 March 2013, sales revenue of the Group increased by approximately 10.1% to approximately HK$3,646 million. Gross profit margin reached approximately 69.1%, which is slightly improved from approximately 68.1% in the first half of this year. EBIT margin reached approximately 55.5%, representing an increase of approximately 2.2 percentage points from approximately 53.3% in the first half of this year. Profit attributable to equity holders of the Company was approximately HK$1,716 million, representing a decrease of approximately 1.9% from the last financial year; and basic earnings per share was HK54.53 cents, representing a decrease of approximately 1.7% from the last financial year.

RECENT ACQUISITIONS AND COOPERATIONS

During the year, by establishing a subsidiary of Huabao Korea Co., Ltd. ("Huabao Korea") and acquiring Zhejiang Xiangyuan Filter Materials Co., Ltd. ("Zhejiang Xiangyuan"), the Group has taken a new attempt in the fields of new cigarette materials and new workmanship and will then actively pursue the feasibility of commercial development.

Establishment of Huabao Korea

In June 2012, the Group set up a subsidiary to engage mainly in cigarette filter manufacturing jointly with an independent third party in Korea. To date the Group has invested approximately HKD79,180,000 in such subsidiary and holds 70% equity interest. Establishment of such subsidiary is a new attempt by the Group in the development of new cigarette materials business. In the future, the Group will gradually develop Huabao Korea into an experimental production line for innovative cigarette filter materials business.

Acquisition of Zhejiang Xiangyuan

In June 2012, Guangdong Jinye entered into a sale and purchase agreement with independent third parties to acquire a 100% equity interests in Zhejiang Xiangyuan for a cash consideration of approximately HKD6,133,000 and liabilities assumed of approximately HKD5,054,000. Zhejiang Xiangyuan is principally engaged in development of the production technology and workmanship of a special type of RTL in China and has obtained certain experimental results. Through the acquisition, the Group will then combine Zhejiang Xiangyuan's research results with demands from major customers, to develop a new set of production workmanship and to actively pursue the feasibility of its commercial production and development.

BUSINESS REVIEW

Review of Flavours Business

1. Review of operating results

For the year ended 31 March 2013, sales revenue of the flavours business of the Group amounted to HKD2,997,495,000, representing an increase of approximately 4.1% from the last financial year. The EBIT margin of the flavours segment was approximately 63.0%, representing a decrease of approximately 5.8 percentage points as compared to approximately 68.8% for the last financial year, but improved from approximately 60.4% from first half this year. The EBITDA margin was approximately 65.6%, representing a decrease of approximately 5.5 percentage points as compared to approximately 71.1% for the last financial year. The growth rate in the flavours business has slowed compared with last year's, this was mainly attributable to the overall growth in China's tobacco industry has slowed down further as well as the food and beverage industry and food additives industry remained fiercely competitive following food safety problems in recent years. Decline in both the EBIT and EBITDA margins of the segment was mainly due to factors such as decrease in other income, and an increase in employee salary and benefits.

In respect of the tobacco business, as the tobacco industry entered into a maturity and stable stage, it is featured as follows:

– As the Chinese government increased its effort in smoking control, consumers' consciousness of health rises and the total smoking population is becoming saturated;

– Structure of brand consumption will continue to elevate, but it has slowed down amid measures introduced by the Chinese government such as limiting government spending on business accounts; and

– The tobacco industry has entered into a post-consolidation era, with cross-provincial consolidation stagnant.

According to TobaccoChina Online, production volume of cigarette amounted to approximately 49.80 million cases in 2012, representing an increase of approximately 2.8% over the corresponding period last year; sales of cigarette reached approximately 49.45 million cases, representing a growth of approximately 2.4% over the corresponding period last year. In light of adhering to the Group's strategy of "Big customers, Big brands" over the years and supported by its capability of highly effective system integration and supply chain management, the Group was able to turned crises into opportunities with sales revenue of flavours continuing to realize steady growth. For the year ended 31 March 2013, sales revenue from the Group's largest customer, i.e. Yunnan Tobacco Materials (Group) Co., Ltd, remained stable comparing with last year, while sales revenue from the Group's top 5 customers increased by approximately 10.9% from last year.

During the year, subsidiaries from the tobacco business achieved sound results. Huabao Food Flavours & Fragrances (Shanghai) Co., Ltd. was granted "Silver Award for Comprehensive Strength (Advanced Manufacturing Industry) in Jiading Industrial Zone" for the second straight year; since trial production of Ying Tan Huabao Flavours & Fragrances Co., Ltd. commenced in second half of 2011, it was awarded for the first time "2011 Industrial Development Enterprise Improvement Award" by the government of Yingtan city in March

2012; Hua Fang Tobacco Flavors Ltd., just as before, participated in and undertook various major campaigns in the PRC tobacco sector last year, such as "The 3rd Session of the 2nd Phase Training of Senior Cigarette Flavorists of Tobacco Industry" and the "State Tobacco Monopoly Administration's 4th Training Course for Senior Cigarette Flavorists", etc.

In respect of the food and beverage business, as China's food and beverage and food additives industries have entered into a stage of adjustment after a series of reported safety incidents, competition has increasingly intensified. In July 2012, by issuing the "Decision in respect to Strengthening the Food Safety by State Council", the State Council of the PRC planned to achieve obvious results in China's food safety by way of restructuring with an aim to assuring the technological supporting systems including China's food safety supervision systems and mechanisms, food safety laws and regulations and standard systems, inspections and tests and risk monitoring more scientific and complete. The level of consciousness in food safety management and integrity of social and food production enterprises have generally increased, while the overall level of food safety was improved to a larger extent. Meanwhile, some small and medium food enterprises that failed to meet the standards were eliminated, thereby directly causing the demand for food flavours from such enterprises to decline. The market boom in recent years triggered flavours and fragrances and food additives enterprises to accelerate expansion of their capacities, as a result, overcapacities have started to show in some market segments of the industry.

In respect of operations of the subsidiaries, their performances varied as they faced different factors in their respective market segments. As small and medium candy enterprises suffered from the impact of overall changes in China's economic environment and the government's increased efforts of supervision on the food industry, sales revenue of candy business of Shanghai H&K Flavours & Fragrances Co., Ltd. ("Huabao Kongque") decreased. However, benefiting from orders steadily rising from big customer such as Bright Dairy, the optimized sales structure and the increased percentage of the flavours business with higher gross profit margin, both of Huabao Kongque's gross profit margin and profit during the year increased over the last financial year; in respect of Guangzhou Huabao Flavour & Fragrance Co Ltd ("Guangzhou Huabao"), currently its market focus is to cultivate in big customers and regional distributors, prioritizing its resources in expanding and serving its key customers. During the year, Guangzhou Huabao focused on product cultivation with major customers, realized rapid growth in flavours products such as tomatoes, saucy beef and spicy chicken, indicating a remarkable effect of optimization of the customer structure; in respect of Yongzhou Shan Xiang Flavour Co., Ltd. ("Yongzhou Shanxiang"), with the commencement of its second phase production line, sales revenue significantly increased over the last financial year. However, the cost of litsea cubeba oil, a raw material for lemon citrus which is its major product, remained high, which led to a lower gross profit margin while its export business remained weak on the European debt crisis. Despite improvements in both of gross profit margin and operating profit margin, Yongzhou Shanxiang did not record a profit; for Guangdong Zhaoqing Fragrances Limited ("Guangdong Zhaoqing") and its major product ethyl maltol, as the industry underwent rapid expansion in the past few years, the market faced oversupply with generally excessive production capacity and output and fierce price competition. In order to stabilize its product price system, Guangdong Zhaoqing focused on the channel sales and high-end markets with higher prices while abandoned certain big direct sales customers with intensified competition and lower gross profit. During the financial year, even though its sales revenue slightly decreased as compared with the last financial year, both of gross profit margin and operating profit margin rose. With respect to Qingdao Qingda Product Co., Inc., ("Qingdao Qingda"), in the third quarter of 2012, Chinese customs suddenly suspended tax refund policy for paprika coloring's export business, resulting in a serious halt for the export business of the entire paprika coloring industry. The products originally scheduled for exports flowed into the domestic market, which caused the market to become oversupply thus resulted in intensified price wars. The market price of paprika coloring sharply dropped over 30% during the year, which caused Qingdao Qingda's sales revenue to decline significantly over last year. The export policies of paprika coloring have been restored since the fourth quarter of 2012, but since its market price continues to trend down in the first half of 2013, the management anticipates the market price of paprika coloring may gradually rally following recovery of the industry's export business and domestic inventory further absorbed.

During the year, the subsidiaries in respect of the food and beverage business increased investments in production process and raw material control, and kept its record of no material incidents on food safety, which further boosted its industry reputation. For instance, Huabao Kongque's "Kongque Flavours" was once again recognized as a "Shanghai Brand" due to its sound reputation, comprehensive corporate quality control system and customer satisfaction; it also passed the supplier qualification review of Yili Group and Kraft Foods respectively, which has ensured that the company meets market standards in terms of production, storage, equipment and facilities and quality control. For quality management systems, Guangdong Zhaoqing and Yongzhou Shanxiang successfully passed domestic ISO9001 quality management system review respectively during the year, delivering powerful assurance for product quality control.

2. *Recent developments and prospects of the downstream sectors*

a. Tobacco industry entered stage of maturity, sales volume growth slowed down further, industry development uncertainties increased

The tobacco industry continues to play a significant role in the Chinese economy. According to TobaccoChina Online, it contributed industrial and commercial profit tax of approximately RMB865.0 billion in 2012, representing an increase of approximately 15.8%. In recent years, China's tobacco industry has been growing steadily and reflected several characteristics:

Firstly, since the industry has entered a stage of maturity, industry growth may slow down further. The management anticipates the total sales volume to maintain a slow growth momentum in a foreseeable future. According to TobaccoChina Online, for the period of January to March 2013, sales volume of the tobacco industry has slowed down to 0.7%.

Secondly, Virginia-style cigarettes made up a substantial proportion of the total consumption, while imported cigarettes only accounted for a minimal amount of market share over the years; and

Thirdly, the trend of consumption structure elevation will continue, though the pace has been slowed due to policies such as restrictions on government spending on business accounts.

b. *The Chinese government strengthened the regulation of the tobacco industry, regulation risks started to show*

The management noticed that the Chinese government introduced a series of new smoking control measures, including the controlling of smoking areas, promotion in tar and harmful content reduction, and implementation of new standards in maximum tar content, etc. According to the Twelfth Five-Year Plan for the tobacco industry, in the next few years, regulation on the new tar content will continue to be the major trend in the tobacco industry. In view of experience from other more developed countries, smoking control may impact on cigarette consumption behaviour in a long run. Meanwhile, the government introduced measures to strictly limit government spending on business accounts, such that upgrading of the brand structure has slowed down. These administrative measures may impact the tobacco industry development and cigarette consumption in a long term. In the future, the management will continue to pay close attention to the latest developments in this area and respond with full preparation.

c. *The food and beverage industry enters consolidation and adjustment stage*

In recent years, the food and beverage industry is shocked by a number of safety incidents and problems, which have caused great concern from society as well as the regulatory bodies. Along with introduction of new safety supervision regulations, the industry has entered into an adjustment stage. On one hand, some small and medium food and beverage enterprises gradually withdrew from the market, imposing negative impact on related industry chains; on the other hand, during this food safety disturbance, the food additives industry has taken a toll to a certain extent with lowered demand. As a result, overcapacities and intensified price wars have occurred in some market segments and growth in flavours and fragrances industry has slowed down. The management considered that such phenomenon, in near future, will linger and will cast certain negative impacts on the Group's related business. However, in the longer perspective, this is a phase before the whole industry becomes more consolidated and regulated. As such, the management remains optimistic on the long-term development of the PRC food and beverage industry.

3. *Development strategy for the flavours business*

a. *Tobacco sector*

- To continuously pursue the "Big Customers, Big Brands" development strategy, monitor closely on government policies, and to adjust development strategy accordingly;

- To fully utilize joint laboratories set up with major customers, and step up in comprehensive and technological cooperation with leading players in the tobacco industry, in continuously discovering new growth areas;

- To increase management on raw materials and to optimize suppliers and formulations structure, step up effort in safety and quality control, in order to assure product quality starting from top of production chain downward; and

- To utilize the foundation of traditional flavours and fragrances, to speed up products innovation and applications of such products, in order to cope with customers' development needs.

b. *Food and beverage sector*

- Using "Big Customers, Big Brands" as a strategic direction, to continue to emphasize development of the upstream natural aromatic raw material business in order to continuously strengthen the integrated core value chain, and to set up an operational model with creating higher value for customers as the pivot point;

- Huabao Kongque will, by capturing the business opportunities arising from consumers' pursuit of food with nutrition, health, and safety, especially the development that the younger generation of consumers increasingly favors quick and easy snack food, emphasize pioneering direct sales customers to improve the proportion of the direct sales business with higher gross profit;

- Guangzhou Huabao will actively focus on product development and application of meat product and frozen food industry, by adhering to the strategy of big customers, prioritize resources on strategic cooperation with the leading enterprises in the key industries;

- Yongzhou Shanxiang will continue to carry out refined processing of litsea cubeba oil products to develop new products and increase added value and core competitiveness, and will rely on the second phase production line to increase capacity following commencement of operation to reduce costs and improve profitability;

- Guangdong Zhaoqing will continue to adhere to high-end products as orientation, to capture key customers of good quality, to try best to avoid price wars, and to focus on the rate of return;

- Qingdao Qingda will take high-value-added and high-quality paprika coloring as a top product to expand into the food industry, research and develop high-quality capsaicin products and reposition the business direction to improve the product structure, and gradually shift from products with lower gross profit to higher value-added.

Review of Fragrances Business

1. Review of operating results

For the year ended 31 March 2013, sales revenue of the fragrances business of the Group amounted to HKD165,272,000, representing a decrease of approximately 7.1% from the last financial year. Operating profit amounted to HKD9,074,000, representing an increase of 13.2% from HKD8,016,000 of last financial year. EBIT margin reached approximately 5.5%, representing a slight improvement from 4.5% of last financial year. The decrease in sales revenue of the fragrances business was mainly contributed by the decreases in sales by Yunnan Hua Xiang Yuan Flavours Limited ("Yunnan Huaxiangyuan") as its business is in a transitional period after the Group has made adjustment to its management structure and business with a view of better risk control on raw material fluctuations.

In recent years, due to macro-economic factors, competition in the fragrances market became more intense. Overcapacities of certain fragrances enterprises have imposed price pressure on mid- to low-end products. Xiamen Amber Fragrances Co., Ltd. ("Xiamen Amber") proactively streamlined the businesses that were overly grown in the past, and strived to expand its advantages in aromatic, sanitizing and pesticide products. As a result, sales from its major customers such as Lanju and Lizi recorded rapid growth, where market share in these fields continued to increase. In addition, benefiting from optimization of its raw material procurement system and sound control of raw material costs, both of gross profit margin and operating profit margin of Xiamen Amber elevated.

During the financial year, Xiamen Amber achieved good results in terms of scientific research. During the year, it successfully applied for 4 invention patents and 6 utility patents in total, product quality and production technology have seen improvement; to actively establish a key city-level laboratory to improve the technological framework; and to establish a relatively sound and stable application testing system for basic materials, basic formulae, effects of application and flavours testing. With respect to allocation of resources, Xiamen Amber put efforts in cultivating new talents based on market and current conditions, including flavorists, application engineers and flavours integration engineers, to ensure product quality and increase product innovation capability.

Since last year, profitability of Yunnan Huaxiangyuan had declined due to fluctuations of raw material prices. In order to control volatility risks of raw materials, the Group was inclined to control and properly reduce inventories of raw materials to regulate its scale of assets by making timely adjustments to its management structure. Currently, Yunnan Huaxiangyuan is in a transitional stage. Despite the sales revenue of the fragrances segment will be affected to a large extent in a short term, the impact on the overall profitability of the Group is very limited.

2. ***Development strategy for the fragrances business***

- To continue in optimizing business structure, to establish a platform in which focusing on both return on revenue and profitability;

- To continue in solidifying competitive advantage in the areas of sanitization, pesticide and aromatic products, and to further elevate market shares;

- To continue product innovation that are of market's standards in terms of safety, healthy and natural, to seize business opportunity in the area of liquid washing detergent;

- To focus on penetrating major fragrances customers and to increase effort in expanding export business, especially in the South East Asia countries where usage of fragrances is significant; and

- To seek opportunities for merger and acquisition ("M&A") or cooperation and identify the right opportunity to acquire and merge or to cooperate with those enterprises whose products and markets are complementary with the Group, in order to achieve rapid growth.

Review of RTL Business

1. Review of operating results

For the year ended 31 March 2013, the Group's sales revenue of the RTL amounted to HKD483,173,000, representing an increase of approximately 90.9% as compared with HKD253,072,000 last year, and accounted for 13.3% of the Group's total sales revenue as compared with 7.6% last year. Operating profit reached HKD152,523,000, representing an increase of approximately 78.8% as compared with HKD85,316,000 last year. The significant increase in sales revenue of RTL is mainly attributable to the average selling price of products of Guangdong Jinke Reconstituted Tobacco Leaves Company Limited ("Guangdong Jinke") being elevated continuously and the second phase of Guangdong Golden Leaf Technology Development Company Limited ("Guangdong Jinye") production line was completed and has commenced production since November 2012. EBIT margin reached approximately 31.6%, representing a decrease of 2.1 percentage points from 33.7% of last year; EBITDA margin reached approximately 43.7%, representing a decrease of 5.5 percentage points from 49.2% of last year. The decrease in EBIT and EBITDA margins was attributable to increased input in R&D, and increase in employee salary and benefits and depreciation expense. Sales revenue of RTL being slightly below management's target was mainly affected by the progress of capacity ramp-up of the second phase of Guangdong Jinye production line.

During the year, the second phase of Guangdong Jinye 20,000-ton production line, which the Group has put much effort to establish, was completed and commenced production in November 2012, marking a significant milestone that the Group has reached in the RTL industry and entered into a stage of rapid growth. Meanwhile, a constant technical upgrade has been carried out on the Guangdong Jinke 10,000-ton production line, which has noticeably improved its product quality, average product selling price and customer structure. Currently, the quality of Guangdong Jinke's RTL has reached a leading position in China and has penetrated into certain major brands' middle to high-end cigarette products, where its product qualities have been well received by customers.

As one of the RTL research and development bases authorized by the State Tobacco Monopoly Administration ("STMA"), Guangdong Jinye undertook several significant industry events during the year. For instance, Guangdong Jinye held the "National Paper-making Reconstituted Tobacco Key Program – Technical Research Chief Experts Seminar" organized by the Science Technology and Education Department of STMA in July 2012. Domestic RTL manufacturers, management team and experts from various research institutes attended such seminar, to discuss workmanship, major directions and technical routes of the RTL. Such seminar was regarded as one of the major events in the domestic RTL industry and was of significant authority. Moreover, communications on industrial technology were promoted during the year as management and R&D teams of major business partners such as Shanghai Tobacco Group Taichuang Haiyan Reconstituted Tobacco Leaves Company Limited and China Tobacco Jiangsu Industrial Co., Ltd. visited Guangdong Jinye for the purposes of field research and interaction. By holding the seminar and alike, the representativeness of Guangdong Jinye was increasingly highlighted in the industry.

As the STMA continues to promote for reducing tar and harmful content of cigarettes, the maximum tar limit has been lowered several times in recent years. Since 1 January 2013, cigarettes containing 11 mg or more of tar each cannot be sold in China; from 1 January 2015, the tar content in each cigarette must not exceed 10 mg (source: TobaccoChina Online). International tobacco industries' development has shown in the past several decades that RTL has proven to be one of the most widely used and effective methods for the process of tar reduction of cigarettes, while the STMA has listed RTL as one of the major developments in the Twelfth Five-Year Plan. Because of this, the management maintains its positive view on the outlook of RTL development.

With the completion of the second phase of Guangdong Jinye production line, the Group has preliminarily completed the first stage of planning and development in the RTL area. Currently, Guangdong Jinke and the second phase of Guangdong Jinye production line have a total production capacity of approximately 30,000-ton per annum, representing a considerable market share in the domestic RTL industry. Next, the Group will take full advantage of the model effect of the second phase of Guangdong Jinye production line, and rapidly propel its subsequent development in the RTL area, including to continuously strive for production workmanship's design and implementation stage of Guizhou Huangguoshu Jinye Technology Co., Ltd. ("Guizhou Huangguoshu"), as well as actively participate in China Tobacco Anhui Reconstituted Tobacco Leaves Technology Limited ("China Tobacco Anhui") RTL production line's trial operation. The Group's development in the field of RTL has entered into full display. Meanwhile, the management often keeps an eye on various kinds of acquisition or cooperation opportunities arising from domestic and overseas RTL areas, so as to seize the business opportunities in cigarette products presented from the reduction of tar and harmful content.

2. ***Development strategy for the RTL business:***

- To continuously optimize product structure and customer base, to cope with reduction of tar and harmful content of the tobacco industry;

- To actively pursue ramp-up of second phase of Guangdong Jinye production line with an aim to reach full capacity within the financial year of 2013/14;

- To strive for the development Guizhou Huangguoshu and China Tobacco Anhui RTL projects; and

- To continue in improving cooperation with domestic tobacco and RTL enterprises, meanwhile will monitor any different forms of acquisition or cooperation in domestic or international RTL areas in order to seize the business opportunities brought from reducing of tar and harmful content in cigarettes.

New cigarette materials updates

The management noted that, as the tobacco industry entered the post-consolidation era, the landscapes of remaining major tobacco groups and brands gradually became clear. Inter-brand competition was gradually elevated to focus on high quality, innovation and personalised products. As a market leader in China's RTL industry, Huabao perceived the development potential contained therein a few years ago, and started to conduct research and development on new cigarette materials leveraging the Group's competitiveness in overall technology and understanding of products profile. In June 2012, the Group established a cigarette filter joint enterprise in Korea. The accumulated investment by the Group was approximately HKD79,180,000, where the Group holds 70% of the equity interest. Currently, the establishment of Korea Huabao is basically completed. With its production equipments in place and capable of trial production, next will then accelerate the development of more innovative products.

Review on Research and Development ("R&D")

The Group pays foremost attention to constantly enhancing the capacity of research and development. During the year, the Group's R&D cost amounted to HKD213,491,000, representing approximately 5.9% of its sales revenue, a further increase as compared with approximately 5.6% of last financial year. After continuous investment, the Group has set up a R&D team which is in a lead position in China and is of international standards. The State-recognized technology centre in Shanghai, the overseas R&D centre in Germany and the professional R&D departments in Yunnan, Guangdong and Fujian, etc., together formed a vertically integrated platform for R&D in areas ranging from fundamental researches to applications. In addition, the Group has started to establish a U.S.-based R&D centre during the year. The R&D strategy of the Group is market-driven so as to closely follow the latest global industry trends and to accelerate the mastering of technologies in key raw materials. With such strengths, the Group is able to develop products and technologies that meet market demands, to gradually form a R&D team with a global perspective and deliver an integrated platform of technology system, and thereby comprehensively elevate its overall competitiveness in relation to research and development.

Future Business Development Plans

The global economic conditions are uncertain, while China's economic structural adjustment continues. The macro-economic environment is presented with a potential downside risk. Food and beverage and additives industries have entered into a stage of adjustment in consumption structures, while the tobacco industry has entered into a mature and stable stage, policy adjustment and restrictions may impose uncertainties on sales growth and upgrading of structure of consumption. All of the above may affect the Group's future development.

In respect of the tobacco business, the Group will continue to adhere to take big customers as a business base and fully boost a new business model, namely utilizing the end-market as a pivotal point, to design and create competitive products for its customers from flavours, RTL, new cigarette materials and other different perspectives in order to achieve mutual development.

In respect of food ingredients and flavours and fragrances businesses, the Group will adopt corresponding development strategies against the operating characteristics of all segment markets and highlighted our competitive advantages in terms of branding, product quality and safety. It will proactively adjust its product structure, and continue to enhance its profitability while focusing on investment return to strive to achieve stable growth.

In respect of fragrances, due to intense competition in the industry, the Group will concentrate on development of Xiamen Amber's competitive advantages in aromatic, sanitizing and pesticide businesses, optimize the raw material purchase system, strictly control product quality and expand healthy and natural new products. The Group will put efforts on expanding overseas markets while maintaining well servicing to domestic major customers.

In respect of RTL, the Group will utilize end market consumers as the pivot point, to fully integrate the Group's overall competitiveness in tobacco chemistry technology, RTL coating base technology and new cigarette materials; to utilize systemic technology integration, to promote product and production workmanship innovation, in order to provide customers with solutions on products' taste profiles and comprehensive services; by ways of organic development and acquisition, to gradually develop into the Group's long-term growth engines. In addition, the Group will also keep exploring and researching on the possibility and feasibility of multi-channels of financing.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 March 2013

Sales revenue

The Group's sales revenue amounted to HKD3,645,940,000 for the year ended 31 March 2013, representing an increase of about 10.1% as compared with HKD3,311,304,000 for the last financial year. The continuous growth in sales revenue was mainly attributable to the stable growth momentum maintained by flavours and rapid growth in the sales of RTL. For the year ended 31 March 2013, sales revenue from flavours reached HKD2,997,495,000, contributing about 82.2% of total sales revenue; sales revenue from fragrances reached HKD165,272,000, contributing about 4.5% of total sales revenue; while sales revenue from RTL reached HKD483,173,000, contributing about 13.3% of total sales revenue.

Cost of goods sold

The Group's cost of goods sold amounted to HKD1,127,031,000 for the year ended 31 March 2013, representing an increase of about 15.6% as compared with HKD975,308,000 for the last financial year. The increase in cost of goods sold being higher than the increase in sales revenue was mainly attributable to the decrease in gross profit margin.

Gross profit and gross profit margin

Gross profit of the Group increased from HKD2,335,996,000 for the year ended 31 March 2012 to HKD2,518,909,000 for the year ended 31 March 2013, representing an increase of about 7.8%; gross profit margin was 69.1%, representing a decrease from 70.5% of the last financial year. The decrease in gross profit margin was mainly attributable to the change of the sectors' revenue mix, with sales revenue of RTL, whose gross profit margins are lower, to overall sales revenue ratio rapidly increased from approximately 7.6% for the last financial year to approximately 13.3% this year.

Other income

Other income of the Group was HKD176,692,000 for the year ended 31 March 2013, representing a decrease of HKD81,859,000 as compared with HKD258,551,000 for the last financial year. The significant decrease in other income was mainly attributable to factors such as significant decrease in exchange gain due to the appreciation of RMB during the current financial year was lower than that in the last financial year.

Selling and marketing expenses

The selling and marketing expenses of the Group mainly comprised of travelling expenses, transportation costs, salaries and office expenses. The selling and marketing expenses of the Group for the year ended 31 March 2013 were HKD139,464,000, representing an increase of about 31.8% as compared with HKD105,807,000 for the last financial year. Selling and marketing expenses to total sales revenue for the year ended 31 March 2013 and 2012 amounted to approximately 3.8% and 3.2% respectively. The increase of such ratio was mainly attributable to increases in employee benefit expenses and the Group stepped up its selling efforts which resulted in increase of related expenses.

Administrative expenses

The Group's administrative expenses amounted to HKD531,469,000 for the year ended 31 March 2013, representing an increase of approximately 25.1% as compared with HKD424,689,000 for the last financial year. Administrative expenses to total sales revenue during the current financial year amounted to approximately 14.6%, representing an increase of approximately 1.8 percentage points as compared with 12.8% for the last financial year. Among which the ratio of R&D expenses to total sales revenue was approximately 5.9%, increased by approximately 0.3 percentage point as compared with last financial year. The increase in the ratio of administrative expenses to total sales revenue was mainly attributable to the increase in R&D expenses, as well as employee benefit expenses and depreciation expenses, etc.

Operating profit

Operating profit of the Group for the year ended 31 March 2013 was HKD2,024,668,000, representing a decrease of approximately 1.9% as compared with HKD2,064,051,000 for the last financial year, while the operating profit margin decreased to approximately 55.5% of the current financial year from approximately 62.3% of the last financial year. The decrease in operating profit was mainly attributable to the significant decrease in other income, increase in selling and marketing expenses and administrative expenses, and lower gross profit margin.

Income tax expenses

Income tax expenses of the Group for the year ended 31 March 2013 was HKD314,804,000, represent a slight increase as compared with HKD314,250,000 for the last financial year. Income tax rate of the current year was approximately 15.4%, which was slightly increased as compared with approximately 15.1% for the last year. Income tax rate was stable as a whole.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD1,716,375,000 for the year ended 31 March 2013, representing a decrease of 1.9% as compared with HKD1,750,419,000 for the last financial year.

Net current asset value and financial resources

As at 31 March 2013, the net current asset value of the Group was HKD2,896,047,000 (2012: HKD2,254,535,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 March 2013, the Group's cash and bank balances amounted to HKD2,323,349,000 (2012: HKD2,286,577,000), over 91% of which was held in RMB. The Group neither held any forex hedging products nor structured investment products or financial derivatives.

Bank borrowings and gearing ratio

As at 31 March 2013, the Group had bank borrowings of HKD465,000,000 (2012: HKD927,500,000), which are entirely unsecured loan with interest calculated based on HK dollars inter-banks borrowings rate. For the year ended 31 March 2013, the average annual interest rate of such unsecured loan was 2.47% (2012: 2.13%), which are due within one year. As at 31 March 2013, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was about 6.4% (2012: 14.7%).

Investing activities

The Group's investing activities were mainly incurred for the purchase of fixed assets and the strategically development strategies for M&As. For the year ended 31 March 2013, the net cash used in investing activities amounted to HKD735,750,000, mainly incurred for the placement of short-term time deposits, procurement of properties, machineries and equipment. For the year ended 31 March 2012, the net cash used in investing activities amounted to HKD605,430,000.

Financing activities

For the year ended 31 March 2013, the net cash used in financing activities amounted to HKD1,285,984,000, mainly used for dividend distribution to shareholders, loan repayment and share repurchases. For the year ended 31 March 2012, the net cash used in financing activities amounted to HKD411,962,000.

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 2013, the Group's average debtors' turnover period was 72 days, representing an increase of 2 days as compared with 70 days for the last financial year ended 31 March 2012. Debtors' turnover period remains stable.

Creditors' turnover period

Creditors' turnover period is calculated on the basis of the average amount of trade payables as at the beginning and the end of a relevant financial year divided by the cost of goods sold for the corresponding period and multiplied by 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 March 2013, the Group's average creditors' turnover period was 118 days, representing a decrease of 4 days as compared with 122 days for the last financial year ended 31 March 2012. Creditors' turnover period remains stable.

Inventory and inventory turnover period

As at 31 March 2013, the Group's inventory balance amounted to HKD702,316,000 (2012: HKD667,871,000). For the year ended 31 March 2013, 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 219 days, representing an increase of 9 days as compared with 210 days for the last financial year. The increase in inventory and longer inventory turnover period for the year was due to the increase in amount of raw materials and finished goods resulted from the production scale expansion of second phase of Guangdong Jinye production line since it was principally completed and commenced production in November 2012.

Foreign exchange and exchange rate risk

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

Pledge of assets

As at 31 March 2013, the Group did not pledge any of its assets.

Capital Commitments

As at 31 March 2013, the Group had capital commitments in respect of the purchase of property, plant, equipment, and investment in an associate, contracted for but not provided in the financial statements amounting to approximately HKD188,930,000 (2012: HKD385,586,000), the majority of which related to capital injection into Guizhou Huangguoshu.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 31 March 2013.

EMPLOYEES AND REMUNERATION POLICY

The Group has remained committed to corporate culture construction and established a clear vision, as well as a common goal for all employees, of combining corporate development and individual growth to achieve common development of the Company and its employees. Adhering to its core value of "client first" for years to maximize client values, the Group also constituted a code of conduct for each employee on the basis of this concept. The Group organized corporate culture promotion activities, including articles and speeches delivered by the management, updates on official website, publications of Huabao Monthly and essay competitions. The Group enriched employees' leisure time through various recreational and sports activities including sports contests and outward bound training to reinforce cohesion of Huabao people and their sense of identity.

The Group has placed substantial emphasis on talent training. The Group has stepped up its efforts in creating a scientific and reasonable management environment and institutional mechanism in terms of policy, system and culture development, empowering each employee to make full use of his expertise and specialties and maintaining a joint force in its staff to create more value for the Group. The Group established a sound training scheme for its reserve talents on the basis of external recruitment. The selection procedures applied to reserve talents include five stages, namely internal nomination and selection, work units review, verification by headquarter, approval and result announcement. Reserve talents management mainly comprises regular inspection, dynamic adjustment, training and profile management. Through its annual examination and assessment on reserve talents, the result of which is to be recorded into personal profile, the Group will promote those with excellent appraisal performance and eliminate those with unsatisfactory results. During inspection period, reserve talents are under direct coaching and supervision of mentors. The Group organizes reserve talents selection and review every year to guarantee healthy and orderly development of reserve talents. The continuous construction of our talent team guarantees new momentum for corporate expansion and development.

The Group has established a multi-level comprehensive staff training system, comprising special training program for middle to high level employees, intensive training for reserve talents, as well as business skills and industrial know-how coaching for front-line staff. External experts, internal management and professionals were invited to act as program trainers. Through these successive training programs, the initiatives of employees were mobilized while their professional knowledge and technical competency were enhanced.

In regards to employee salary and incentive system, the Group has implemented a new remuneration system referenced to the market to attract stable and exceptional talents, so as to meet the Group's long term development needs. As at 31 March 2013, the Group employed a total of 2,507 employees in the PRC, Hong Kong, Germany, Botswana and Korea, representing an increase of 271 employees from 2,236 employees of last year. The labour costs of the year (including pension costs) amounted to HKD300,293,000, representing an increase of HKD108,085,000 from HKD192,208,000 of the last financial year. The increase in the labour costs was primarily attributable to the increase in the number of employees, hike of product prices and living standards in China, adjustment to employee remuneration structure and the Group's investment in human resources.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code (the "CG Code")

Throughout the year, the Company had complied with the code provisions in the CG Code contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and, where appropriate, adopted the recommended best practice as set out in the code provisions, except for code provisions A.4.1 and A.6.7:

Code provision A.4.1 stipulates that independent non-executive directors ("INEDs") should be appointed for a specific term and subject to re-election. The 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 A.6.7 provided that, INEDs and other non-executive directors should attend general meetings. Due to other business commitment abroad, Dr. JIN Lizuo (INED of the Company) was unable to attend the annual general meeting of the Company held on 8 August 2012 (the "2012 AGM"). However, the other two INEDs of the Company, Mr. LEE Luk Shiu and Ms. MA Yun Yan attended the 2012 AGM and answered questions from shareholders and exchanged views.

Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry to all directors, all directors confirmed in writing that they have complied with the required standard as set out in the Model Code throughout the year.

FINAL AND SPECIAL DIVIDENDS

The Board proposes to declare a final dividend of HK9.40 cents per share (2012: HK8.88 cents per share) and a special dividend of HK2.80 cents per share (2012: nil) both in cash, about HKD378 million in aggregate, for the year ended 31 March 2013 which are expected to be paid on or about 18 October 2013 (Friday) to shareholders whose names appear on the Register of Members of the Company as at 16 August 2013 (Friday), subject to shareholders' approval at the forthcoming annual general meeting ("2013 AGM") to be held on 8 August 2013 (Thursday). The proposed final and special dividends together with the interim and special dividends paid will represent a total dividend distribution for the financial year ended 31 March 2013 of HK22.16 cents per share (2012: HK21.86 cents per share).

CLOSE OF REGISTER OF MEMBERS FOR 2013 AGM

In order to determine the entitlement of shareholders to attend and vote at the 2013 AGM, the Register of Members of the Company will be closed from 5 August 2013 (Monday) to 8 August 2013 (Thursday), 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, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 2 August 2013 (Friday). Shareholders whose names are recorded in the Register of Members of the Company on 8 August 2013 (Thursday) are entitled to attend and vote at the 2013 AGM.

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

In order to determine shareholders who qualify for the proposed final and special dividends, the Register of Members of the Company will be closed from 14 August 2013 (Wednesday) to 16 August 2013 (Friday), 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, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 13 August 2013 (Tuesday). Shareholders whose names are recorded in the Register of Members of the Company on 16 August 2013 Friday, are entitled to receive the final and special dividends both in cash for the year ended 31 March 2013.

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

During the year ended 31 March 2013, the Company repurchased a total of 54,320,000 ordinary shares of HK$0.10 per share through the Stock Exchange at an aggregate consideration of approximately HK$198,802,000 (excluding transaction costs). Out of 54,320,000 shares repurchased, 49,722,000 shares were cancelled during the financial year while the remaining 4,598,000 shares were cancelled subsequently on 30 April 2013. Details of shares repurchased during the year are set out as follows:

Month/year	**No. of shares repurchased**	**Highest price paid per share** *(HKD)*	**Lowest price paid per share** *(HKD)*	**Aggregate price paid** *(HKD'000)*
August 2012	14,082,000	4.55	3.70	58,220
September 2012	3,614,000	4.50	3.95	15,561
November 2012	553,000	3.86	3.24	1,977
January 2013	693,000	4.34	4.30	2,998
March 2013	35,378,000	3.64	3.18	120,046
Total:	54,320,000			198,802

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2013.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors and their respective associates (as defined in the Listing Rules) is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprises all of the INEDs, namely Mr. LEE Luk Shiu, Ms. MA Yun Yan and Dr. JIN Lizuo.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's audited annual results for the year ended 31 March 2013.

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 2012-13 annual report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
Huabao International Holdings Limited
CHU Lam Yiu
Chairman and CEO

Hong Kong, 18 June 2013

As at the date of this announcement, the Board comprises five executive directors, namely Ms. CHU Lam Yiu (Chairman and CEO), Messrs. POON Chiu Kwok, WANG Guang Yu, XIA Li Qun, XIONG Qing, and three independent non-executive directors, namely Dr. JIN Lizuo, Mr. LEE Luk Shiu and Ms. MA Yun Yan.