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 2009

FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September		
	2009	2008	**Growth**
	HK$'000	*HK$'000*	
Sales	**1,088,854**	892,109	+22.1%
Operating profit	**694,152**	551,833	+25.8%
Gross profit margin	***75.5%***	*75.3%*	
EBITDA margin+	***67.1%***	*67.1%*	
EBIT margin	***63.8%***	*61.9%*	
Profit before income tax	**700,789**	560,226	+25.1%
Profit attributable to the equity holders of the Company	**610,927**	517,256	+18.1%
Net cash generated from operating activities	**671,546**	495,078	+35.6%
	HK cents	*HK cents*	
Earnings per share			
– Basic	**19.75**	16.83	+17.3%
– Diluted	**19.47**	16.56	+17.6%
Interim dividend per share	**6.0**	5.0	+20.0%
Special dividend per share	**2.8**	nil	

\+ *Equal to "Earnings before interest, taxes, depreciation, amortization and share option compensation expenses" divided by "Sales".*

* *For identification purpose only*

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 2009 together with the comparative figures for the corresponding period in 2008.

The Group's unaudited condensed consolidated interim financial information 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.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 September 2009

		Unaudited For the six months ended 30 September	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Sales	*3*	**1,088,854**	892,109
Cost of goods sold		**(266,587)**	(220,044)
Gross profit		**822,267**	672,065
Other income		**17,756**	27,531
Selling and marketing expenses	*4*	**(37,471)**	(37,721)
Administrative expenses	*4*	**(108,400)**	(110,042)
Operating profit		**694,152**	551,833
Finance income		**6,701**	9,806
Finance costs		**(337)**	(1,704)
Finance income – net		**6,364**	8,102
Share of profit of associates		**273**	291
Profit before income tax		**700,789**	560,226
Income tax expense	*5*	**(79,814)**	(35,455)
Profit for the half year		**620,975**	524,771
Attributable to:			
Equity holders of the Company		**610,927**	517,256
Minority interest		**10,048**	7,515
		620,975	524,771
		HK cents	*HK cents*
Earnings per share for profit attributable to the Company's equity holders for the half year			
Basic	*6(a)*	**19.75**	16.83
Diluted	*6(b)*	**19.47**	16.56
Interim dividend per share	*7*	**6.0**	5.0
Special dividend per share	*7*	**2.8**	nil

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	Unaudited For the six months ended 30 September	
	2009	2008
	HK$'000	*HK$'000*
Profit for the half year	**620,975**	524,771
Other comprehensive income:		
Exchange differences on translating foreign operations	**3,518**	69,881
Total comprehensive income for the half year	**624,493**	594,652
Total comprehensive income attributable to:		
Equity holders of the Company	**614,347**	584,798
Minority interest	**10,146**	9,854
	624,493	594,652

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

At 30 September 2009

	Note	**As at 30 September 2009 *HK$'000* Unaudited**	As at 31 March 2009 *HK$'000* Audited
Assets			
Non-current assets			
Property, plant and equipment		**276,859**	278,730
Land use rights		**57,564**	58,210
Intangible assets		**1,610,287**	1,507,151
Investments in associates		**14,512**	9,233
Deferred income tax assets	*8*	**28,726**	31,055
		1,987,948	1,884,379
Current assets			
Inventories		**188,433**	215,653
Trade and other receivables	*9*	**570,429**	526,310
Cash and cash equivalents		**1,423,289**	1,125,238
		2,182,151	1,867,201
Total assets		**4,170,099**	3,751,580
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**310,342**	308,480
Reserves		**318,167**	246,730
Retained earnings			
– Proposed interim/final dividend		**186,205**	178,919
– Proposed special dividend		**86,896**	92,544
– Others		**2,348,580**	2,013,730
		3,250,190	2,840,403
Minority interest		**97,661**	93,789
Total equity		**3,347,851**	2,934,192
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	*8*	**86,301**	93,813
Current liabilities			
Trade and other payables	*10*	**680,735**	683,581
Current income tax liabilities		**55,212**	39,994
		735,947	723,575
Total liabilities		**822,248**	817,388
Total equity and liabilities		**4,170,099**	3,751,580
Net current assets		**1,446,204**	1,143,626
Total assets less current liabilities		**3,434,152**	3,028,005

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2009 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (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 2009.

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2009, as described in those financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2009:

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

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

- Amendment to HKFRS 7, 'Financial instruments: disclosures' (effective for annual periods beginning on or after 1 January 2009).

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2009, but are not currently relevant or do not have significant impact to the Group's operations:

- HKFRS 2 (Amendment), 'Share-based Payment'.
- HKAS 19 (Amendment), 'Employee Benefits'.
- HKAS 23 (Amendment), 'Borrowing Costs'.
- HKAS 28 (Amendment), 'Investments in Associates'.
- HKAS 32 (Amendment), 'Financial Instruments: Presentation'.
- HKAS 36 (Amendment), 'Impairment of Assets'.
- HKAS 38 (Amendment), 'Intangible Assets'.
- HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'.
- HK(IFRIC) – Int 9 (Amendment), 'Reassessment of Embedded Derivatives' and HKAS 39 (amendment), 'Financial Instruments: Recognition and Measurement'.
- HK(IFRIC) – Int 13, 'Customer Loyalty Programmes'.
- HK(IFRIC) – Int 15, 'Agreements for the Construction of Real Estate'.
- HK(IFRIC) – Int 16, 'Hedges of a Net Investment in a Foreign Operation'.

3. TURNOVER AND SEGMENT INFORMATION

The Group has reassessed its operations and organized them into two main business segments:

– Flavours; and

– Fragrances.

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 and fragrances segments. Flavours include research and development, production and sale of flavours products. Fragrances include research and development, production and sale of fragrances products.

The segment information for the six months ended 30 September 2009 is presented below:

	Unaudited For the six months ended 30 September 2009		
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Total** *HK$'000*
Total turnover	**1,061,176**	**27,728**	**1,088,904**
Inter-segment sales	**(50)**	**–**	**(50)**
Net turnover/Segment sales	**1,061,126**	**27,728**	**1,088,854**
Segment result	**703,676**	**4,777**	**708,453**
Less: unallocated expenses			**(14,301)**
Operating profit			**694,152**
Finance income			**6,701**
Finance costs			**(337)**
Finance income – net			**6,364**
Share of results of associates			**273**
Profit before income tax			**700,789**

	Unaudited As at 30 September 2009		
	Flavours	**Fragrances**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Total segment assets	**3,982,370**	**137,170**	**4,119,540**
Unallocated assets			**50,559**
			4,170,099

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

	Unaudited For the six months ended 30 September 2008		
	Flavours	Fragrances	Total
	HK$'000	*HK$'000*	*HK$'000*
Total turnover	878,644	20,251	898,895
Inter-segment sales	(6,786)	–	(6,786)
Net turnover/Segment sales	871,858	20,251	892,109
Segment result	568,278	4,957	573,235
Less: unallocated expenses			(21,402)
Operating profit			551,833
Finance income			9,806
Finance costs			(1,704)
Finance income – net			8,102
Share of results of an associate			291
Profit before income tax			560,226

	Unaudited As at 30 September 2008		
	Flavours	Fragrances	Total
	HK$'000	*HK$'000*	*HK$'000*
Total segment assets	3,555,916	115,307	3,671,223
Unallocated assets			10,551
			3,681,774

Segment result represents the profit earned by each segment without inclusion of unallocated expenditure of finance costs and share of results of associates. This is the measure reported to chief operating decision markers for the purposes of resource allocation and assessment of segment performance.

4. 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	
	2009	2008
	HK$'000	*HK$'000*
Depreciation, excluding amounts included in research and development	**11,764**	11,615
Amortization	**13,826**	13,440
Employee benefit expenses, excluding share option granted to directors and employees and amounts included in research and development	**41,184**	40,983
Lease expenses	**3,260**	3,107
Travelling expenses	**9,888**	8,946
Entertainment expenses	**9,737**	7,072
Share options granted to directors and employees	**8,120**	19,957
Research and development		
– Employee benefit expenses	**13,887**	11,920
– Depreciation	**2,992**	1,817
– Others	**18,220**	7,054

5. INCOME TAX EXPENSE

		Unaudited For the six months ended 30 September	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Current taxation:			
– Hong Kong profits tax	*(a)*	**6,488**	32
– PRC enterprise income tax	*(b)*	**64,086**	14,389
Deferred income tax assets	*8*	**2,360**	(6,647)
Deferred income tax liabilities	*8*	**6,880**	27,681
		79,814	35,455

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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.

6. EARNINGS PER SHARE

(a) Basic

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

	Unaudited For the six months ended 30 September	
	2009	2008
Profit attributable to equity holders of the Company *(HK$'000)*	**610,927**	517,256
Weighted average number of ordinary shares in issue *('000)*	**3,093,403**	3,073,972
Basic earnings per share *(HK cents per share)*	**19.75**	16.83

(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 2009, 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	
	2009	2008
Profit attributable to equity holders of the Company *(HK$'000)*	**610,927**	517,256
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,093,403**	3,073,972
Adjustment for:		
– exercise of share options *('000)*	**43,882**	50,336
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,137,285**	3,124,308
Diluted earnings per share *(HK cents per share)*	**19.47**	16.56

7. DIVIDENDS

The interim dividend for the six months ended 30 September 2009 declared after the balance sheet date amounts to HK6.0 cents (2008: HK5.0 cents) per ordinary share, HKD186,205,000 (2008: HKD154,100,000) in aggregate, together with a special dividend HK2.8 cents per share (2008: nil), HKD86,896,000 in aggregate. As the interim and special dividends are declared after the balance sheet date, they are not recognized as dividend payable as at 30 September 2009.

8. DEFERRED INCOME TAX ASSETS/LIABILITIES

The movement in the deferred income tax is as follows:

		Unaudited			
		Deferred income tax assets	Deferred income tax liabilities		
		Unrealized profits arising from intra-group sales	Valuation surplus of assets and recognition of intangible assets	Withholding income tax on dividends expected to be remitted from group entities incorporated in the PRC	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008		12,345	30,701	–	30,701
Combination of Wealthy King Investments Limited and its subsidiaries		3,614	30,939	–	30,939
Acquisition of Profit Fortune Holdings Limited and its subsidiaries		–	1,551	–	1,551
Recognized in the income statement	*5*	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
At 1 April 2009		**31,055**	**58,985**	**34,828**	**93,813**
Acquisition of Maoming Kebi Flavor & Fragrance Limited		**–**	**1,305**	**–**	**1,305**
Recognized in the income statement	*5*	**(2,360)**	**(2,556)**	**9,436**	**6,880**
Paid for withholding income tax for dividend		**–**	**–**	**(15,724)**	**(15,724)**
Exchange differences		**31**	**27**	**–**	**27**
At 30 September 2009		**28,726**	**57,761**	**28,540**	**86,301**

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 are arisen from the valuation surplus of property, plant and equipment and land use rights and recognition of intangible assets as a result of acquisition/combination of subsidiaries; and withholding income tax on dividends expected to be remitted aboard by group entities incorporated in the PRC.

Pursuant to the Corporate Income Tax Laws of the PRC approved by the National People's Congress on 16 March 2007, a 10% withholding tax is levied on dividends remitted from the PRC entities to overseas investors with effect from 1 January 2008. A lower withholding tax rate of 5% is applied to Hong Kong investors as there is a tax treaty arrangement between the PRC and Hong Kong. The directors of the Company estimated that a portion of profits generated by the PRC subsidiaries would be distributed to their Hong Kong immediate parent companies in the year ending 31 March 2010. Therefore, deferred income tax liabilities had been provided based on 5% of the estimated profits to be remitted to Hong Kong. The directors of the Company will review the fund requirements of the Group from time to time and revise the dividend distribution policy of its subsidiaries as appropriate.

9. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 September 2009** ***HK$'000*** **Unaudited**	As at 31 March 2009 *HK$'000* Audited
Trade receivables	*(b)*	**474,381**	409,285
Less: Provision for impairment of receivables		**(1,951)**	(1,989)
Trade receivables – net		**472,430**	407,296
Note receivables		**61,884**	85,766
Prepayments and other receivables		**22,392**	19,671
Advances to staff		**4,784**	4,439
Others		**8,939**	9,138
		570,429	526,310

(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 2009 ***HK$'000*** **Unaudited**	As at 31 March 2009 *HK$'000* Audited
0 – 90 days	**427,658**	339,187
91 – 180 days	**27,419**	49,836
181 – 360 days	**10,712**	10,644
Over 360 days	**8,592**	9,618
	474,381	409,285

10. TRADE AND OTHER PAYABLES

	Note	**As at 30 September 2009** *HK$'000* **Unaudited**	As at 31 March 2009 *HK$'000* Audited
Trade payables	*(a)*	**177,222**	160,835
Due to related parties		**153,985**	460,905
Dividends payable	*(b)*	**284,648**	–
Wages payable		**9,302**	7,671
Other taxes payable		**19,740**	10,954
Accrued expenses		**2,270**	5,280
Advance from customers		**10,434**	10,860
Other payables		**23,134**	27,076
		680,735	683,581

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

	As at 30 September 2009 *HK$'000* **Unaudited**	As at 31 March 2009 *HK$'000* Audited
0 – 90 days	**130,016**	122,427
91 – 180 days	**28,919**	19,232
181 – 360 days	**756**	6,532
Over 360 days	**17,531**	12,644
	177,222	160,835

(b) Dividends payable

It represents:

(i) final and special dividend of the Company for the year ended 31 March 2009; and

(ii) dividend payable to a minority shareholder.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 September 2009, the Group achieved sales revenue of HKD1,088,854,000, an increase of 22.1% over the same period last year, most of which was organic growth, exceeding the target set by the management. The overall gross profit margin achieved a steady growth to 75.5%. The operating profit was HKD694,152,000, an increase of about 25.8% over the same period last year. The EBIT margin was 63.8%, 1.9 percentage points higher than the same period last year. The profit before tax was HKD700,789,000, representing an increase of about 25.1% over the same period last year. Profit attributable to the equity holders of the Company was HKD610,927,000, representing an increase of about 18.1% over the corresponding period last year.

BENEFITS OF MERGERS AND ACQUISITION (“M&A”) AND INTEGRATION

Acquisition of F&G (Botswana) (Proprietary) Limited (“F&G”) – To integrate with the Group’s development of new material for cigarettes

In November 2009, the Group with a consideration based on F&G’s net asset value, which was HKD29,267,000, entered into an acquisition agreement with Chairman Ms. CHU Lam Yiu for the acquisition of 100% equity interest of F&G. F&G is located in the Republic of Boswana in southern Africa and is mainly engaged in production and sales of natural extracts. The main reason of the acquisition is, through the Group’s future business development of new material for cigarettes and the development of new products primarily made of natural materials, the Group will be able to capture the promising business opportunities in tobacco industry arising from the development trend of tar content and harm reduction. The Group will develop F&G to become an overseas tobacco extraction base in order to provide its key customers with more and better quality products. In addition, following the completion of the acquisition in late November, the connected transactions with respect to the purchase of natural extracts from F&G by the Group has been terminated.

Acquisition of Maoming Kebi Flavor & Fragrance Limited (“Maoming Kebi”) – Continue the consolidation of tobacco flavour and fragrance industry

In August 2009, the Group acquired 100% equity interests of Maoming Kebi from three independent third parties at a consideration of approximately HKD117,209,000. Maoming Kebi is a medium-sized tobacco flavour supplier in the People’s Republic of China (the “PRC”) and its customer is China Tobacco Zhejiang. As the products produced for Maoming Kebi’s customer can be highly integrated with those provided for the Group’s customers, acquiring Maoming Kebi will further increase the market share of the core customers of the Group, in line with the Group’s development strategy of “Big Customers, Big Brands”.

For the major terms of the transaction, the vendor guaranteed the sales (including value-added tax) of not less than RMB50 million in the next twelve months (i.e. from August 2009 to July 2010). The Group is confident that the profitability of Maoming Kebi will be enhanced through integration. The Directors consider that the terms of the transaction are attractive, consistent with the Group's development strategies and the M&A transaction can bring satisfactory returns for the shareholders. For the two months ended 30 September 2009, Maoming Kebi contributed unaudited revenue (net of value-added tax) of approximately HKD7,592,000 while profit after tax reached approximately HKD4,595,000, which is consistent with the management's expectation.

Impressive results continued arising from further integration of Win New Group Limited and its subsidiaries ("Win New Group"), Wealthy King Investments Limited and its subsidiaries ("Wealthy King Group") and Xiamen Amber Fragrances Co. Ltd. ("Amber")

The Group acquired Win New Group, Wealthy King Group and Amber in succession and proactively explore the market of flavours and fragrances since 2007. The post-acquisition integration has been progressing very smoothly. Currently, the gross profit margins of Win New Group and Wealthy King Group have reached the level of the relevant business segments of the Group. Meanwhile, Win New Group and Wealthy King Group experienced rapid revenue growth as the customer base integration was implemented. These outcomes once again reflected the strength of Huabao in M&A and integration ability.

SEGMENT INFORMATION

The Group has reorganized its segments into two segments based on international and industry standards and internal management report, namely flavours and fragrances, since 1 April 2009. The said segments are consistent with international and industry standards – flavours are added to tobacco, food and beverage products and they are ingestible and subject to relative regulatory standards, whereas fragrances are applied to daily chemical products such as personal care products which are generally not ingestible. The Group is of the view that the segmenting method aligns better with international and industry practices and will facilitate better performance evaluation and resources allocation and is consistent with internal reporting provided to the management. Moreover, with the deepening and an in-depth progressing of the Group's development strategy of "Multipronged, focus growth", new business units may be added in future. The new segment information is in line with the long term business development needs of the Group.

Review of Flavours Business

Flavours EBIT margin and EBIT

For the six months ended 30 September 2009, sales revenue of the Group's flavours business amounted to HKD1,061,126,000, representing an increase of about 21.7% over HKD871,858,000 from the corresponding period last year. The EBIT margin of flavours segment amounted to 66.3%, representing an increase of 1.1 percentage points as compared with 65.2% for the corresponding period last year. The increase was primarily attributable to rapid increase in the sales of flavours applied to tobacco leaf and a robust organic growth in food and beverage flavours, achieving the economies of scale.

For the six months ended 30 September 2009, products applied to tobacco products continue to maintain a high growth momentum. Through its insistence on the strategy of "Big Customers, Big Brands" and leveraging on solid technical strength, product strengths and to provide customers with comprehensive solutions, the Group built up its overall competitive edge in the industry. Currently, tobacco-related products of the Group are mainly applied to high quality domestic cigarettes and the Group is a dominant player of the market. The Group will continue to fully leverage on the overall competitive edge to explore and seek value for customers, taking an extra step in strengthening the overall co-operation with customers.

The domestic tobacco industry was experiencing brand consolidation, ongoing product quality improvement and product style was further diversified. The use of tobacco flavours in cigarette products will enjoy a larger room for development. According to TobaccoChina Online, in the first half of 2009 the domestic tobacco industry maintained a steady growth in sales volume (approximately 3.7%) and the strong demand for high quality domestic cigarettes continued (the sales volume growth of 30 key cigarette brands exceeded 15%) resulted a trade up behavior (sales revenue growth of approximately 7.5%) and an ongoing improvement of profitability of the industry. In the first half of 2009, the domestic tobacco industry contributed industrial and commercial profit tax of approximately RMB276.1 billion, representing an increase of about 13.3% over the corresponding period last year. The popularity of high quality domestic cigarettes boosted the sales of the Group's tobacco-related products, which once again achieved a high growth.

In August 2009, the Group acquired 100% equity interests of Maoming Kebi from three independent third parties, further enhanced the Group's market share of certain key customers and brands. Currently, the consolidation of Maoming Kebi is progressing smoothly. The management expects that the acquisition will bring substantial return for the shareholders of Huabao.

As to the development of new products, the Group has fully utilized the advanced extraction facilities of Wuxi Huahai Flavour Co. Ltd. ("Wuxi Huahai"). In conjunction with the access to the extraction of premium quality tobacco leaves from F&G, located in Boswana, southern Africa, the Group has developed a premium quality natural product series, which becomes highly popular; meanwhile, the Group has also launched a number of natural Chinese medicine essence products and plant essence products, which all receive positive response from the market.

As to the products related to food, beverage and dining, the Group insisted on the strategy of specializing in the development of products in local tastes and styles in line with international product quality. After five years of hard work, the Group has become one of the leading domestic players and its products are divided into two main categories, namely sweet series and savory series, and are applied to major product series such as dairy products, beverages, sweets, snacks, fast food and seasonings. The Group has established its presence in two key markets in Yangtze Delta and Pearl River Delta in China and, through direct sales and distribution utilizing the nationwide network, provided comprehensive products and technical services for massive amount of local quality food and beverage enterprises.

For the six months ended 30 September 2009, the sales revenue of the Group's products in respect of food and beverage recorded a strong organic growth, among which the sales volume in respect of key direct sales customers recorded favorable results. Guangdong Zhaoqing Fragrances Limited ("Guangdong Zhaoqing"), which was acquired two years ago, had improved its product standard and substantially enhanced its profitability through structural optimization, technological improvement, and elevation in product capacity and quality, achieving an encouraging results with a robust revenue growth and a substantial increase of gross profit margin and EBIT margin. In the Commendation of Technological Improvement of the Guangdong Food Industry 2007-2009 (2007－2009年廣東省食品行業科技進步表彰活動) hosted by Guangdong Food Profession Union this year, Guangdong Zhaoqing was awarded the "Prize of Technology of the Guangdong Food Industry" (廣東省食品行業科學技術獎) and "Prize of Outstanding Enterprise in respect of Technology of the Guangdong Food Industry" (廣東省食品行業科學技術獎之優秀企業).

Guangzhou Huabao Flavour & Fragrance Co. Ltd. ("Guangzhou Huabao"), which commenced operation last year, has quickly established a customer base with quality clients including COFCO (中糧) and Lee Kum Kee (李錦記) after a year of market exploration. Hanfo Cooking Secret, which were tailor-made for the domestic fast food industry, achieved preliminary success. During the year, the Group has, with the theme of "Sichuan tastes across China, the key lies in Hanfo" (川味行天下，漢方掌'味'來), launched products of Hanfo Cooking Secret in four provinces and municipals in southwest China (Sichuan, Chongqing, Yunnan and Guizhou) and successfully established the preliminary presence of the brand in the aforementioned regions through a series of effective promotional activities including organizing business alliance conference, establishing chefs club and hosting various seminars. In order to meet the development of restaurant business and the promotion of Hanfo Cooking Secret, the Group has established the restaurant business department, which will focus on heavily promoting of the Hanfo Cooking Secret in the southwest and South China areas. In the meantime, the Group has established a new plant of approximately 6000 square meters, in order to be better equipped for the upcoming capacity expansion of the Hanfo Cooking Secret.

As to food safety, the Group has been implementing rigorous control procedures from raw materials to finished goods to ensure safe production and product quality. When the Food Safety Law of the People's Republic of China came into effect on 1 June, the Chairman of Shanghai Food Additive Industry Association, Shanghai H&K Flavours & Fragrances Co Ltd. ("Huabao Kongque"), together with the Vice-Chairman, committee members and other member enterprises initiated the "Food Safety Declaration" activity (食品安全宣言) in the industry, and undertook to the society that they would earnestly abide by and strictly implement the Food Safety Law and the Hygienic Standards for Uses of Food Additives (GB2760-2007)(食品添加劑使用衛生標準(GB2760-2007)).

As to the development of new products, during the reporting period, the Group has conducted an in-depth market trend investigation and successfully developed various new products through dedication to highlight the timely demand of "natural, healthy, fashionable, classic". During the "2009 Shanghai International Food Additives & Ingredients Exhibition" (FIS2009上海食品添加劑和配料展覽會), the "natural butter flavor-enhancing products and high quality heat-durable products" (天然奶脂增香產品和高品質耐高溫產品) produced by Huabao Kongque received favorable receptions from participated professionals. In addition, Guangzhou Huabao has achieved encouraging results in respect of clients from convenient food and meat product sectors, establishing partnerships with renowned customers such as Huafeng (華豐), Uni-president (統一) and Shuanghui (雙匯).

Our scope of customers continued to expand with an optimized customer base, enhancing the operating efficiency of the entire segment. The EBIT margin of flavours business increased by 1.1 percentage points compared to the corresponding period last year.

Review of Fragrances Business

For the six months ended 30 September 2009, the sales revenue of the Group's fragrances segment amounted to HKD27,728,000, representing an increase of about 36.9% as compared with HKD20,251,000 of the corresponding period last year, and accounted for approximately 2.5% of the total sales revenue of the Group. The EBIT margin of fragrances was approximately 17.2%, representing a decrease as compared with the corresponding period last year. Such decrease was mainly attributable to greater efforts used in marketing and promotion and more resources invested in R&D. With the business continuously expanding, the EBIT margin is expected to improve in the second half of the year.

As to the market and customers, the Group has increased its input in the marketing side of business, established offices in Shanghai and Guangzhou in order to aggressively explore core markets in Pearl River Delta and Yangtze Delta, gradually establishing partnerships with key customers in the China market including Liby (立白), Lanju (欖菊), Lonkey (浪奇) and Guangzhou Ador (廣州雅黛), and achieved encouraging results.

As to the products, Amber aggressively developed personal care products and stepped up efforts in R&D by leveraging on its competitive edge in respect of aromatherapy fragrances and detergent fragrances. During the reporting period, Amber has developed over 100 new products.

As to branding, Amber is a famous brand in Xiamen and has proactively participated in different major product exhibitions in the PRC through Huabao's platform. In May this year, Amber participated in the "14th China Beauty Expo" in Shanghai which had 3,600 exhibition spaces in line with international standard and participating enterprises from 30 different countries and regions. Amber gained enormous success in the expo, laying a solid foundation for the future cooperation with key customers in the fragrances business.

Research and development ("R&D") and Innovation ability

Operating the only state-recognized technology centre in China's flavours and fragrances industry, a national post-doctorate scientific research workstation, an overseas R&D centre in Germany and a R&D team which is up to international standards, the Group's R&D capability is far ahead of other peers in the industry within the PRC. The Group laid great emphasis on the enterprise's R&D capability and products' scope of application, devoting more resources on R&D to improve the enterprise's overall competitiveness.

For the six months ended 30 September 2009, the Group has applied for 18 patents, undertaken two "863" projects of the Chinese government, achieving fruitful results in R&D. The Group has expanded its research work in the field of tobacco leaf chemistry and achieved a series of favorable outcomes in the extraction of tobacco leaf and new cigarette materials. Meanwhile, the Group has proactively improved the technological standard of its subsidiaries. During the reporting period, Huabao Kongque was rewarded for the fifth consecutive year by the Shanghai Municipal Commission of Commerce as "Foreign Funded Enterprise with Advanced Technology" (外商投資先進技術企業). Through the research of industry mutual technology and key technology, Huabao Kongque has achieved more appealing results in the development of natural and heat-durable fragrance products. After the assessment and approval of Technology Bureau of Wuxi New District (無錫市新區科技局), Wuxi Huahai was granted the distinctive title of "Technological R&D Institute of Wuxi New District" (無錫新區企業技術研發機構), while Wuxi Jiahua Flavour & Fragrance Co. Ltd.'s "Reaction flavors prepared by enzymatic-treated tobacco concretes and tobacco dust extracts" (利用酶制法製備的煙草浸膏或煙末浸膏物反應型香料) was awarded the innovative and high technology product by the Jiangsu province.

In addition, the Group has achieved satisfactory progress in respect of bringing in international talent. Through the successful recruitment of internationally renowned expert in flavour industry, Guangzhou Huabao stepped up efforts in product development.

BUSINESS PROSPECT

According to National Bureau of Statistics of China, during the first three quarters of 2009, the economy underwent recovery and the growth of GDP in the PRC reached 7.7%. With the implementation of a series of economic stimulation scheme of the PRC government, the Chinese economy to maintain its growth momentum has become a consensus view. As the domestic market remains strong, our views on the mid-long term prospect of the domestic consumer market remains optimistic.

When the Food Safety Law of the PRC, which sets higher standards for food and food additive sector, came into effect on 1 June, we expect that it will continue to lift up the entry barrier for food and beverage as well as the related industries within the PRC, leading to a higher market concentration. As one of the leading players in the domestic flavour and fragrances industry, the Group will seize every opportunity to achieve robust growth through leveraging on its competitive edge. The management is fully confident in achieving the business development goals of the year.

The long term development strategy of Huabao will remain unchanged, insisting on the strategy of "Multipronged, focus growth". With flavours as our core business, Huabao will aggressively explore relative industries and expand its technological, marketing and management strengths to new areas including aromatic raw materials, food and beverage ingredients and new materials for cigarettes to provide a comprehensive product solution to customers and to establish an integrated core value chain in order to create a more tasty life for general consumers. Huabao will continue to develop new business units on top of the flavours and fragrances segments to secure the next wave of Chinese economy boom and to capture huge opportunities in the domestic consumer industry arising from the wealth effect and achieve robust growth through organic development and M&A:

- To improve the core competitiveness with the flavours and fragrances as the core to maintain a rapid growth;

- To enhance the development of aromatic raw materials, including natural plants, animals and other major flavours raw materials with global pricing capability and small special category;

- To focus on the development of savory products and related food and beverage ingredients in order to highlight our brand strengths;

- To focus on the development of new materials for cigarettes, to secure the huge opportunity arising from tar content and harm reduction; and

- To construct domestic capital platform to further support business development in future

The management is fully confident in Huabao's developing into a China-based global flavours and fragrances leading player. We will be committed to create more value and returns for our shareholders!

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2009

Sales revenue

The Group's sales revenue amounted to HKD1,088,854,000 for the six months ended 30 September 2009, representing an increase of 22.1% as compared with HKD892,109,000 for the corresponding period last year. The rapid growth in the sales revenue was mainly attributable to a substantial increase in the sales of flavours and fragrances. For the six months ended 30 September 2009, the sales revenue from flavours increased by 21.7% to HKD1,061,126,000, while the sales revenue from fragrances increased by 36.9% to HKD27,728,000.

Cost of goods sold

The Group's cost of goods sold amounted to HKD266,587,000 for the six months ended 30 September 2009, representing an increase of 21.2% as compared with HKD220,044,000 for the corresponding period last year. The percentage increase in the cost of goods sold which was lower than the percentage increase in the sales revenue was the main reason for 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 HKD672,065,000 for the six months ended 30 September 2008 to HKD822,267,000 for the six months ended 30 September 2009, representing an increase of 22.3%, while the gross profit margin of the Group slightly increased from 75.3% for the first half of last financial year to 75.5% 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 HKD17,756,000 for the six months ended 30 September 2009, representing a decrease of HKD9,775,000 as compared with HKD27,531,000 for the six months ended 30 September 2008. The decrease in other income was mainly attributable to the stabilization of RMB exchange rate.

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 2009 were HKD37,471,000, representing a decrease of 0.7% as compared with HKD37,721,000 for the corresponding period last year. The selling and marketing expenses to the total sales decreased from 4.2% of the corresponding period last year to 3.4% of this year. The decrease in the selling and marketing expenses was mainly attributable to the falling consumer price index in China as well as the economies of scale brought by the robust growth of flavours segment.

Administrative expenses

The Group's administrative expenses amounted to HKD108,400,000 for the six months ended 30 September 2009, representing a decrease of 1.5% as compared with HKD110,042,000 for the corresponding period last year. Administrative expenses mainly comprise salaries, R&D expenses, professional advisory fees, share option compensation expenses, depreciation and amortization expenses, office administration expenses, public utilities expenses, etc. The decrease in administrative expenses was mainly attributable to the decrease of share option compensation expenses.

Operating profit

The operating profit of the Group for the six months ended 30 September 2009 was HKD694,152,000, representing an increase of approximately 25.8% as compared with HKD551,833,000 for the corresponding period last year, while the operating profit margin increased to approximately 63.8% during the first half of the year from approximately 61.9% for the first half of last year. The increase in the operating profit was attributable to the increase in the sales revenue, gross profit margin and operation efficiency.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2009 was HKD79,814,000, as compared with HKD35,455,000 for the corresponding period last year. The increase in the income tax expenses was mainly attributable to the expiry of preferential tax periods for certain subsidiaries of the Group in the PRC.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD610,927,000 for the six months ended 30 September 2009, representing an increase of 18.1% as compared with HKD517,256,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2009, the net current asset value of the Group was HKD1,446,204,000 (31 March 2009: HKD1,143,626,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2009, the Group's cash and cash equivalents amounted to HKD1,423,289,000 (31 March 2009: HKD1,125,238,000).

The Group did not have any outstanding loans from financial institution nor had it held any forex hedging products or structured investment products or financial derivatives.

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 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 2009, the Group's average debtors' turnover period was 73 days, representing a decrease of 1 day as compared with 74 days for the last financial year ended 31 March 2009. The 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 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 2009, the Group's average creditors' turnover period was 114 days, representing a decrease of 10 days as compared with 124 days for the last financial year ended 31 March 2009. The decrease 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 2009, the Group's inventory balance amounted to HKD188,433,000 (31 March 2009: HKD215,653,000). The Group has continued to improve its inventory management and to optimize its inventory structure, thus the inventory balance has noticeably decreased. For the six months ended 30 September 2009, the inventory turnover period (calculated on the basis 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 136 days, representing an increase of 1 day as compared with 135 days for the last financial year ended 31 March 2009. The inventory turnover period remains stable.

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 2009.

HUMAN RESOURCES

As at 30 September 2009, the Group employed a total of approximately 1,200 employees in the PRC, Hong Kong and Germany. The sound development of the Group attracts talents in the industry. Moreover, during the period, the Group continued to recruit talents based on the business needs and, in the meantime, the Group kept the core staff of acquired enterprises upon the acquisition, assimilating them into the Group's corporate culture. The Board places great emphasis on the career development of employees and provides them with ample space for growth. Meanwhile, we provide them with competitive remuneration as compared with the existing market condition.

To upgrade the Group to the international standard in terms of technology and management, the Group lays great stress on staff training and talent recruitment to continuously enhance the employees' initiative and creativity. The Group provides training to mid-top executives and the management on a regular basis, guiding them towards common values to strengthen team spirit. In addition, the Group has built talent banks for various staff levels to completely resolve the issue of talent availability encountered by the enterprise during long term development.

As to remuneration, the Group provides its employees with competitive remunerations, pension schemes and other fringe benefits, and grants awards to the employees based on their performance. The Group has implemented a share option scheme to reward the staff and directors who have made significant contributions to the business development of the Group since September 2006. For the period from 2006 to 2008, the Group granted share options to 79 persons including directors, senior management, technical and business executives.

INTERIM AND SPECIAL DIVIDENDS

The Board has resolved to declare an interim dividend of HK6.0 cents per share (2008: HK5.0 cents per share) and special dividend of HK2.8 cents per share (2008: nil) both in cash for the six months ended 30 September 2009, which are expected to be paid around 26 February 2010 to shareholders whose names appear on the Register of Members of the Company as at 9 February 2010.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4 February 2010 to 9 February 2010, both days inclusive, during which period no transfer of shares will be effected. All transfers of shares accompanied by relevant share certificate(s) must be lodged with the Company's Branch Share Registrars, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road, Wanchai, Hong Kong not later than 4:00 p.m. on 3 February 2010 in order to qualify for both the interim and special dividends.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practice

The Board of the Company recognizes the importance and benefits of good corporate governance practices and has adopted certain corporate governance and disclosure practices for achieving a higher standard of transparency and accountability.

The Board members have regular discussions about the business strategies and performance of the Group. Finance Department provides and reports to the Board members on the key management accounting information of the Group on a regular basis.

During the reporting period, the Board had further strengthened corporate governance practices, including formalization of the reporting practice throughout the Group in monitoring the operation and business developments of the Company so as to capture potentially price-sensitive information on a monthly basis, monitoring the continuing disclosure obligation. In addition, the legal adviser of the Company had provided the Directors and the relevant senior executives with training on The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and regulatory requirements from time to time.

The Company had complied with the code provisions recommended in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 September 2009 except for the deviations from the following code provisions:

Code Provision 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 meeting of the Company since their last appointment or re-election and are eligible for re-election in accordance with the Company's bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Model Code for securities transactions by the 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 the Directors of the Company. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2009.

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 comprise all the independent non-executive Directors, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu. The Audit Committee has reviewed and confirmed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 September 2009 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 Company's 2009-10 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 2009