

Huabao International Holdings Limited

(Stock Code:00336 HK)

2016/2017 Annual Results
Presentation



Agenda

Results Review

Financial Review

Operation Review

Future Prospects

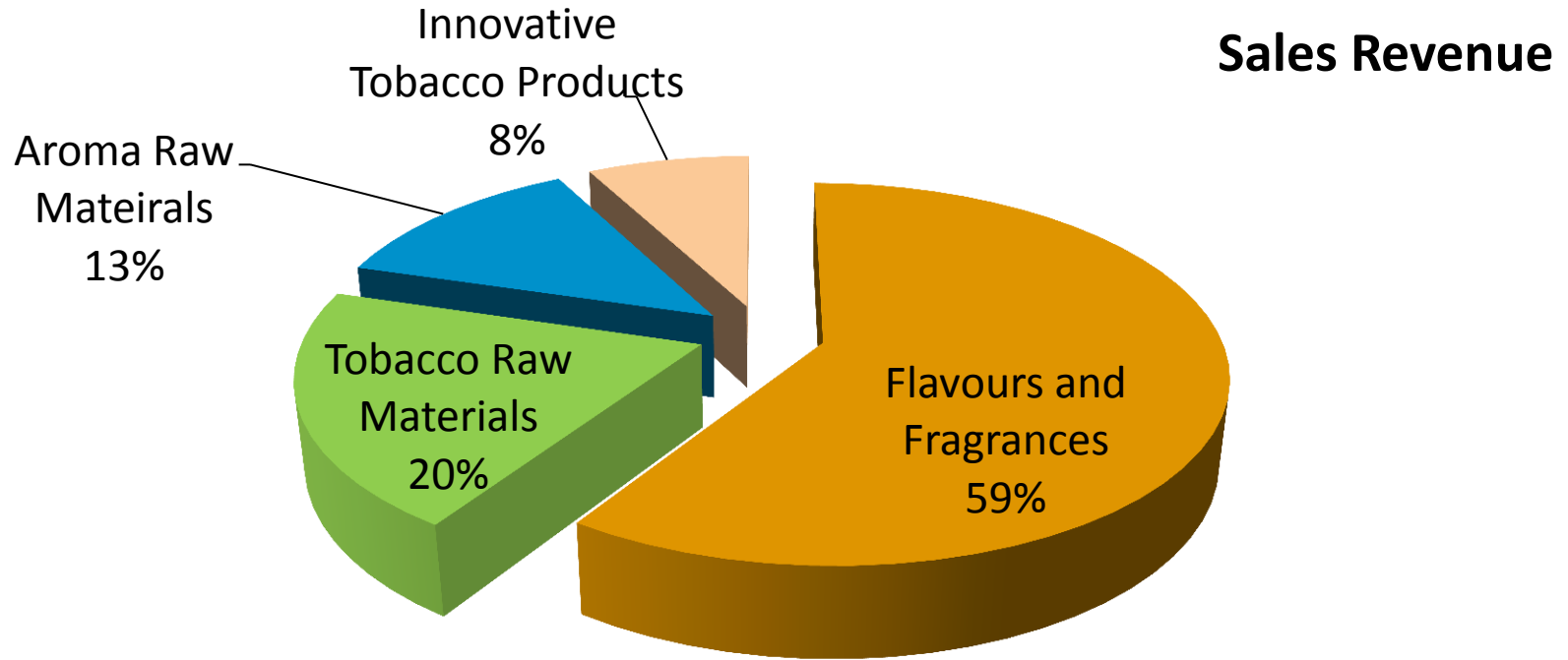


Annual Results Highlights

	Ended 31 Mar, 2017 (RMB'000)	Ended 31 Mar, 2016 (RMB'000)	Changes
Sales	3,482,894	3,200,436	+8.8%
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 Attributable to shareholders	1,065,424	1,181,562	-9.8%
Adjusted Profit Attributable to shareholders*	1,097,184	1,181,562	-7.1%
EPS – Basic* (RMB Cents)	34.29	38.04	-9.9%
Adjusted EPS (RMB Cents)	35.31	38.04	-7.2%
Net Cash	4,826,455	2,919,463	+65.3%
Total Equity	10,606,912	8,774,471	+20.9%
Final dividend per share (HKD Cents)	22	0	

* Excluding provision for impairment of goodwill of VMR Products of RMB22,710,000 and expenses directly related to the direct costs related to spin-off RMB9,050,000 attributable to the equity holders of the Company.

Main Business Segments



- ❑ **Flavors and fragrances:** include the R&D, production of sales of flavours and fragrances
- ❑ **Tobacco raw materials:** include RTL and tobacco new materials
- ❑ **Aroma raw materials:** include various natural and synthetic aroma raw materials
- ❑ **Innovative tobacco products:** include e-cigarettes



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Balance Sheet Highlights

	Ended 31 Mar, 2017 (RMB'000)	Ended 31 March, 2016 (RMB'000)
Non-Current Asset	4,365,779	4,495,412
Current Asset	7,131,972	5,158,807
- Inventories	693,490	694,951
- Bank Deposit and Cash	4,901,955	2,934,463
Non-current Liabilities	73,028	103,131
Current Liabilities	817,811	776,617
Net Asset	10,606,912	8,774,471



Cash Flow and Financial Position

	Ended 31 Mar, 2017 (RMB'000)	Ended 31 Mar, 2016 (RMB'000)
Net cash generated from operating activities	1,303,709	1,188,996
Cash and cash equivalents	4,177,807	2,653,110
	Ended 31 March, 2017	Ended 31 March, 2016
Inventory Turnover (Day)	206	243
AR Turnover(Day)	97	88
AP Turnover(Day)	89	112
Current ratio	8.7	6.6
Liquidity ratio	7.9	5.8

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Review of Flavours & Fragrances Business (I)

	2016/2017 (RMB'000)	2015/2016 (RMB'000)	Changes
Sales Revenue	2,064,734	2,202,370	-6.2%
EBIT	1,205,063	1,345,381	-10.4%
EBIT Margin	58.4%	61.1%	-2.7 ppt

Business Review :

❑ Flavour business:

- Both the production and sales of tobacco industry were declined and inventory level was high; traditional selling styles were challenged;
- Started with market demands, gained insight into the new trends, new technologies and new fields in the development of domestic and foreign flavour industries,;
- Adjusted the products structure, promoted the updates and upgrades of the customers' existing products;
- Took the opportunity for consumption upgrade, and explore new market opportunities by developing new products and new business.



Review of Flavours & Fragrances Business (II)

Business Review :

☐ Flavour business: (Contd.)

- Huabao Kongque – targeted the niche markets by using bakery and dairy industries as breakthrough and established a platform for food flavours and food ingredients; roast flavours were stable, and dairy flavours achieved growth against the market;
- Guangzhou Huabao – Snacks and Puffed food are still the key products; it was also actively developing potential meat product customers;

☐ Fragrances:

- Xiamen Amber——adjusted the product structure; the proportion of disinfection incense fragrance decreased, while the proportion of washing detergent fragrance increased;
- Expanded exports, and regional sales in southeast Asia increased year by year;

☐ Food ingredients:

- Achieved certain accomplishments in sales since the cooperation with the German dairy manufacturer; planned to further expand the food ingredient production line;
- Expected to become the new highlights attracting new customers and new profits growth points.



Review of Tobacco Raw Materials

	2016/2017 (RMB'000)	2015/2016 (RMB'000)	Changes
Sales Revenue	705,981	629,786	+12.1%
EBIT	254,093	218,766	+16.1%
EBIT Margin	36.3%	34.7%	+1.6 ppt

Business Review:

- ❑ The inventory of tobacco leaves were high, while the demand declined and the production capacity of RTL was released gradually; RTL market still oversupplied;
- ❑ The increase in pre-tax profit 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;
- ❑ Guangdong Jinye-- technology innovation, lean management , cost reduction and profit increase
 - Optimized production modes, enhanced productivity and lowered production related energy consumption;
 - Will expand the overseas market and continue to strengthen process technology innovation; will also introduce functional RTL and help customers improve the products value.
- ❑ New tobacco materials -- business grew significantly and customer range increased.
 - Capsules and wire conductors business developed very well. Will continue to improve the technology platform and teamwork, enrich the production lines

Review of Aroma Raw Materials

	2016/2017 (RMB'000)	2015/2016 (RMB'000)	Changes
Sales Revenue	439,450	283,172	+55.2%
EBIT	70,870	48,229	+46.9%
EBIT Margin	16.1%	17.0%	-0.9 ppt

Business Review:

- ❑ The increase in sales revenue and improvement in operating ability was due to merger of the group consolidated financial statements after the acquisition of Yancheng Chunzhu; the profit declines was due to the amortization of intangible assets acquired from Yancheng Chunzhu;
- ❑ Yancheng Chunzhu – developed rapidly, and the varieties and quantities of the products increase year by year;
- ❑ Guangdong Zhaoqing -- sales grew steadily, and exports remained stable;
- ❑ Plans to build a professional production base of aroma raw materials with an annual output of over 10,000 tonnes; The products will be more comprehensive and create greater profit margins in the future .



The latest developments of e-cigarette

SPV

- Introduced closed smoke bomb system smoking set.
- Continued to cooperate with Brookstone, and operate flagship stores on jd.com and Tmall.
- The first physical store was settled in Moon Star Global Harbour, Shanghai.

VMR

- In March 2016, the European Union introduced e-cigarettes into *the Tobacco Products Draft Amendment*; In May 2016, FDA included e-cigarette in the supervision for the first time.
- Due to the gradually strengthened regulatory impacts and the fiercely competitive market, VMR sales have been seriously challenged.
- Revenue was flat as compared to last year and losses declined; management expected that the future development of e-cigarette would still be challenging.
- Wrote off the goodwill arising from the acquisition of VMR by RMB22.71million according to goodwill impairment test and sake of prudence.



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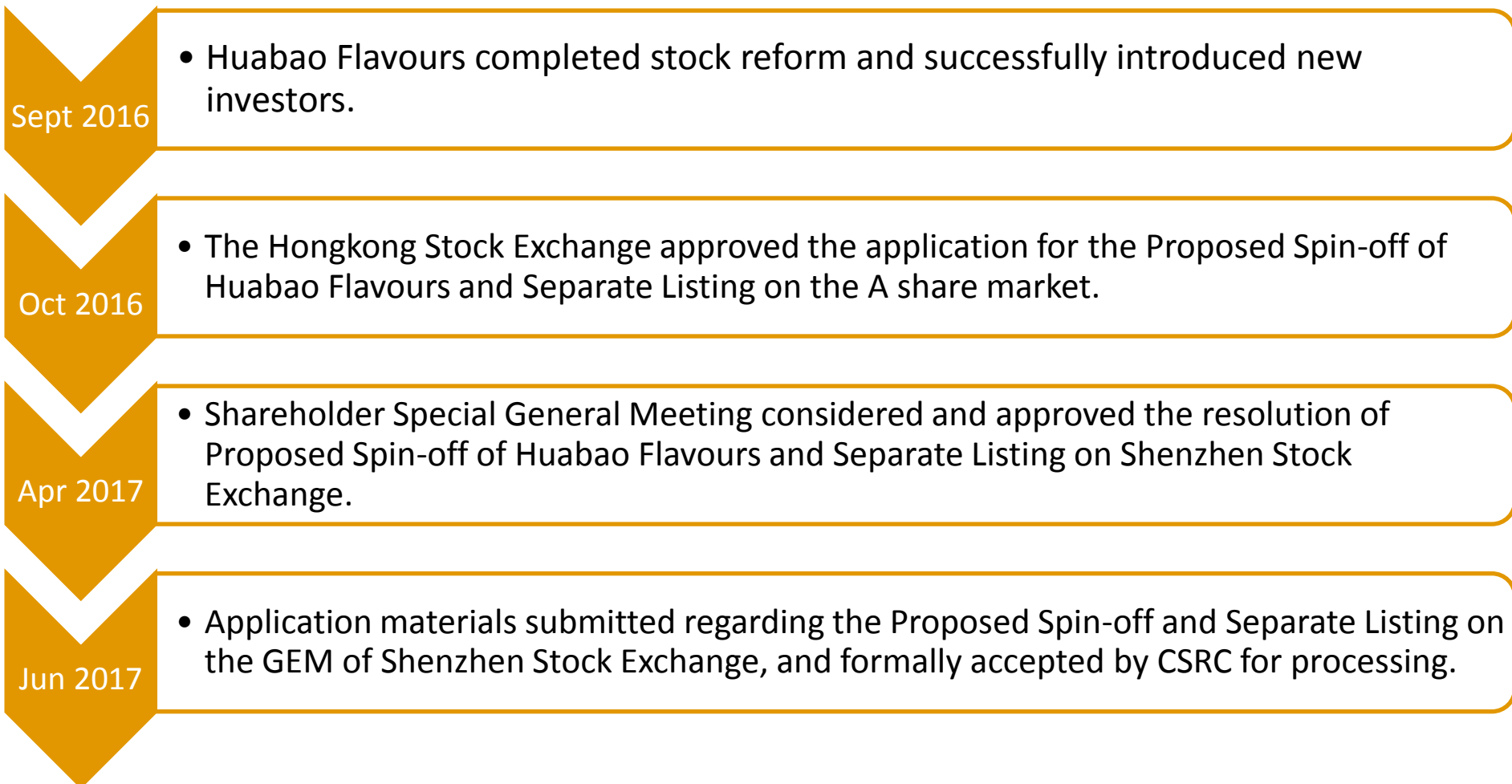
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Huabao Flavours Spin-Off



Future Development Strategy



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Thank you!