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 2010

FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September		
	2010	2009	**Growth**
	HK$'000	*HK$'000*	
Sales	**1,286,614**	1,088,854	+18.2%
Operating profit	**869,834**	694,152	+25.3%
Gross profit margin	***75.5%***	*75.5%*	
EBITDA margin†	***70.3%***	*67.1%*	
EBIT margin	***67.6%***	*63.8%*	
Profit before income tax	**880,931**	700,789	+25.7%
Profit attributable to the equity holders of the Company	**752,266**	610,927	+23.1%
	HK cents	*HK cents*	
Earnings per share			
– Basic	**23.94**	19.75	+21.2%
– Diluted	**23.75**	19.47	+22.0%
Interim dividend per Share	**7.2**	6.0	+20.0%

During the first half of 2010, although the global economy remained somewhat unpredictable, China still recorded a stunning 11.1% economic growth. Strong internal demand again played a remarkable role in bringing China's consumer products market to the spotlight of the world stage. As a long-established leader of China's flavours and fragrances industry as well as a major player in the Chinese domestic consumer products market, the Group has been adhering to its "multi-pronged, focus-growth" development strategy and has accomplished all its business targets, remarkably promoted its new business and maintained a fast and sustainable growth.

† *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 2010 together with the comparative figures for the corresponding period in 2009.

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 "HKICPA"). The auditor's review report will be included in the interim report to be despatched to the shareholders of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2010

		Unaudited For the six months ended 30 September	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Sales	*3*	**1,286,614**	1,088,854
Cost of goods sold		**(314,810)**	(266,587)
Gross profit		**971,804**	822,267
Other income		**52,772**	17,756
Selling and marketing expenses	*4*	**(38,738)**	(37,471)
Administrative expenses	*4*	**(116,004)**	(108,400)
Operating profit		**869,834**	694,152
Finance income		**13,131**	6,701
Finance costs		**(2,357)**	(337)
Finance income – net		**10,774**	6,364
Share of profit of associates		**323**	273
Profit before income tax		**880,931**	700,789
Income tax expense	*5*	**(116,095)**	(79,814)
Profit for the half year		**764,836**	620,975
Attributable to:			
Equity holders of the Company		**752,266**	610,927
Non-controlling interests		**12,570**	10,048
		764,836	620,975
		HK cents	*HK cents*
Earnings per share for profit attributable to the Company's equity holders for the half year			
Basic	*6(a)*	**23.94**	19.75
Diluted	*6(b)*	**23.75**	19.47
Interim dividend per share	*7*	**7.2**	6.0
Special dividend per share	*7*	**Nil**	2.8

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	Unaudited For the six months ended 30 September **2010** ***HK$'000***	 2009 *HK$'000*
Profit for the half year	**764,836**	620,975
Other comprehensive income:		
Exchange differences on translating foreign operations	**61,287**	3,518
Total comprehensive income for the half year	**826,123**	624,493
Total comprehensive income attributable to:		
Equity holders of the Company	**811,113**	614,347
Non-controlling interests	**15,010**	10,146
	826,123	624,493

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2010

	Note	As at 30 September 2010 *HK$'000* Unaudited	As at 31 March 2010 *HK$'000* Audited
Assets			
Non-current assets			
Property, plant and equipment		**310,508**	301,798
Land use rights		**68,681**	67,684
Intangible assets		**1,612,779**	1,602,659
Investments in associates		**6,604**	6,236
Deferred income tax assets		**54,837**	50,544
		2,053,409	2,028,921
Current assets			
Inventories		**326,701**	235,294
Trade and other receivables	*8*	**1,010,177**	660,117
Short-term time deposits		**235,092**	230,886
Cash and cash equivalents		**2,095,476**	1,678,640
		3,667,446	2,804,937
Total assets		**5,720,855**	4,833,858
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**314,646**	312,882
Reserves		**543,610**	410,403
Retained earnings			
–Proposed interim/final dividend		**226,545**	212,134
–Proposed special dividend		**–**	172,085
–Others		**3,201,141**	2,682,600
		4,285,942	3,790,104
Non-controlling interests		**138,872**	128,103
Total equity		**4,424,814**	3,918,207
Liabilities			
Non-current liabilities			
Borrowings		**3,474**	–
Deferred income tax liabilities		**114,167**	108,870
		117,641	108,870
Current liabilities			
Borrowings		**250,423**	250,236
Trade and other payables	*9*	**846,938**	486,242
Current income tax liabilities		**81,039**	70,303
		1,178,400	806,781
Total liabilities		**1,296,041**	915,651
Total equity and liabilities		**5,720,855**	4,833,858
Net current assets		**2,489,046**	1,998,156
Total assets less current liabilities		**4,542,455**	4,027,077

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2010 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" issued by the HKICPA. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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 2010, as described in those financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2010:

- 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", are 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.

- HKFRS 8 (Amendment) "Operating segment" (effective for annual periods beginning on or after 1 January 2010).

- HKAS 38 (Amendment) "Intangible Assets" (effective for annual periods beginning on or after 1 July 2009).

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2010, but are not currently relevant or do not have significant impact to the Group's operations:

- HKFRS 2 (Amendment) "Group cash-settled share-based payment transaction"
- HKFRS 5 (Amendment) "Measurement of non-current assets (for disposal groups) classified as held for sale"
- HKAS 1 (Amendment) "Presentation of financial statements"
- HKAS 32 (Amendment) "Classification of rights issue"
- HKAS 39 (Amendment) "Eligible hedged items"
- HKFRS 1 (Revised) "First-time adoption of HKFRSs"
- HKFRS 1 (Amendment) "Additional exemptions for first-time adopters"
- HK(IFRIC) – Int 17 "Distributions of non-cash assets to owners"
- First improvements to HKFRS (2008) issued in October 2008 by the HKICPA.
- Second improvements to HKFRS (2009) issued in May 2009 by the HKICPA.

3. TURNOVER AND SEGMENT INFORMATION

The Group has organised its operations into two main operating 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 Executive Directors assess the performance of the operating segments based on a measure of operating profit, which is determined by using the accounting policies which are adopted by this financial information.

The segment information for the six months ended 30 September 2010 is presented below:

	Unaudited For the six months ended 30 September 2010				
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Total turnover	**1,249,389**	**37,514**	**1,286,903**	**–**	**1,286,903**
Inter-segment sales	**(281)**	**(8)**	**(289)**	**–**	**(289)**
Net turnover/Segment sales	**1,249,108**	**37,506**	**1,286,614**	**–**	**1,286,614**
Segment result	**869,741**	**6,324**	**876,065**	**(6,231)**	**869,834**
Finance income					**13,131**
Finance costs					**(2,357)**
Finance income – net					**10,774**
Share of profit of associates					**323**
Profit before income tax					**880,931**

	Unaudited				
	As at 30 September 2010				
	Flavours	**Fragrances**	**Total segments**	**Corporate**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment assets	**5,445,515**	**190,488**	**5,636,003**	**84,852**	**5,720,855**

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

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

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

Segment result represents the profit earned by each segment without inclusion of unallocated expenses, finance costs, finance income and share of results of associates. This is the measure reported to chief operating decision makers 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 analysed as follows:

	Unaudited For the six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
Depreciation, excluding amounts included in research and development	**13,869**	11,764
Amortization	**14,574**	13,826
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	**52,897**	41,184
Lease rentals	**3,940**	3,260
Travelling expenses	**11,219**	9,888
Entertainment expenses	**7,712**	9,737
Share option compensation expenses	**2,914**	8,120
Research and development		
– Employee benefit expenses	**16,543**	13,887
– Depreciation	**2,997**	2,992
– Others	**23,107**	18,220

5. INCOME TAX EXPENSE

		Unaudited For the six months ended 30 September	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Current income tax:			
– Hong Kong profits tax	*(a)*	**8,610**	6,488
– PRC corporate income tax	*(b)*	**105,582**	64,086
Deferred income tax assets		**(3,329)**	2,360
Deferred income tax liabilities		**5,232**	6,880
		116,095	79,814

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period.

(b) PRC corporate income tax has been calculated on the estimated assessable profit for the period at the tax rates applicable to respective companies of the Group.

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	
	2010	2009
Profit attributable to equity holders of the Company *(HK$'000)*	**752,266**	610,927
Weighted average number of ordinary shares in issue *('000)*	**3,141,665**	3,093,403
Basic earnings per share *(HK cents per share)*	**23.94**	19.75

(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 2010, 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	
	2010	2009
Profit attributable to equity holders of the Company *(HK$'000)*	**752,266**	610,927
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,141,665**	3,093,403
Adjustment for:		
– exercise of share options *('000)*	**26,276**	43,882
Weighted average number of ordinary shares for diluted earnings per share (*'000*)	**3,167,941**	3,137,285
Diluted earnings per share *(HK cents per share)*	**23.75**	19.47

7. DIVIDENDS

The interim dividend for the six months ended 30 September 2010 declared after the closing date amounts to HK7.2 cents (2009: HK6.0 cents together with a special dividend of HK2.8 cents) per share, HKD226,545,000 (2009: HKD187,469,000 and special dividend of HKD87,485,000) in aggregate. As the interim dividend is declared after the closing date, it is not recognised as dividend payable as at 30 September 2010.

8. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 September 2010** *HK$'000* **Unaudited**	As at 31 March 2010 *HK$'000* Audited
Trade receivables	*(b)*	**566,525**	519,895
Less: Provision for impairment on receivables		**(2,240)**	(2,215)
Trade receivables – net		**564,285**	517,680
Notes receivable		**157,208**	89,487
Escrow money deposited for a proposed acquisition	*(c)*	**231,618**	–
Other prepayments and receivables		**34,449**	36,727
Advances to staff		**7,268**	4,404
Dividend and interest receivables		**15,349**	11,819
		1,010,177	660,117

(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 (including amounts due from related parties which are trading in nature) based on invoice date as at the closing dates is as follows:

	As at 30 September 2010 *HK$'000* **Unaudited**	As at 31 March 2010 *HK$'000* Audited
0 – 90 days	**510,040**	457,936
91 – 180 days	**31,193**	44,546
181 – 360 days	**16,720**	10,535
Over 360 days	**8,572**	6,878
	566,525	519,895

(c) On 4 August 2010, the Company, through its indirect wholly owned subsidiary as purchaser, entered into a framework agreement with independent third parties in relation to a possible acquisition ("Proposed Acquisition") of Guangdong Province Jinye Reconstituted Tobacco Leaves Technology Development Co., Ltd. and its related and affiliated companies. Pursuant to the framework agreement, the consideration for the Proposed Acquisition will be subject to the scope of the assets following restructuring to be further discussed and negotiated among the parties. The subsidiary has deposited RMB200,000,000 in an escrow account which will be treated as partial payment and deposit of the consideration should the parties proceed to enter into the formal sale and purchase agreement relating to the Proposed Acquisition.

9. TRADE AND OTHER PAYABLES

	Note	**As at 30 September 2010** *HK$'000* **Unaudited**	As at 31 March 2010 *HK$'000* Audited
Trade payables	*(a)*	**207,664**	237,303
Non-trade payables to related parties		**133,985**	133,985
Dividends payable	*(b)*	**405,542**	11,979
Wages payable		**10,324**	8,913
Other taxes payable		**46,271**	42,153
Accrued expenses		**3,124**	4,732
Customer advance payment		**1,402**	1,915
Other payables		**38,626**	45,262
		846,938	486,242

(a) The ageing analysis of the trade payables (including amounts due to related parties which are trading in nature) based on invoice date as at the closing dates is as follows:

	As at 30 September 2010 *HK$'000* **Unaudited**	As at 31 March 2010 *HK$'000* Audited
0 – 90 days	**160,210**	185,073
91 – 180 days	**28,346**	33,744
181 – 360 days	**3,683**	1,094
Over 360 days	**15,425**	17,392
	207,664	237,303

(b) Dividends payable

It represents:

(i) final and special dividend of the Company for the year ended 31 March 2010; and

(ii) dividend payable to an non-controlling shareholder.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 September 2010, the Group achieved sales revenue of HKD1,286,614,000, representing an increase of approximately 18.2% over the corresponding period last year, mostly attributable to organic growth. The overall gross profit margin was approximately 75.5%, which was consistent with the corresponding period last year. Operating profit was HKD869,834,000, representing an increase of approximately 25.3% over the corresponding period last year. EBIT margin was approximately 67.6%, representing 3.8 percentage points higher than the corresponding period last year. Profit before income tax amounted to HKD880,931,000, representing an increase of about 25.7% over the corresponding period last year. Profit attributable to equity holders of the Company was HKD752,266,000, representing an increase of about 23.1% over the corresponding period last year. Basic earnings per share increased by about 21.2% over the corresponding period last year to HK23.94 cents this year.

BUSINESS REVIEW

Review of Flavours Business

For the six months ended 30 September 2010, sales revenue of the Group's flavours business amounted to HKD1,249,108,000, representing an increase of approximately 17.7% over the revenue of HKD1,061,126,000 for the corresponding period last year. The EBIT margin of flavours segment was 69.6%, representing an increase of 3.3 percentage points as compared with 66.3% for the corresponding period last year. The increase was primarily attributable to a speedy organic growth in the sales of flavours applied to tobacco, food and beverage, and the further enhancement of operation efficiency.

In the first half of the year, the Group once again achieved excellent results from its tobacco flavours operations. During the period, a seminar titled Sensory Evaluation Methodology of Chinese Cigarettes was held in Shanghai. The participants engaged in research and discussion on establishing a national sensory evaluation system for Chinese style cigarettes. The seminar has great importance in guiding the direction of the future development of Chinese cigarette styles. Hua Fang Tobacco Flavors Ltd. successfully organised the first meeting of the National Cigarette Perfumery Technology Committee as well as the first graduation ceremony of the Cigarette Perfumery Technicians Institute. Senior officials from the State Tobacco Monopoly Administration attended the ceremony and expressed their close attention to this program. The Group is gradually developing a tobacco product analysis and monitoring system through introducing international talents, and also proactively participates in evaluation of standards that are related to the Chinese tobacco industry. One invention patent application submitted by Huabao Food Flavours & Fragrances (Shanghai) Company Limited, namely "Preparation Method of Cocoa Flavour, Resulting Products and their Applications", was approved by the State Intellectual Property Office. Wuxi Hua Hai Flavour Company Limited applied for two patents and developed four natural new products. A product developed by Wuxi Jiahua Flavour & Fragrance Company Limited, namely "Fragrance product produced with tobacco extract or tobacco fine waste extract prepared by enzymatic methods", was approved by the experts from the City of Wuxi and Jiangsu Province and was awarded with the title of "Jiangsu Key New Product" by Jiangsu Science and Technology Bureau. All these honours fully demonstrate the outstanding operational results in the tobacco flavours business operated by the principal subsidiaries of the Group in the first half of 2010 and indicate the strength of the management team.

In terms of downstream sectors, the Chinese government announced a plan for the subsequent consolidation of the tobacco industry in China and set the "532" and "461" targets as the direction of development for tobacco brands at the beginning of 2010. It also stipulated a new standard of maximum tar content at 10 mg per stick effective from 2015. The development of the tobacco industry in China will be oriented toward higher brand concentration, higher grade and healthier products. Judging from present consumption patterns on the market, tobacco industry will continue to maintain steady growth. In the first half of 2010, the sales volume of the domestic tobacco industry grew by approximately 3.5% and the demand for high-quality domestic cigarettes remained high. Top 15 key brands recorded a year-on-year growth of 10.6% in sales volume, of which 9 brands' sales volume increased by more than 10% and 4 brands of which exceeded 20%. In terms of wholesale, top 15 brands recorded a year-on-year growth of 37.0% in sales revenue, of which 12 brands' sales revenue increased by more than 20% and 5 brands of which exceeded 30%. Trade up behavior brought about an ongoing improvement of profitability to the industry. In the first half of 2010, the domestic tobacco industry contributed industrial and commercial profit tax of approximately RMB325.3 billion, representing an increase of about 17.3% over the corresponding period last year. For the effort of lowering tar content and harmful substance, the average tar content is 11.7 mg per stick and the average carbon monoxide content is 12.3 mg per stick, representing a decrease of 0.4 mg per stick and 1.2 mg per stick respectively. These favourable factors will continue to contribute to the Group with sustained growth momentum. (Source for the above: TobaccoChina Online)

As to our products used in food, beverage and food ingredients, for the six months ended 30 September 2010, the Group achieved a rapid organic growth in dairy products, beverages, sweets, snacks and food ingredients, resulting in a higher operational efficiency and effectiveness. During the period, Shanghai H&K Flavours & Fragrances Company Limited ("Huabao Kongque") developed a number of new products and achieved various successes in the market. Among which, its "Natural cream flavouring agent" won the prize of Flavour Enhancer in the category of food, beverage and ingredients. As a pioneering member, Huabao Kongque joined the Food Additive Industry Technology Innovation Union. Guangzhou Huabao Flavour & Fragrance Company Limited ("Guangzhou Huabao") launched over 100 new products and won new customers from snacks, meat products, seasoning and fast food sectors and further increased its market shares in the existing customers. Furthermore, the new Muslim food flavours production line of 7,000 tons built at Guangzhou Huabao is officially put into operation, laying a foundation for the next stage of growth. As to food ingredients, products of "Hanfo Cooking Secret" are promoting soundly in the market, focusing its target markets in Sichuan, Chongqing, Yunnan, Guizhou, South China and Central China. Its products form a system consisting of 64 items in 8 categories, with the main products positioned as middle to high end. Currently, over 300 restaurants in the abovementioned regions are using the products of Hanfo Cooking Secret. After carrying out several technical improvements, Guangdong Zhaoqing Fragrances Limited ("Guangdong Zhaoqing") has improved operational efficiency and reduced production costs. The integration of Qingdao Qingda Product Co., Inc. ("Qingdao Qingda") has been progressing smoothly, and currently its existing production facility is under reconfiguration to increase its capacity to match the Group's development in the savory side of flavours business. The production facility after reconfiguration will be equipped with new technology and production workmanship, product quality and operating efficiency will be further elevated. Meanwhile, the Group has organized trainings to the key personnel at different levels within Qingdao Qingda regarding the know-how of flavours and fragrances and reviewed its management structure, and a seamless merger with Huabao's existing system is achieved. Moreover, Huabao Kongque, Guangzhou Huabao, Guangdong Zhaoqing and Qingdao Qingda jointly attended events such as the FIA China 2010, Hi Ni China 2010, Food Safety and Food Additive Conference & Shanghai International Food Ingredients Exhibition (FIS). Through those elaborately-designed exhibition stands, product application presentation, face-to-face consultation and communications, the Group fully demonstrated its world-class corporate image and its servicing capability.

Review of Fragrances Business

For the six months ended 30 September 2010, the Group's sales revenue from fragrances increased by approximately 35.3% from HKD27,728,000 in the corresponding period of last year to HKD37,506,000, representing approximately 2.9% of the total revenue of the Group. The operating profit of the fragrances segment reached HKD6,324,000, representing a growth of approximately 32.4% over that of same period last year. EBIT margin and EBITDA margin were approximately 16.9% and 19.6% respectively, which were consistent with the corresponding period last year.

During the period, Xiamen Amber Perfumery Company Limited ("Xiamen Amber") developed a number of new products especially for its major customers by capitalizing on its strength in the fields of aromatic and detergent fragrances, and continued with its rapid growth. Currently, its major customers include Liby (立白), Lanju (欖菊), Lonkey (浪奇) and Nice (納愛斯). In addition, Xiamen Amber was honoured to become an administrative member of the Fujian Daily Chemicals Importing & Exporting Association, and was nominated as one of "China's Top 100 SMEs for 2010". Furthermore, Xiamen Amber subscribed new shares in Yunnan Hua Xiang Yuan Flavours Limited ("Yunnan Hua Xiang Yuan") in September 2010. Yunnan Hua Xiang Yuan is an enterprise incorporated in the PRC mainly engaged in the production of natural flavouring oil, including eucalyptus oil, citronella oil, wintergreen oil and geranium oil, etc. Its founding team has many years of extensive experience in the industry. The acquisition of Yunnan Hua Xiang Yuan is in line with Huabao's core strategies of "multi-pronged, focus growth" and the construction of an integrated core value chain. Such subscription helped laying a solid foundation for the next stage of development of the fragrances sector.

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

The Group has a top-class R&D platform in China's flavours and fragrances industry and an international-calibre R&D team. With a State-recognized technical centre in Shanghai, a national post-doctorate scientific research workstation, an overseas R&D centre in Germany and a professional R&D team consisting of the top talents from China and abroad, the Group's R&D capability is far ahead of its peers in China's flavours and fragrances industry.

For the six months ended 30 September 2010, the Group obtained remarkable achievements in the work of R&D and innovation, including the application for over 10 patents and the development of over 100 new products. Some major R&D projects for specific industries have been carried out which will lay a solid foundation for Huabao's long-term development in the future. During the period, a seminar on Sensory Evaluation Methodology of Chinese cigarettes was held in Shanghai, during which the national project on the establishment of a cigarette sensual characteristics evaluation system was studied and discussed by the experts, scholars and relevant responsible persons from various organising parties such as Hongyunhonghe Tobacco Group, China Tobacco Hunan, China Tobacco Jiangxi, Zhengzhou Tobacco Research Institute of China National Tobacco Corporation and the Company. The seminar played a significant role in shaping the development of the Chinese tobacco features in the future.

During the period, the Group has also made gratifying progress in introducing overseas talents. Through introducing top-notch international talents, the Group has established a world-class team which engages in the flavours and fragrances and technology and development of the new materials for cigarettes. Combining with the Group's "multi-pronged, focus-growth" development direction, the R&D, production technique and products of new materials for cigarettes have rapidly filled in empty gap of the relevant industries in the PRC after several years of hard work. Production technique has reached international standards, introducing high-end and innovative products after fully integrated with the domestic tobacco industry. On top of such foundation, the Group has timely acquired a domestic major reconstituted tobacco leaves production enterprise, Guangdong Province Jinye Reconstituted Tobacco Leaves Technology Development Company Limited and its related and affiliated companies ("Guangdong Jinye Group"), to build a development platform for the new materials for cigarettes business. The Group will expand the new materials for cigarettes business in full flight in next step. At present, such team is proactively participating in the post-consolidation development of Guangdong Jinye Group. In future, Huabao will continue to increase investment in talent introduction which will provide Huabao with a solid backing for its long term development.

Furthermore, the Food Additive Industry Technology Innovation Union was founded in Beijing during the period, aiming at integrating the relevant technical resources of the food additives industry, establishing a closely-linked mechanism of production, studying and research, expediting the leap-forward development of the food additives industry, ensuring food safety and promoting the innovation and development of the food industry. Huabao Kongque attended the founding ceremony as a pioneering member of the union.

In terms of R&D input, for the six months ended 30 September 2010, R&D expenses amounted to approximately 3.3% of sales revenue, which was slightly higher than approximately 3.2% of last year. The continuous increase in R&D expenses guaranteed the Group's capability of continuous innovations, which laid a solid foundation for the Group's long term development.

BENEFITS OF MERGER AND ACQUISITION ("M&A") AND INTEGRATION

Acquisition of Guangdong Jinye Group – to build a strategic platform to develop new materials for cigarettes.

In November 2010, the Group entered into an acquisition agreement with independent third parties and acquired 100% equity interest in Guangdong Jinye Group at a consideration of RMB1,147 million. For details of the acqusition, please refer to the Company's announcement dated 1 November 2010. The terms defined in the announcement have the same meanings as those used herein.

Guangdong Jinye Group is one of the designated production bases authorized by State Tobacco Monopoly Administration specializing in the manufacturing of reconstituted tobacco leaves ("RTL") and is also one of the largest RTL manufacturers in the PRC. Established in 1999, Guangdong Jinye Group is one of the first enterprises that engage in the R&D, manufacturing and sales of RTL. Guangdong Jinye Group is also a recognized enterprise technology centre in Guangdong Province, it has accumulated and in the process of applying for over 10 patents. It enjoys a comparatively technological and qualitative advantage in the R&D and manufacturing of RTL currently in the PRC. Guangdong Jinye Group, and its several joint venture partnerships with other leading tobacco groups in the PRC, has a total granted RTL production capacity of 45,000 tons per annum, which own a major market share in the domestic RTL market.

Reasons of the acquisition: The management of Huabao are of the view that with implementation of the new standard for tar content in China's tobacco industry in the next few years, the field of the new materials for cigarettes, one of which is represented by RTL, will face a tremendous development. Guangdong Jinye Group holds a substantial share in the current domestic RTL market. Its major cooperation partners – Tobacco Groups, are also key customers of the Group's flavours and fragrances business. The manufacturing and raw material procurement of RTL requires a special license, thus raising the industry entry threshold. The main reason for this acquisition is to build a platform for further development of the new materials for cigarettes, substantially promote the development of the RTL project, and grasp the business opportunity brought by the implementation of low tar content and less harmful standard in tobacco industry. Based on Huabao's leading position in the tobacco flavours and fragrances business and the advantages in developing new materials for cigarettes, the management is confident in the upcoming integration of Guangdong Jinye Group and will bring good returns to our shareholders!

Future integration plan: In the future, the Group will fully capitalize its strengths in the technique in manufacturing flavours and fragrances and its leading market position, with the aim to further enhance the product quality of Guangdong Jinye Group and to provide its key customers with more personalized products in higher quality and comprehensive technology services. According to the information provided by the management of Guangdong Jinye Group, the Technical Officer of the State Tobacco Monopoly Administration had undertaken an assessment on its innovative technique in RTL on 11 September 2009. The next step will be the construction of a production line of 20,000 tons for RTL. In addition, a production line of 10,000 tons will also be installed in a joint venture in Guizhou, in which Guangdong Jinye Group will control 40% equity interest. The Company, in the meantime, has commenced proactive negotiations with other existing joint venture partners of subordinated enterprises of Guangdong Jinye Group for further expansion. In respect of management, the Company will procure an overall integration system between Guangdong Jinye Group and the Group in order to enhance its operation efficiency. The management believes that the implementation of such integration will further make the Group achieve a level of economy of scale and will thus bring favorable returns to the Company and shareholders. For more information please refer to Company's announcement regarding the acquisition of Guangdong Jinye Group dated 1 November 2010.

Acquisition of Yunnan Hua Xiang Yuan – to develop characteristic aromatic raw materials business and construct an integrated core value chain

In September 2010, the Group entered into an agreement with Yunnan Hua Xiang Yuan, an independent third party, pursuant to which the Group subscribed for 60% equity interest in Yunnan Hua Xiang Yuan at a consideration of approximately HKD4,314,000 by way of capital injection. In October 2010, the Group further injected another approximately HKD9.25 million for expanding its production scale and elevate production capacity. Yunnan Hua Xiang Yuan is an enterprise incorporated in the PRC mainly engaged in the production of natural flavouring oil, including eucalyptus oil, citronella oil, wintergreen oil and geranium oil, etc. Its founding team has many years of extensive experience in the industry. The acquisition of Yunnan Hua Xiang Yuan is in line with Huabao's core strategies of "multi-pronged, focus growth" and the construction of an integrated core value chain. In the future, the Group will utilize Yunnan Hua Xiang Yuan as an aromatic raw material development platform, further increase its efforts in the aromatic raw material area, and will commit with a higher level of execution.

Yunnan Province is one of the major sources of aromatic raw materials in the PRC and throughout the world. It is known that the government recognises the aromatic raw material industry as one of the major industries and is accelerating the pace of constructing major aromatic raw material production bases in the PRC. The management believes that Yunnan Hua Xiang Yuan will continue to serve as a development platform for aromatic raw materials which will take full advantage of the Group, such as the advantage of its flavours and fragrances resources and related extraction technology, the advantage of technology applications, the advantage of distribution channel as well as the advantage of branding and capital resources, aiming to vigorously develop business in natural aromatic raw materials and construct the Group's aromatic raw material segment, serving as a new driver to Huabao's future development.

Smooth integration of Maoming Kebi Flavor & Fragrance Limited ("Maoming Kebi") and Qingdao Qingda yielded remarkable results

In August 2009, the Group acquired 100% equity interest in Maoming Kebi from an independent third party at a consideration of approximately HKD117,209,000. After the acquisition, the Group has carried out comprehensive integration of Maoming Kebi's business and substantially increased the profitability of its business.

In March 2010, the Group completed the acquisition of Qingdao Qingda at a consideration of approximately HKD11,600,000. Qingdao Qingda is a specialized natural extracts producer in the PRC, and currently its major products are various natural pepper essences. This acquisition is in line with the Group's overall strategy of developing characterstic aromatic raw material segment and constructing an integrated core value chain. After the acquisition, the integration of Qingdao Qingda has been progressing smoothly. Currently its existing production facility is under reconfiguration in order to meet with the Group's development in the savory side of flavours and fragrances business. The production facility after reconfiguration will be equipped with new technology and production work, product quality and operating efficiency will be further improved. Meanwhile, the Group has organized training programs to the key personnel at different levels across Qingdao Qingda regarding the know-how of flavours and fragrances and reviewed its management structure, and a seamless merger with Huabao's existing system has been achieved. This indicates that the post-acquisition integration is undergoing smoothly.

BUSINESS PROSPECT

Currently, the global economy has weathered the crisis, but the prospect for recovery is not so optimistic. Although China's economy still maintains a high growth rate, the negative impact arising from RMB appreciation, the obstinately high housing prices and the inflation has not been completely eliminated. Against this global environment, the Chinese government is taking various measures to increase residents' disposable income to stimulate domestic demand, and at the same time, proactively taking effective actions to stabilize product price level. The Management believes such actions will further stimulate the domestic consumer market. The management is cautiously optimistic about the operating environment of the Group and is fully confident in completing the predetermined three-year development target.

Huabao's long-term development strategy will remain unchanged, which is to uphold the "multi-pronged, focus-growth" development strategy, aggressively develop new business areas such as new materials for cigarettes, food ingredients and aromatic raw materials with the flavours and fragrances business as its mainstay, and realize fast expansion through organic growth and M&A.

The management is fully confident in Huabao's long-term development potential. We will continue to be committed to create higher investment value and more returns for our shareholders!

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2010

Sales revenue

The Group's sales revenue amounted to HKD1,286,614,000 for the six months ended 30 September 2010, representing an increase of 18.2% as compared with HKD1,088,854,000 for the corresponding period last year. The rapid growth in the sales revenue was mainly attributable to increase in the sales of flavours and fragrances. For the six months ended 30 September 2010, the sales revenue from flavours increased by 17.7% to HKD1,249,108,000, while the sales revenue from fragrances increased by 35.3% to HKD37,506,000.

Cost of goods sold

The Group's cost of goods sold amounted to HKD314,810,000 for the six months ended 30 September 2010, representing an increase of 18.1% as compared with HKD266,587,000 for the corresponding period last year. The percentage increase in the cost of goods sold which was consistent with the percentage increase in the sales revenue was mainly attributable to the stable gross profit margin of the Group.

Gross profit and gross profit margin

The gross profit of the Group increased from HKD822,267,000 for the six months ended 30 September 2009 to HKD971,804,000 for the six months ended 30 September 2010, representing an increase of 18.2%, while the gross profit margin of the Group maintained at 75.5%, which is consistent with the first half of last financial year. The increase in the gross profit was mainly attributable to the increase in the sales revenue of the Group.

Other income

Other income of the Group was HKD52,772,000 for the six months ended 30 September 2010, representing an increase of HKD35,016,000 as compared with HKD17,756,000 for the six months ended 30 September 2009. The increase in other income was mainly attributable to the fluctuation of RMB exchange rate and government subsidy.

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 2010 were HKD38,738,000, representing an increase of approximately 3.4% as compared with HKD37,471,000 for the corresponding period last year. The selling and marketing expenses to the total sales was decreased from 3.4% of the corresponding period last year to 3.0% of this year. The decrease in the selling and marketing expenses ratio was mainly attributable to the economies of scale brought by the robust growth of flavours segment and better expenses management.

Administrative expenses

The Group's administrative expenses amounted to HKD116,004,000 for the six months ended 30 September 2010, representing an increase of 7.0% as compared with HKD108,400,000 for the corresponding period last year. Administrative expenses mainly comprise salaries, R&D expenses, professional advisory fees, share options compensation expense, depreciation and amortization expenses, office administration expenses, public utilities expenses, etc. The administrative expenses to the total sales was decreased from 10.0% for the corresponding period last year to 9.0% this year, which was mainly attributable to the economy of scale brought from the rapid growth in sales revenue and better management of expenses.

Operating profit

The operating profit of the Group for the six months ended 30 September 2010 was HKD869,834,000, representing an increase of approximately 25.3% as compared with HKD694,152,000 for the corresponding period last year, while the operating profit margin increased to approximately 67.6% during the first half of the year from approximately 63.8% for the first half of last year. The increase in the operating profit was attributable to the increase in the sales revenue and improvement in operating efficiency.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2010 was HKD116,095,000, as compared with HKD79,814,000 for the corresponding period last year. The substantial increase in the income tax expenses was mainly attributable to the growth of the profit and the increase in income tax rate of certain PRC subsidiaries due to their preferential tax periods (two-year exemption and three-year half rate) were expired.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD752,266,000 for the six months ended 30 September 2010, representing an increase of 23.1% as compared with HKD610,927,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2010, the net current asset value of the Group was HKD2,489,046,000 (31 March 2010: HKD1,998,156,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2010, the Group had short-term time deposit of HKD235,092,000 (31 March 2010: 230,886,000). The Group's cash and cash equivalents amounted to HKD2,095,476,000 (31 March 2010: HKD1,678,640,000).

The Group neither had any forex hedging products nor structured investment products or financial derivatives.

Bank borrowings and gearing ratio

As at 30 September 2010, the Group had bank borrowings of HKD253,897,000 (31 March 2010: HKD250,236,000), out of which HKD240 million is clean loan with interest calculated based on HK dollars inter-banks borrowings rate. For the six months ended 30 September 2010, the average annual interest rate of such clean loan was 1.71% (2009: nil) which are due within 1 year. The Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was about 5.9% as at 30 September 2010 (31 March 2010: 6.6%).

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 180 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with, the customers. For the six months ended 30 September 2010, the Group's average debtors' turnover period was 76 days, representing an increase of 5 days as compared with 71 days for the last financial year ended 31 March 2010, 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 180 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the six months ended 30 September 2010, the Group's average creditors' turnover period was 127 days, representing an increase of 6 days as compared with 121 days for the last financial year ended 31 March 2010. 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 2010, the Group's inventory balance amounted to HKD326,701,000 (31 March 2010: HKD235,294,000). The Group has continued to improve its inventory management and to optimize its inventory structure, thus the inventory balance has noticeably increased. For the six months ended 30 September 2010, 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 180 days) was 161 days, representing an increase of 22 days as compared with 139 days for the last financial year ended 31 March 2010. The increase in inventory and inventory turnover period were mainly attributable to the Group's anticipation of inflation and thus properly adjusted the reserve of certain raw materials inventories which shall be affected by inflation. As a result, the Group's operating cash flow was affected accordingly. However, the management believes that such adjustment is proper for maintaining the stability of the Group's gross profit margin and also it has no major impact on the Group's overall financial stability.

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 insignificant. There is insignificant pressure for the depreciation of RMB and thus the Group's exposure to exchange rate risk is relatively low.

Pledge of assets

As at 30 September 2010, the secured bank loan of the Group amounted to approximately HKD13,897,000 (31 March 2010: HKD10,236,000).

Capital Commitments

As at 30 September 2010, the Group had capital commitments in respect of the purchase of property, plant and equipment contracted for but not provided in the financial statements amounting to approximately HKD6,677,000 (31 March 2010: HKD4,234,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2010.

HUMAN RESOURCES

As at 30 September 2010, the Group employed a total of approximately 1,403 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 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 in September 2006 to reward the staff and directors who have made significant contributions to the business development of the Group. For the period from 2006 to 2008, the Group granted share options to 79 persons including directors, senior management, technical and business executives.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK7.2 cents per share (2009: HK 6.0 cents per share and special dividend of HK 2.8 cents per share) in cash for the six months ended 30 September 2010, which is expected to be paid around 25 February 2011 to shareholders whose names appear on the Register of Members of the Company as at 18 February 2011.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 February 2011 to 18 February 2011, 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 4:30 p.m. on 14 February 2011 in order to qualify for the interim dividend.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practice

The Board of the Company recognizes and appreciates 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 and have regular trainings on Listing Rules and regulatory requirements provided by the legal adviser of the Company from time to time together with the relevant senior executives. Finance Department provides and reports to the Board members on the key management accounting information of the Group on a regular basis. The Company has an established internal reporting practice throughout the Group in monitoring the operation and business development of the Company so as to capture potentially price-sensitive information on a monthly basis, monitoring the continuing disclosure obligation.

Throughout the reporting period, save for Code Provision A.4.1, 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:

Code Provision A.4.1 stipulates that independent non-executive directors ("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 Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by 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 2010.

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 2010.

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 of the INEDs, namely Mr. MAK Kin Kwong, 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 2010 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 2010-11 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 INEDs, namely Mr. MAK Kin Kwong, Ms. MA Yun Yan and Mr. LEE Luk Shiu.

By Order of the Board
CHU Lam Yiu
Chairman

Hong Kong, 26 November 2010