HUABAO INTERNATIONAL HOLDINGS LIMITED
華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September 2008 *HK$'000*	2007 *HK$'000*	Growth
Sales	**892,109**	643,551	+38.6%
Gross profit	**672,065**	478,944	+40.3%
Gross profit margin	***75.3%***	*74.4%*	
Operating profit	**551,833**	389,589	+41.6%
Profit before income tax	**560,226**	398,120	+40.7%
Profit attributable to the equity holders of the Company	**517,256**	374,487	+38.1%
	HK cents	*HK cents*	
Earnings per share			
– Basic	**16.83**	12.23	+37.6%
– Diluted	**16.56**	12.02	+37.8%
Interim dividend per share	**5.0**	2.3	+117.4%

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2008 together with the comparative figures for the corresponding period in 2007.

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

* *For identification purpose only*

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 September 2008

	Note	Unaudited For the six months ended 30 September **2008** ***HK$'000***	 2007 *HK$'000*
Sales	*4*	**892,109**	643,551
Cost of goods sold		**(220,044)**	(164,607)
Gross profit		**672,065**	478,944
Other income		**27,531**	6,587
Selling and marketing expenses	*5*	**(37,721)**	(26,107)
Administrative expenses	*5*	**(110,042)**	(69,835)
Operating profit		**551,833**	389,589
Finance income		**9,806**	8,508
Finance costs		**(1,704)**	–
Finance income – net		**8,102**	8,508
Share of profit of associates		**291**	23
Profit before income tax		**560,226**	398,120
Income tax expense	*6*	**(35,455)**	(20,394)
Profit for the half year		**524,771**	377,726
Attributable to:			
Equity holders of the Company		**517,256**	374,487
Minority interest		**7,515**	3,239
		524,771	377,726
		HK cents	*HK cents*
Earnings per share for profit attributable to the Company's equity holders for the half year			
Basic	*7(a)*	**16.83**	12.23
Diluted	*7(b)*	**16.56**	12.02
Interim dividend per share	*8*	**5.00**	2.30

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

At 30 September 2008

	Note	**As at 30 September 2008 HK$'000 Unaudited**	As at 31 March 2008 HK$'000 Audited
Assets			
Non-current assets			
Property, plant and equipment		**281,148**	198,878
Land use rights		**59,752**	24,887
Intangible assets		**1,531,472**	699,959
Investments in associates		**9,802**	3,663
Deferred income tax assets	*9*	**23,136**	12,345
		1,905,310	939,732
Current assets			
Inventories		**209,669**	136,862
Trade and other receivables	*10*	**514,724**	429,192
Cash and cash equivalents		**1,052,071**	971,595
		1,776,464	1,537,649
Total assets		**3,681,774**	2,477,381
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**307,676**	306,911
Reserves		**227,308**	130,748
Retained earnings			
– Proposed dividend		**153,838**	184,147
– Others		**1,691,881**	1,330,425
		2,380,703	1,952,231
Minority interest		**85,993**	69,746
Total equity		**2,466,696**	2,021,977
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	*9*	**92,671**	30,701
Current liabilities			
Trade and other payables	*11*	**1,115,187**	419,587
Current income tax liabilities		**7,220**	5,116
		1,122,407	424,703
Total liabilities		**1,215,078**	455,404
Total equity and liabilities		**3,681,774**	2,477,381
Net current assets		**654,057**	1,112,946
Total assets less current liabilities		**2,559,367**	2,052,678

Notes:

1. Pursuant to an acquisition agreement dated 7 July 2008, the Company acquired Wealthy King Investments Limited and its subsidiaries ("Wealthy King Group") from Ms. Chu Lam Yiu ("Ms. Chu") (the "Acquisition") at a consideration of HKD870,550,000 satisfied or to be satisfied by cash payment. The Acquisition was a connected and discloseable acquisition pursuant to The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), details of which were set out in the circular dated 23 July 2008 issued by the Company. The Acquisition was completed on 14 August 2008.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2008 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the financial statements of the Company for the year ended 31 March 2008 and the above-mentioned circular depicting the discloseable acquisition.

Application of merger accounting

Since the Company and Wealthy King Group were both controlled by Ms. Chu before and after the completion of the Acquisition as mentioned in Note 1, the Acquisition has been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial information includes the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence since Ms. Chu controlled them, or since their respective dates of incorporation/establishment. For companies acquired from third parties during the period, they would be included in the condensed consolidated financial information of the Group from the date of that acquisition.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those financial statements.

The following new interpretations are mandatory for the first time for the financial year ending 31 March 2009 but are not currently relevant for the Group:

HK(IFRIC)-Int 12	'Service Concession Arrangements'
HK(IFRIC)-Int 14	'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

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

- Hong Kong Financial Reporting Standards ('HKFRS') 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009.

- HKAS 23 (revised), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009.

- HKFRS 2 (amendment), 'Share-based Payment Vesting Conditions and Cancellations', effective for annual periods beginning on or after 1 January 2009.

- HKFRS 3 (revised), 'Business Combinations' and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements', HKAS 28, 'Investments in Associates' and HKAS 31, 'Interests in Joint Ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- HKAS 1 (revised), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009.

- HKAS 32 (amendment), 'Financial Instruments: Presentation', and consequential amendments to HKAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009.

- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. .

- HK(IFRIC)-Int 15, 'Agreements for Construction of Real Estates', effective for annual periods beginning on or after 1 January 2009.

- HK(IFRIC)-Int 16, 'Hedges of a Net Investment in a Foreign Operation', effective for annual periods beginning on or after 1 October 2008.

The Group is in the process of assessing the impact of these new standards, amendments to standards and interpretations and is not yet in a position to state the potential impact of all these new standards, amendments to standards and interpretations would have on its result of operations and financial position.

4. TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format – Business segments

As at 30 September 2008, the Group is organized into three main business segments:

(1) Production and sale of tobacco flavours;

(2) Production and sale of food flavours; and

(3) Production and sale of fragrances.

Other Group business mainly includes trading of fine chemicals products and research and development service, which do not constitute separately reportable segments.

The segment information for the six months ended 30 September 2008 is presented below:

	Unaudited For the six months ended 30 September 2008				
	Tobacco flavours *HK$'000*	**Food flavours** *HK$'000*	**Fragrances** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Total turnover	**764,154**	**109,732**	**20,251**	**4,758**	**898,895**
Inter-segment sales	**(79)**	**(6,707)**	**–**	**–**	**(6,786)**
Net turnover	**764,075**	**103,025**	**20,251**	**4,758**	**892,109**
Operating profit/Segment result	**544,898**	**11,242**	**4,957**	**(9,264)**	**551,833**
Finance income					**9,806**
Finance costs					**(1,704)**
Finance income – net					**8,102**
Share of profit of associates					**291**
Profit before income tax					**560,226**
Income tax expense					**(35,455)**
Profit for the half year					**524,771**

The segment information for the six months ended 30 September 2007 is presented below:

	Unaudited For the six months ended 30 September 2007				
	Tobacco flavours *HK$'000*	Food flavours *HK$'000*	Fragrances *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total turnover	560,082	81,398	–	10,051	651,531
Inter-segment sales	(4)	(2,856)	–	(5,120)	(7,980)
Net turnover	560,078	78,542	–	4,931	643,551
Operating profit/Segment result	409,169	10,423	–	(30,003)	389,589
Finance income					8,508
Share of profit of an associate					23
Profit before income tax					398,120
Income tax expense					(20,394)
Profit for the half year					377,726

(b) Secondary reporting format – Geographical segments

More than 99% of the Group's activities are carried out in The People's Republic of China ("PRC") and more than 90% of the Group's assets and liabilities are located and incurred in the PRC. Accordingly, no additional information on geographical segment is presented.

5. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analyzed as follows:

	Unaudited For the six months ended 30 September	
	2008 ***HK$'000***	2007 *HK$'000*
Depreciation, excluding amounts included in research and development	**11,615**	7,583
Amortization	**13,440**	6,405
Employee benefit expenses, excluding share option granted to directors and employees and amounts included in research and development	**40,983**	23,119
Lease expenses	**3,107**	2,831
Travelling expenses	**8,946**	7,291
Entertainment expenses	**7,072**	6,690
Share options granted to directors and employees	**19,957**	14,456
Research and development		
– Employee benefit expenses	**11,920**	8,512
– Depreciation	**1,817**	1,568
– Others	**7,054**	4,536

6. INCOME TAX EXPENSE

	Note	Unaudited For the six months ended 30 September 2008 HK$'000	2007 HK$'000
Current taxation:			
– Hong Kong profits tax	*(a)*	**32**	29
– PRC enterprise income tax	*(b)*	**14,389**	10,186
Deferred income tax assets	*9*	**(6,647)**	10,999
Deferred income tax liabilities	*9*	**27,681**	(820)
		35,455	20,394

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period.

(b) PRC enterprise income tax has been provided on the basis of the profit, which is prepared using the accounting rules and regulations applicable to enterprise in the PRC, adjusted for income and expense items, which are not assessable or deductible for income tax purpose.

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

7. EARNINGS PER SHARE

(a) Basic

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

	Unaudited For the six months ended 30 September 2008	2007
Profit attributable to equity holders of the Company *(HK$'000)*	**517,256**	374,487
Weighted average number of ordinary shares in issue *('000)*	**3,073,972**	3,062,736
Basic earnings per share *(HK cents per share)*	**16.83**	12.23

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. For the six months ended 30 September 2008, the Company has one type of dilutive potential ordinary shares, i.e. share options.

As for share options, the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) is determined based on the monetary value of the subscription rights attached to the 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 share options.

	Unaudited For the six months ended 30 September	
	2008	2007
Profit attributable to equity holders of the Company *(HK$'000)*	**517,256**	374,487
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,073,972**	3,062,736
Adjustment for:		
– exercise of share options *('000)*	**50,336**	53,195
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,124,308**	3,115,931
Diluted earnings per share *(HK cents per share)*	**16.56**	12.02

8. DIVIDENDS

The interim dividend for the six months ended 30 September 2008 declared after the balance sheet date amounts to HK5.0 cents (2007: HK2.3 cents) per ordinary share, HK$153,838,000 (2007: HK$70,579,000) in aggregate. As the interim dividend is declared after the balance sheet date, it is not recognized as dividend payable as at 30 September 2008.

9. DEFERRED INCOME TAX ASSETS/LIABILITIES

The movement in the deferred income tax is as follows:

		Unaudited			
		Deferred income tax assets	**Deferred income tax liabilities**		
	Note	***Unrealized profits arising from intra-group sales*** *HK$'000*	***Revaluation surplus of assets and recognition of intangible assets*** *HK$'000*	***Income tax on dividends expected to be declared from group entities incorporated in the PRC*** *HK$'000*	***Total*** *HK$'000*
At 1 April 2007		26,022	–	–	–
Combination of Win New Group		–	29,854	–	29,854
Recognized in the income statement	*6*	(10,999)	(820)	–	(820)
Exchange differences		487	554	–	554
At 30 September 2007		15,510	29,588	–	29,588
At 1 April 2008		**12,345**	**30,701**	**–**	**30,701**
Combination of Wealthy King Group		**3,614**	**30,939**	**–**	**30,939**
Acquisition of Profit Fortune Group		**–**	**1,551**	**–**	**1,551**
Recognized in the income statement	*6*	**6,647**	**(2,436)**	**30,117**	**27,681**
Exchange differences		**530**	**1,799**	**–**	**1,799**
At 30 September 2008		**23,136**	**62,554**	**30,117**	**92,671**

Deferred income tax assets are recognized for temporary differences arising from the unrealized intra-group profits from intra-group sales, and calculated under the liability method using the tax rates which are enacted or substantively enacted by the balance sheet date. The deferred income tax assets are expected to be recovered within 12 months from the balance sheet date.

Deferred income tax liabilities aroused from the revaluation surplus of property, plant and equipment, land use rights or recognition of intangible assets as a result of acquisitions of subsidiaries; or income tax on dividends among group companies.

Pursuant to the PRC Corporate Income Tax Law approved by the National People's Congress on 16 March 2007, a 10% withholding tax is levied on dividends remitted from the PRC to overseas investors with effective from 1 January 2008. A lower withholding tax rate is applied to Hong Kong investors as there is a tax treaty arrangement between Mainland China and Hong Kong. The directors of the Company estimated that profits generated by those PRC subsidiaries will be distributed to their Hong Kong parent companies in 2008. Therefore, deferred income tax liabilities had been provided based on 5% of the estimated distributable profits. The directors of the Company will review the dividend distribution policy of its subsidiaries from time to time and adjustments will be made when appropriate.

10. TRADE AND OTHER RECEIVABLES

	Note	As at 30 September 2008 HK$'000 Unaudited	As at 31 March 2008 HK$'000 Audited
Trade receivables	*(b)*	**433,697**	377,554
Less: Provision for impairment of receivables		**(2,161)**	(2,100)
Trade receivables – net		**431,536**	375,454
Due from related parties		**333**	–
Note receivables		**48,147**	40,471
Prepayments and other receivables		**10,156**	2,832
Advances to staff		**5,046**	3,973
Others		**19,506**	6,462
		514,724	429,192

(a) The carrying amounts of trade and other receivables approximate their fair values.

(b) The credit period generally granted to customers ranges from 0 to 180 days. The ageing analysis of the trade receivables as at the balance sheet dates is as follows:

	As at 30 September 2008 HK$'000 Unaudited	As at 31 March 2008 HK$'000 Audited
0 – 90 days	**339,078**	337,591
91 – 180 days	**65,738**	24,074
181 – 360 days	**24,985**	12,256
Over 360 days	**3,896**	3,633
	433,697	377,554

11. TRADE AND OTHER PAYABLES

	Note	As at 30 September 2008 HK$'000 Unaudited	As at 31 March 2008 HK$'000 Audited
Trade payables	*(a)*	**167,697**	162,295
Due to related parties		**665,743**	174,319
Dividends payable	*(b)*	**190,248**	–
Wages payable		**4,908**	3,572
Other taxes payable		**39,401**	37,442
Accrued expenses		**6,131**	4,319
Amount due to a minority shareholder		**5,607**	–
Amounts due to the then minority shareholders		**–**	22,117
Advance from customers		**8,499**	2,086
Other payables		**26,953**	13,437
		1,115,187	419,587

(a) The ageing analysis of the trade payables is as follows:

	As at 30 September 2008 *HK$'000* **Unaudited**	As at 31 March 2008 *HK$'000* Audited
0 – 90 days	**141,902**	123,148
91 – 180 days	**14,074**	37,755
181 – 360 days	**10,482**	381
Over 360 days	**1,239**	1,011
	167,697	162,295

(b) Dividends payable

It represents:

(i) Final dividend of the Company for the year ended 31 March 2008; and

(ii) Dividend payable to a minority shareholder.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group achieved sales revenue of HKD892,109,000 for the six months ended 30 September 2008, representing an increase of 38.6% from HKD643,551,000 for the corresponding period last year. Of this sales revenue, the sales revenue from tobacco flavours amounted to HKD764,075,000, representing an increase of 36.4% from HKD560,078,000 for the corresponding period last year; the sales revenue from food flavours amounted to HKD103,025,000, representing an increase of 31.2% from HKD78,542,000 for the corresponding period last year; the sales revenue from fragrances amounted to HKD20,251,000. The overall gross profit margin reached 75.3%, representing a steady increase from 74.4% for the corresponding period last year. During the reporting period, profit attributable to the equity holders of the Company was HKD517,256,000, representing an increase of 38.1% from HKD374,487,000 for the corresponding period last year.

ACQUISITION OF FLAVOURS AND FRAGRANCES COMPANIES COMPLETED IN THIS REPORTING PERIOD

The Group remains committed to its development strategy of combining organic growth plus mergers and acquisitions ("M&A") by identifying opportunities for carrying out consolidation in the flavours and fragrances industry. During the reporting period, the Group completed the acquisition of Xiamen Amber Perfumery Co., Ltd ("Amber") and Wealthy King Investments Limited and its subsidiaries ("Wealthy King Group") to built a platform for fragrances development and further enhance the position in the tobacco flavours sector.

In May 2008, the Group acquired a 51% equity interest in Amber at a consideration of approximately HKD61,558,000 which was funded by the Company's internal cash. The acquisition has enabled the Group to make a breakthrough in the fragrances sector.

In addition, the Group entered into an acquisition agreement with Chairman Ms. Chu Lam Yiu ("Ms. Chu") in July 2008 for the acquisition of Wealthy King Group at a total consideration of HKD870,550,000. The transaction was approved at the extraordinary general meeting on 7 August 2008, and the acquisition was completed on 14 August 2008.

Completed acquisition of Amber

1. *Summary of the acquisition*

   Amber plays an important role in the fragrances industry in China, and is a council member of China Association of Fragrance Flavour and Cosmetic Industry ("CAFFCI"), and a high-tech enterprise in Xiamen. Amber has a standardized factory with an area of approximately 20,000 square metres, has obtained ISO9001 quality system certification and has established its own research centre with leading fragrances compounding capability and modernized testing equipment. Its major products are aromatherapy fragrances, detergent fragrances, etc.

2. *Reasons for the acquisition*

   The daily chemical industry in China is characterized by a high level of consumption and the presence of relatively scattered players. The middle-end and high-end markets are mainly occupied by international daily chemical groups, while the low-end market is very fragmented and flooded with a large number of local daily chemical players. The per capita consumption level in China is relatively lower than that in the developed countries. Still at the initial stage, the industry has plenty of room for development and has been growing very fast, given the fact that personal cleaning products and household products account for more than 70% of the total consumption in the industry. According to "Euromonitor International", the compound annual growth rate ("CAGR") of the sales in China's daily chemical industry was around 11% from 2001 to 2006. Driven by these characteristics, the daily chemical industry in China is a highly fragmented sector with a rapid growth.

3. *Benefits of the acquisition*

   The unaudited profit after income tax (before impairment and amortization of goodwill and intangible assets) of Amber for the five months ended 30 September 2008 reached HKD4,255,000. Upon completion of the acquisition, the original management teams of Amber and Huabao were able to work together smoothly, to take effective integration and to achieve good results.

Completed acquisition of Wealthy King Group

1. *Summary of the acquisition*

   Wealthy King Group is a major tobacco flavours supplier in China, with sales revenue of more than RMB100 million. It provides tobacco flavours to certain major tobacco manufacturers, including China Tobacco Hubei Industrial Corporation and China Tobacco Henan Industrial Corporation.

2. *Reasons of the acquisition*

The acquisition would enable the Group to strengthen the position in certain key cigarette brands and to expand the market share within the tobacco flavours industry. The Directors believe that the acquisition is attractive to the Group as to strengthen its foothold as a market leader in the industry and helps the Group further strengthen its partnership with certain top tobacco manufacturers in China and enhance its overall competitiveness.

3. *Benefits of the acquisition*

The unaudited profit after income tax (before impairment and amortization of goodwill and intangible assets) of Wealthy King Group for the six months ended 30 September 2008 reached HKD48,882,000. The promising results in the profit of Wealthy King Group was mainly attributable to the effective integration measures for upgrading and renovating products, optimizing the raw materials structure of existing products, centralizing the procurement of raw materials and improving financial management.

REVIEW OF RESULTS OF THE TOBACCO FLAVOURS BUSINESS

The sales revenue from tobacco flavours reached HKD764,075,000 for the six months ended 30 September 2008, representing an increase of 36.4% from HKD560,078,000 for the corresponding period last year. The sustaining rapid growth of the tobacco flavours business was mainly attributable to the strong organic growth and the acquisition of Wealthy King Group. The Group continued to reinforce the “Big Customers, Big Brands” development strategy and to further strengthen the partnership with key customers, so that the Group benefited from the consolidation of the tobacco industry. The management believed that, as at 30 September 2008, China’s top ten tobacco companies all have become the ultimate customers of the Group, most of the top ten selling cigarette brands in terms of sales volume in China chose the Group as their core supplier for tobacco flavours.

The leading players in the tobacco industry have been strengthening and outstanding their market position as a dominant brand by upgrading their products and enhancing their technologies. As at 30 September 2008, the market share of the top ten brands in terms of sales volume further increased to approximately 40%, and the Group has been the core supplier for most of the dominant brands for an average service period of more than ten years.

In respect of new products, for the six months ended 30 September 2008, the Group has developed 4 new products for reconstituted tobacco sheet, 10 new products for natural extraction, 3 new products for other plant extraction, 1 new product for humectant, 8 new products for cooling agents, 4 new products for Amadori intermediate, and 2 new products for fruit-flavoured piperazine.

REVIEW OF RESULTS OF THE FOOD FLAVOURS BUSINESS

For the six months ended 30 September 2008, the food flavours business experienced a rapid organic growth. Sales revenue from food flavours amounted to HKD103,025,000, representing an increase of 31.2% as compared with the corresponding period last year.

As to product mix, food flavours products were mainly sweet products. In June this year, the Group established Guangzhou Huabao Flavours & Fragrances Co Ltd ("Guangzhou Huabao"), specialized in the development of savoury flavours, to aggressively develop savoury products with localized tastes. The products of Guangzhou Huabao will be extensively applied into meat-processing, instant noodles, condiment, puffed food and the catering industry. For example, the Hanfo Cooking series developed by the Group was successfully introduced to several large local restaurant chains. The establishment of Guangzhou Huabao signified that the Group is moving towards a more specialized and localized direction in the food flavours sector, which provides a sound foundation to further develop key customers in the long run.

As to cost control, in response to the impact as a result of the rising price of some raw materials, the Group has stepped up the inventory management and adjusted the prices of some products so that the gross profit margin rose steadily.

Given product quality and food safety as its top priority at all times, the Group has been implementing very strict control procedures on procurement of raw materials, production and completion of products, and established a sophisticated quality control system. After obtaining ISO9001, relevant subsidiaries have successively obtained Kosher certification, Halal certification, ISO22000 Food Safety Management System Certification and OHSAS18001 Occupational Health and Safety Management System Certification. Through strict management systems and control procedures, the Group ensures the safety of production and product quality, and eliminates potential hidden dangers posed to safety.

REVIEW OF RESULTS OF FRAGRANCES BUSINESS

Fragrances are used in daily chemical products and are closely related to our daily life as they are almost applied in all of our daily necessities. In 2005, the Group formed a team to carry out research on the daily chemical fragrances market and products and formulated a strategy to establish a platform for the daily chemical fragrances business through M&A. In May 2008, the Group successfully acquired a 51% equity interest in Amber, marking a new progress the Group made in the fragrances segment.

Amber plays an important role in the fragrances industry in China, and is a member of CAFFCI, a high-tech company in Xiamen. "Amber" is recognized as a well-known trademark title in Xiamen. Amber has a standardized factory with an area of approximately 20,000 square metres and obtained ISO9001 quality system certification. Amber has established its own research centre with leading fragrances compounding capability and modernized testing equipment. Its major products are aromatherapy fragrances, detergent fragrances, etc.

For the five months ended 30 September 2008, sales revenue from fragrances amounted to HKD20,251,000. As to product mix, Amber's catalogue mainly comprises aromatherapy fragrances, detergent fragrances, etc. which are applied to personal care and household products.

The Group is dedicated to establishing a good partnership with a batch of quality and well-known ultimate customers in China's market, such as Liby, Lanju, Lonkey, Sanxiao, Rainbow Group, etc.. For the six months ended 30 September 2008, the Group developed nearly 50 new products, and made a major breakthrough in fragrances such as fresheners, detergent, perfumed soap and personal care products, etc.

REVIEW OF RESEARCH AND DEVELOPMENT ("R&D")

The R&D ability of a flavour and fragrance company truly represents its overall strength. The Group's technical centre has been granted as the only state-recognized technology centre in the flavours and fragrances industry in China since 2003. This represents the most cutting-edge technology and R&D standards in that industry in China. With the commencement of the operation of the R&D centre in Germany in January 2007, the Group is able to closely follow the latest trend of the industry and catch up directly with international state-of-the-art technology, further strengthening its R&D foundation and overall strength. The Group continuously improved its fundamental R&D capability and applicability. For the six months ended 30 September 2008, the Group has obtained and applied for 11 patents principally related to the invention of characteristic aromatic materials applied into tobacco flavours, food flavours, and fragrances.

As to application, the Group has always been driven by the downstream market's trend. Through consistent discussion on flavouring concept and co-operation scientific research projects with clients, the Group is able to provide comprehensive technical services for customers and to create more value. For example, Hua Fang Tobacco Flavours Limited, a subsidiary of the Group, after years of endeavours, has become a training base of flavouring specialists for Chinese-style cigarettes and built closer connections with clients through this technical platform. Combining with the development trend of the tobacco industry of China, the Group confirmed the future directions of the R&D of tobacco flavourings, such as reduction of tar content and harm, maintaining the flavour of cigarettes and increasing the wetting of the smoke and R&D of the characteristic flavours of Chinese-styled cigarettes. As to food flavourings, the Group focused on the introduction and application of new techniques and new materials in the R&D of flavouring products. The R&D emphasized on enhancing the temperature tolerance and improving the natural texture of the products, such as the enhancement of fragrance-retaining ability of roasted products, of the naturalness of juice products, and of the creaminess of diary products.

BUSINESS PROSPECTS

PRC economy continues to growth rapidly

Having conquered various momentous natural disasters as well as the complex and changing global environment during the first half of 2008, the Chinese economy was able to maintain its ongoing and rapid operation. According to the statistics released by the National Bureau of Statistics of China, China's gross domestic product (GDP) grew by 10.4% in the first half of the year as compared with the corresponding period last year. During the reporting period, the consumer price index (CPI) of domestic residents surged by 7.9% as compared with the corresponding period last year. As a result of the continuous growth in the national economy, increasing pace of urbanization and escalating consumption pattern in China, huge potential emerges in the market for domestic demand.

Sustained and rapid growth in the demand from the flavours and fragrances market

Chinese consumption per capita of flavours and fragrances is relatively low. In view of the rapid development in China's economy and the continual improvement in residents' living standard, the Directors believe that Chinese consumption per capita of flavours and fragrances will continue to grow and that there is plenty of room on the market. Meanwhile, as a result of the China's consumables market gradually getting mature, the increased demand of local Chinese consumers for localized products, and the Chinese government's increasingly stringent control measures for food safety, the Chinese flavours and fragrances market will certainly move towards the development in terms of increase in quantity and quality, thus to lift the entry barrier of the industry. These will generate more development opportunities for domestic top market players of flavours and fragrances like the Group.

Consolidation opportunity in the global flavours and fragrances industry and Huabao's internationalization strategy

China's flavours and fragrances industry is still in a relatively dispersed state with over 600 peer players. The highly scattered industry offers a challenging opportunity for consolidation. Globally, the flavours and fragrances industry will continue to move towards polarized stage, offering lots of M&A and consolidation opportunities. By leveraging its leading position in the industry, the Group will, backed by the huge China market, identify the right opportunity to proceed with industry consolidation and continue its development approach of combining organic growth plus M&A. At present, the global economy is exposed to a depression period, and some sectors will face tougher challenges, amid new development opportunities. The Group will continue to maintain a close relationship with both domestic and overseas flavour and fragrance sectors and at the same time prudently carry out globalized strategies, and strive to form an integrated value chain, and achieve the development objective of building itself into a leading international flavor and fragrance enterprise.

Development strategy

Our future development strategy remains to capitalize on the best opportunities arising from the Chinese economic development, focus on the tobacco flavours business as our core business, continue upholding a diversification strategy, and achieve rapid growth through organic growth plus M&A:

- Continue to focus the tobacco flavours business as the core business

- Speed up the pace of the development of food flavours business

- Expand the fragrances business by making full use of Amber as a platform

- Carry out the aggressive development of upstream raw materials, strive to create an integrated core industrial chain, and build the Group into a world top-class flavours and fragrances company

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2008

Sales revenue

The Group's sales revenue amounted to HKD892,109,000 for the six months ended 30 September 2008, representing an increase of 38.6% as compared with HKD643,551,000 for the corresponding period last year. The rapid growth in the sales revenue was mainly attributable to a substantial increase in the sales of tobacco flavours and food flavours. For six months ended 30 September 2008, the sales revenue from tobacco flavours increased by 36.4% to HKD764,075,000, while the sales revenue from food flavours increased by 31.2% to HKD103,025,000.

Cost of goods sold

The Group's cost of goods sold amounted to HKD220,044,000 for the six months ended 30 September 2008, representing an increase of 33.7% as compared with HKD164,607,000 for the corresponding period last year. The % increase in the cost of goods sold which was lower than the % increase in the sales revenue was mainly attributable to the stable increase in the gross profit margin of the Group.

Gross profit and gross profit margin

The gross profit of the Group increased from HKD478,944,000 for the six months ended 30 September 2007 to HKD672,065,000 for the six months ended 30 September 2008, representing an increase of 40.3%, while the gross profit margin of the Group remain stable with slightly increased from 74.4% for the first half of last financial year to 75.3% for the first half of current financial year. The gross profit margin continued to remain stable. The remarkable increase in the gross profit was mainly attributable to the substantial increase in the sales revenue of the Group.

Other income

Other income of the Group was HKD27,531,000 for the six months ended 30 September 2008, representing an increase of 318.0% as compared with HKD6,587,000 for the six months ended 30 September 2007. The increase in other income was mainly attributable to exchange gains from Renminbi ("RMB") appreciation.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly traveling expenses, transportation cost, salaries and office expenses. The selling and marketing expenses of the Group for the six months ended 30 September 2008 were HKD37,721,000, representing an increase of 44.5% as compared with HKD26,107,000 for the corresponding period last year. The selling and marketing expenses represented 4.2% and 4.1% of the total sales during the period of the current year and the corresponding period last year respectively. The increase in the selling and marketing expenses was mainly attributable to the Group's strengthened efforts in the direct sales of food flavours, especially in savory flavor, expanding business scale of fragrances and the marketing of tobacco flavours as well as the boosting consumer price index in China.

Administrative expenses

The Group's administrative expenses amounted to HKD110,042,000 for the six months ended 30 September 2008, representing an increase of 57.6% as compared with HKD69,835,000 for the corresponding period last year. Administrative expenses mainly comprise salaries, R&D expenses, professional advisory fees, depreciation and amortization expenses, office administration expenses, public utilities expenses, etc. If the elements that are not comparable with the corresponding period last year are excluded from the administrative expenses for the current period, which are the amortization of Wealthy King Group's intangible assets of HKD4,981,000, the amortization of Amber's intangible assets of HKD246,000, and the share option compensation expenses of HKD6,394,000 in relation to share options newly granted to directors, the administrative expenses for the current period would be HKD98,421,000, representing an increase of 40.9% as compared with the corresponding period last year. Administrative expenses, excluding the above factors, would represent 11.0% and 10.9% of the total sales for the period of the current year and the corresponding period last year respectively. Apart from the above reasons, the increase in administrative expenses for the current period was mainly attributable to the increase in R&D expenses. The R&D expenses increased from HKD14,616,000 for the corresponding period last year to HKD20,791,000 for the current period, representing an increase of 42.2%.

Operating profit

The operating profit of the Group for the six months ended 30 September 2008 was HKD551,833,000, representing an increase of 41.6% as compared with HKD389,589,000 for the corresponding period last year, while the operating profit margin increased to 61.9% during the first half of the year from 60.5% for the first half of last year. The increase in the operating profit was attributable to the increase in the sales revenue and gross profit margin.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2008 was HKD35,455,000, as compared with HKD20,394,000 for the corresponding period last year. The increase in the income tax expenses was mainly attributable to the provision of income tax arising from the proposed dividends payment by the PRC subsidiaries to its Hong Kong parent companies in relation to the profit generated by those PRC subsidiaries in 2008.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD517,256,000 for the six months ended 30 September 2008, representing an increase of 38.1% as compared with HKD374,487,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2008, the net current asset value of the Group was HKD654,057,000 (31 March 2008: HKD1,112,946,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2008, the Group's cash and cash equivalents amounted to HKD1,052,071,000 (31 March 2008: HKD971,595,000).

The Group neither had outstanding loans from financial institution nor held any forex hedging products or structured investment products or financial derivatives.

Debtors' turnover period

Debtors' turnover period is calculated on the base of the average amount of trade receivables net of provisions as at the beginning and the end of a relevant financial period divided by the total sales revenue for the corresponding period and multiplied by the number of days in that period. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with, the customers. For the six months ended 30 September 2008, the Group's average debtors' turnover period was 82 days, representing a decrease of 1 day as compared with 83 days for the last financial year ended 31 March 2008. The reduction of the debtors' turnover period was attributable to the Group's efforts in tightening credit management and controls.

Creditors' turnover period

Creditors' turnover period is calculated on the base of the average amount of trade payables as at the beginning and the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by the number of days in that period. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the six months ended 30 September 2008, the Group's average creditors' turnover period was 135 days, representing an increase of 11 days as compared with 124 days for the last financial year ended 31 March 2008. The increase of the creditors' turnover period was attributable to the adjustment of the suppliers' credit period to accommodate our inventory management.

Inventory and inventory turnover period

As at 30 September 2008, the Group's inventory balance amounted to HKD209,669,000 (31 March 2008: HKD136,862,000). For the six months ended 30 September 2008, the inventory turnover period (calculated on the base of the average amount of inventory balances as at the beginning and the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by the number of days in that period) was 142 days, representing an increase of 40 days as compared with 102 days for the last financial year ended 31 March 2008. The increase of the inventory turnover period was attributable to the adjustment to the Group's reserve of certain inventories for meeting production needs and the control of cost.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in the Mainland China and most of the business transactions are denominated in RMB. The Board is of the view that the Group's exposure to foreign exchange risk is relatively low.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2008.

HUMAN RESOURCES

As at 30 September 2008, the Group employed a total of approximately 1,284 staff in the mainland China, Hong Kong and Germany. The sound development trend of our Company attracted a large number of domestic and overseas talents from the industry. Beside, the Group continuously recruited high calibers based on the business needs. Meanwhile, key management and technicians of the newly acquired subsidiaries were retained when acquisitions took place. The Board of Directors placed great emphasis on the further development of the new staff and allows them amply room for growth. In addition, we timely conducted market surveys in respect of remunerations in order to offer competitive remuneration packages.

To bring the Group to world heights in both technology and management, the Group highly values staff cultivation and recruitment and has continuously enhanced the initiatives and creativity of the staff. As such, the Group offers competitive salaries and other benefits like retirement contribution schemes, etc. to the staff and provides appropriate rewards subject to their performance. Also, the Group has implemented a share options scheme to reward the staff and directors who have made significant contributions to the business development of the Group since September 2006. Share options were granted to a total of 79 persons, including directors, senior management, technical and business executives during 2006 to 2008.

The Group believes in human-oriented principle, dedicates to the growth and development of the staff and provides a sound working system and environment for the purposes of guiding their establishment of a set of common values and encouraging their utilization of the spirits of creativity and cooperation, and also conducts diversified trainings to the staff in order to continuously improve their knowledge and professional skills for the realization of our growth with the staff.

INTERIM DIVIDENDS

The Board has resolved to declare an interim dividend of HK5.0 cents per share (2007: HK2.3 cents per share) in cash for the six months ended 30 September 2008, which is expected to be paid around 27 February 2009 to shareholders whose names appear on the Register of Members of the Company on 19 February 2009.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 February 2009 to 19 February 2009, both days inclusive, during which period no transfer of shares will be effected. All transfers of shares accompanied by relevant share certificate must be lodged with the Company's Branch Share Registrars, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road, Wanchai, Hong Kong not later than 4:00p.m. on 16 February 2009 in order to qualify for the interim dividend.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practice

The Company has complied with the code provisions recommended in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 September 2008 except for the deviations from the following code provisions:

A.4.1 stipulates that INEDs should be appointed for 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 meetings 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry to all directors, all directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Group has not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2008.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Mr. Mak Kin Kwong, Peter, Ms. Ma Yun Yan and Mr. Lee Luk Shiu. The Audit Committee has reviewed the condensed consolidated interim financial statements for the six months ended 30 September 2008 together with the Board.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of HKExnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The 2008-09 interim report will be dispatched to shareholders and will be published on the aforementioned websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu (Chairman), Mr. LAU Chi Tak (Chief Executive Officer), Mr. POON Chiu Kwok, Mr. WANG Guang Yu, Mr. XIA Li Qun, Mr. XIONG Qing, and three independent non-executive directors, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu.

By Order of the Board
CHU Lam Yiu
Chairman

Hong Kong, 2 December 2008