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 2013

FINANCIAL HIGHLIGHTS

- Sales increased by approximately 15.3% to HKD1,941,939,000
- Operating profit increased by approximately 16.1% to HKD1,042,925,000
- Profit attributable to the equity holders of the Company increased by approximately 13.8% to HKD893,188,000
- Basic earnings per share increased by approximately 15.8% to HK28.80 cents
- Proposed an interim dividends of HK8.68 cents per share and a special dividend of HK2.88 cents per share, representing a dividend payout ratio of 40%

* *For identification purpose only*

RESULTS HIGHLIGHTS

- Gross profit margin elevated by 0.5 percentage point over the corresponding period last year to 68.6%; operating profit margin elevated by 0.4 percentage point over the corresponding period last year to 53.7%, operating efficiency further improved

- With an effort to respond to ever-changing marco economy environment, flavours segment continues to maintain a steady growth momentum, with operating profit margin saw improvement

- Reconstituted tobacco leaves ("RTL") continues to maintain a rapid growth momentum, with segment revenue significantly increased by approximately 141.3% over the corresponding period last year to HKD473,377,000; profitability also significantly improved, with segment operating profit significantly increased by approximately 199.8% to HKD181,345,000, operating profit margin also significantly elevated by 7.5 percentage points to 38.3%

- Net cash generated from operating activities increased by approximately 20.3% to HKD849,872,000

- Financial position remains strong, cash and bank balances[#] increased by approximately 31.6% to HKD3,057,735,000 as compared with 31 March 2013; net cash[+] reached HKD2,577,600,000, representing an increase of approximately 38.7% as compared with 31 March 2013

AREAS OF DEFICIENCY

- Fragrances segment sales revenue decreased over 50% as compared with corresponding period last year, mainly due to the fact that the Group had made adjustments to the management structure and business of Yunnan Hua Xiang Yuan Flavours Limited ("Yunnan Huaxiangyuan"), and had subsequently disposed of all the equity interest in Yunnan Huaxiangyuan. The disposal of Yunnan Huaxiangyuan would have, comparatively, bigger impact on segment sales revenue in a short term, but the impact on the Group's overall profitability is minimal

- Due to changes in domestic macro economy and being affected by the rise of the price level in general, the Group's selling and marketing expenses as well as administrative expenses maintained an upward trend. During the reporting period, selling and marketing expenses as well as administrative expenses increased by approximately 22.7% as compared with the corresponding period last year, but has already shown an improvement from 26.5% of increase in the last financial year

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

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

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September		
	2013	2012	**Change in percentage**
	HK$'000	*HK$'000*	
Sales	**1,941,939**	1,684,042	**+15.3%**
Operating profit	**1,042,925**	898,188	**+16.1%**
Gross profit margin	***68.6%***	*68.1%*	
EBITDA margin≠	***58.6%***	*57.0%*	
EBIT margin	***53.7%***	*53.3%*	
Profit before income tax	**1,058,417**	905,262	**+16.9%**
Profit attributable to the equity holders of the Company	**893,188**	784,903	**+13.8%**
Net cash generated from operating activities	**849,872**	706,608	**+20.3%**
Earnings per share			
– Basic	**28.80** ***HK cents***	24.87 *HK cents*	**+15.8%**
– Diluted	**28.79** ***HK cents***	24.85 *HK cents*	**+15.9%**
Interim dividend per share	**8.68** ***HK cents***	7.48 *HK cents*	**+16.0%**
Special dividend per share	**2.88** ***HK cents***	2.48 *HK cents*	**+16.1%**
Dividend payout ratio	**40%**	40%	

≠ *"EBITDA margin" equal to "Earnings before taxes, interest, depreciation and amortization" divided by "Sales".*

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 2013 together with the comparative figures for the corresponding period in 2012.

The Group's unaudited condensed consolidated interim financial information has 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 2013

	Note	Unaudited For the six months ended 30 September **2013** ***HK$'000***	 2012 *HK$'000*
Sales	*3*	**1,941,939**	1,684,042
Cost of goods sold		**(609,046)**	(536,954)
Gross profit		**1,332,893**	1,147,088
Other income	*4*	**84,838**	56,508
Selling and marketing expenses		**(78,591)**	(63,519)
Administrative expenses		**(296,215)**	(241,889)
Operating profit		**1,042,925**	898,188
Finance income		**22,707**	18,444
Finance costs		**(5,783)**	(11,473)
Finance income – net		**16,924**	6,971
Share of (loss)/profit of associates and a jointly controlled entity		**(1,432)**	103
Profit before income tax		**1,058,417**	905,262
Income tax expense	*6*	**(157,462)**	(109,702)
Profit for the period		**900,955**	795,560
Attributable to:			
Equity holders of the Company		**893,188**	784,903
Non-controlling interests		**7,767**	10,657
		900,955	795,560
Earnings per share for profit attributable to the Company's equity holders for the period			
Basic	*7(a)*	**28.80** ***HK cents***	24.87 *HK cents*
Diluted	*7(b)*	**28.79** ***HK cents***	24.85 *HK cents*
Interim dividend	*8*	**269,194**	235,033
Special dividend	*8*	**89,318**	77,926
		358,512	312,959

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	Unaudited For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Profit for the period	**900,955**	795,560
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**3,745**	(2,511)
Currency translation on translating foreign operations	**127,936**	(41,827)
Other comprehensive income/(loss) for the period, net of tax	**131,681**	(44,338)
Total comprehensive income for the period, net of tax	**1,032,636**	751,222
Total comprehensive income attributable to:		
Equity holders of the Company	**1,017,524**	745,718
Non-controlling interests	**15,112**	5,504
	1,032,636	751,222

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2013

	Note	As at 30 September 2013 HK$'000 Unaudited	As at 31 March 2013 HK$'000 Audited
Assets			
Non-current assets			
Property, plant and equipment		**1,447,416**	1,443,810
Land use rights		**203,469**	204,045
Intangible assets		**2,952,545**	2,925,745
Investments in associates		**170,947**	102,299
Investments in a jointly controlled entity		**6,244**	–
Available-for-sale financial assets		**73,897**	67,648
Deferred income tax assets		**95,727**	48,710
		4,950,245	4,792,257
Current assets			
Inventories		**761,418**	702,316
Trade and other receivables	*9*	**1,209,583**	1,059,769
Assets held for sale		**5,197**	5,102
Short-term time deposits		**521,952**	437,166
Cash and cash equivalents		**2,535,783**	1,886,183
		5,033,933	4,090,536
Total assets		**9,984,178**	8,882,793
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**310,132**	311,013
Reserves		**1,050,816**	914,597
Retained earnings			
– Proposed interim/final dividend		**269,194**	291,524
– Proposed special dividend		**89,318**	86,837
– Others		**6,184,229**	5,675,440
		7,903,689	7,279,411
Non-controlling interests		**312,273**	346,265
Total equity		**8,215,962**	7,625,676
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**59,458**	62,628
Current liabilities			
Borrowings	*10*	**480,135**	465,000
Trade and other payables	*11*	**1,054,693**	585,683
Current income tax liabilities		**173,930**	143,806
		1,708,758	1,194,489
Total liabilities		**1,768,216**	1,257,117
Total equity and liabilities		**9,984,178**	8,882,793
Net current assets		**3,325,175**	2,896,047
Total assets less current liabilities		**8,275,420**	7,688,304

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2013

	Unaudited For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Cash flows from operating activities, net	**849,872**	706,608
Cash flows used in investing activities, net	**(207,689)**	(219,209)
Cash flows used in financing activities, net	**(25,056)**	(60,864)
Net increase in cash and cash equivalents	**617,127**	426,535
Cash and cash equivalents at 1 April	**1,886,183**	2,286,577
Effects of currency translation on cash and cash equivalents	**32,473**	(21,231)
Cash and cash equivalents at 30 September	**2,535,783**	2,691,881

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2013 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 2013, 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 2013, as described in those financial statements.

(a) HKFRS 11, "Joint arrangements". According to HKFRS 11, Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The policy choice of proportionate consolidation under HKAS 31 has been eliminated under HKFRS 11. Equities accounting should be used for joint ventures.

Before 1 April 2013, the Group's investment in its jointly controlled entity, Yunnan Qing Tian Xiang Keji Fazhan Co. Ltd. ("Yunnan Qingtian") was accounted for by proportionate consolidation. Under HKFRS 11, Yunnan Qingtian is a jointly controlled entity which shall be accounted for using the equity method retrospectively.

The financial effects of using equity accounting for the investment in Yunnan Qingtian are not material to the Group's consolidated financial statements and therefore the directors have decided not to restate the consolidated financial statements for the year ended 31 March 2012 and 2013. All the financial effects are reflected in the consolidated financial statements for the six months ended 30 September 2013.

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

(c) The following amendment to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2013, but are not currently relevant or do not have significant impact to the Group's operations:

- HKAS 19 (Amendment), "Employee benefits"
- HK(IFRIC) Int 20, "Stripping Costs in the Production Phase of a Surface Mine"

3. TURNOVER AND SEGMENT INFORMATION

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

– Flavours;

– Fragrances; and

– Reconstituted tobacco leaves.

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

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

The segment information for the six months ended 30 September 2013 is presented below:

	Unaudited For the six months ended 30 September 2013					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Total turnover	**1,469,385**	**40,748**	**473,377**	**1,983,510**	**–**	**1,983,510**
Inter-segment sales	**(41,560)**	**(11)**	**–**	**(41,571)**	**–**	**(41,571)**
Segment turnover – net	**1,427,825**	**40,737**	**473,377**	**1,941,939**	**–**	**1,941,939**
Segment result	**867,496**	**4,010**	**181,345**	**1,052,851**	**(9,926)**	**1,042,925**
Finance income						**22,707**
Finance costs						**(5,783)**
Finance income – net						**16,924**
Share of loss of associates and a jointly controlled entity						**(1,432)**
Profit before income tax						**1,058,417**
Income tax expense						**(157,462)**
Profit for the period						**900,955**

	Unaudited As at 30 September 2013					
	Flavours *HK$'000*	**Fragrances** *HK$'000*	**Reconstituted tobacco leaves** *HK$'000*	**Total segments** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Segment assets	**6,464,699**	**166,834**	**3,269,533**	**9,901,066**	**83,112**	**9,984,178**

The segment information for the six months ended 30 September 2012 is presented below:

	Unaudited For the six months ended 30 September 2012					
	Flavours *HK$'000*	Fragrances *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Total turnover	1,410,102	94,228	196,142	1,700,472	–	1,700,472
Inter-segment sales	(14,821)	(1,609)	–	(16,430)	–	(16,430)
Segment turnover – net	1,395,281	92,619	196,142	1,684,042	–	1,684,042
Segment result	843,437	5,848	60,482	909,767	(11,579)	898,188
Finance income						18,444
Finance costs						(11,473)
Finance income – net						6,971
Share of profit of associates						103
Profit before income tax						905,262
Income tax expense						(109,702)
Profit for the period						795,560

	Unaudited As at 30 September 2012					
	Flavours *HK$'000*	Fragrances *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Segment assets	5,915,126	214,792	2,509,171	8,639,089	339,028	8,978,117

Segment result represents the profit earned by each segment without inclusion of unallocated expenses, finance costs and finance income. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

4. OTHER INCOME

	Unaudited For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Government grants	**61,339**	55,926
Exchange gain/(loss)	**20,856**	(15,930)
Gain on disposal of a subsidiary	**580**	–
Others	**2,063**	16,512
	84,838	56,508

5. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analysed according to their nature (with the exception of research and development expenses which are shown as a single item and analyzed according to the nature in note(a) below) as follows:

		Unaudited For the six months ended 30 September	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Depreciation		**62,074**	31,067
Amortization		**22,531**	21,823
Employee benefit expenses		**145,900**	86,848
Research and development expenses	*(a)*	**107,417**	98,167
Lease rentals		**10,177**	8,032
Travelling expenses		**16,880**	12,195
Entertainment expenses		**18,912**	14,262
Utility expenses		**34,284**	17,175
Delivery expenses		**21,621**	17,564

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

	Unaudited For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Depreciation	**7,931**	5,457
Amortization	**3,139**	3,076
Employee benefit expenses	**40,249**	33,239

6. INCOME TAX EXPENSE

		Unaudited For the six months ended 30 September	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Current income tax:			
– Hong Kong profits tax	*(a)*	**6,691**	4,329
– PRC corporate income tax	*(b)*	**201,091**	105,871
– Germany company income tax	*(c)*	**133**	148
– Botswana company income tax	*(d)*	**265**	161
Deferred income tax		**(50,718)**	(807)
		157,462	109,702

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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.

(c) Germany company income tax has been provided at the rate of 15% (2012: 15%) on the estimated assessable profit for the period.

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

7. EARNINGS PER SHARE

(a) Basic

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

	Unaudited For the six months ended 30 September	
	2013	2012
Profit attributable to equity holders of the Company *(HK$'000)*	**893,188**	784,903
Weighted average number of ordinary shares in issue *('000)*	**3,101,399**	3,156,480
Basic earnings per share *(HK cents per share)*	**28.80**	24.87

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

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial period) for the same total proceeds is added to the denominator. No adjustment is made to the net profit.

	Unaudited For the six months ended 30 September	
	2013	2012
Profit attributable to equity holders of the Company *(HK$'000)*	**893,188**	784,903
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,101,399**	3,156,480
Adjustment for:		
– exercise of share options *('000)*	**1,180**	2,265
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,102,579**	3,158,745
Diluted earnings per share *(HK cents per share)*	**28.79**	24.85

8. DIVIDENDS

	Unaudited For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Proposed interim dividend of HK8.68 cents (2012: HK7.48 cents) per share	**269,194**	235,033
Proposed special dividend of HK2.88 cents (2012: HK2.48 cents) per share	**89,318**	77,926
	358,512	312,959

As the interim and special dividends for the six months ended 30 September 2013 were declared after the end of the reporting period, they are not recognized as dividend payable as at 30 September 2013.

9. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 September 2013** *HK$'000* **Unaudited**	As at 31 March 2013 *HK$'000* Audited
Trade receivables	*(a)*	**893,977**	822,863
Less: Provision for impairment on receivables		**(7,492)**	(7,356)
Trade receivables – net		**886,485**	815,507
Notes receivable		**169,305**	118,196
Prepayments and other receivables		**109,976**	90,317
Advances to staff		**5,820**	4,990
Others		**37,997**	30,759
		1,209,583	1,059,769

Except for prepayment of HKD40,398,000 (31 March 2013: HKD15,220,000), trade and other receivables balances are financial assets categorized under "loans and receivables". All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of the trade and other receivables approximate to their carrying values.

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 30 September 2013 and 31 March 2013, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice dates were as follows:

	As at 30 September 2013 *HK$'000* **Unaudited**	As at 31 March 2013 *HK$'000* Audited
0 – 90 days	**843,027**	737,855
91 – 180 days	**18,703**	53,875
181 – 360 days	**10,662**	15,439
Over 360 days	**21,585**	15,694
	893,977	822,863

10. BORROWINGS

	Note	**As at 30 September 2013**	As at 31 March 2013
		HK\$'000	*HK\$'000*
		Unaudited	Audited
Current			
– Secured bank loan	*(a)*	**15,135**	–
– Unsecured bank loan	*(b)*	**465,000**	465,000
Total borrowings		**480,135**	465,000

Movement in borrowings is analysed as follows:

	Unaudited For the six months ended 30 September 2013	2012
	HK\$'000	*HK\$'000*
At 1 April	**465,000**	927,500
Short-term bank loan	**15,073**	–
Currency translation differences	**62**	–
At 30 September	**480,135**	927,500

(a) The bank loan was secured by a pledge of land and buildings located in Hunan Province owned by a subsidiary, Yongzhou Shan Xiang Flavour Co., Ltd.. The loan was denominated in RMB and is repayable within one year. During the period, the average interest rate was 6.30% per annum.

(b) The unsecured bank loan is denominated in HKD and is repayable within one year. During the period, the average interest rate was 2.38% (30 September 2012: 2.47%) per annum.

Borrowings are financial liabilities categorized under "financial liabilities measured at amortized cost". The fair values of the Group's borrowings approximate their carrying amounts.

Interest expense on bank borrowings for the six months ended 30 September 2013 amounted to HKD5,770,000 (30 September 2012: HKD11,456,000).

11. TRADE AND OTHER PAYABLES

	Note	As at 30 September 2013 HK$'000 Unaudited	As at 31 March 2013 HK$'000 Audited
Trade payables	*(a)*	**424,263**	378,162
Non-trade payables to related parties		**123,985**	123,985
Dividends payable	*(b)*	**396,197**	2,652
Wages payable		**44,469**	19,593
Other taxes payable		**18,743**	18,092
Accruals for expenses		**16,861**	13,730
Advance from customers		**1,095**	983
Other payables		**29,080**	28,486
		1,054,693	585,683

Except for other taxes payable of HKD18,743,000 (31 March 2013: HKD18,092,000), wages payable of HKD44,469,000 (31 March 2013: HKD19,593,000) and advances from customers of HKD1,095,000 (31 March 2013: HKD983,000), trade and other payables balances are financial liabilities categorized under "financial liabilities measured at amortized cost". The fair values of trade and other payables approximate their carrying values.

(a) As at 30 September 2013 and 31 March 2013, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates were as follows:

	As at 30 September 2013 HK$'000 Unaudited	As at 31 March 2013 HK$'000 Audited
0 – 90 days	**317,752**	317,433
91 – 180 days	**42,679**	33,532
181 – 360 days	**50,698**	3,910
Over 360 days	**13,134**	23,287
	424,263	378,162

(b) Dividends payable

Dividends payable represents:

(i) final and special dividends of the Company for the year ended 31 March 2013; and

(ii) dividend payable to non-controlling shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 September 2013, the Group's sales revenue reached approximately HKD1.94 billion, representing an increase of approximately 15.3% over the corresponding period last year. The overall gross profit margin reached approximately 68.6%, representing a slight increase as compared with 68.1% of the corresponding period last year. Operating profit was approximately HKD1.04 billion, representing an increase of approximately 16.1% over the corresponding period last year. EBIT margin reached approximately 53.7%, representing a slight increase as compared with 53.3% of the corresponding period last year. Profit attributable to equity holders of the Company was approximately HKD893 million, representing an increase of approximately 13.8% over the corresponding period last year. Diluted EPS was HK28.79 cents, representing an increase of approximately 15.9% over the corresponding period last year.

BUSINESS REVIEW

Review of Flavours Business

For the six months ended 30 September 2013, sales revenue of the Group's flavours business amounted to HKD1,427,825,000, representing an increase of approximately 2.3% from HKD1,395,281,000 for the corresponding period last year, while the revenue accounted for approximately 73.5% of the total revenue of the Group. The operating profit of flavours segment reached HKD867,496,000, representing an increase of approximately 2.9% over the corresponding period last year; the EBIT margin was approximately 60.8%, representing a slight increase from 60.4% for the corresponding period last year. Growth in flavours business has slowed down, which was mainly due to a slight decline in production output of the tobacco industry of The People's Republic of China (the "PRC") that led to a relatively slower growth of the Group's tobacco business.

In respect of the tobacco business, production output of the PRC tobacco industry slightly declined in the first half of this year. According to TobaccoChina Online, total production volume of cigarette in the first half of 2013 amounted to approximately 25.88 million cases, representing a decrease of approximately 0.4% over the corresponding period last year; sales of cigarette reached approximately 26.66 million cases, representing a growth of approximately 1.3% over the corresponding period last year. The management is of the view that as the State Tobacco Monopoly Administration ("STMA") recently started to implement strictly the regulatory policies of "controlling overall production output, adjusting industrial structure, reducing inventory and stabilizing price", where it is mandated to digest the inventory and optimize the structure of the industry in the absence of significant increase in production output, so as to stabilize the selling price of cigarettes in the market. In addition, under the influence of the Chinese government's strengthened measures on smoking control and policies to strictly limit government spending on business accounts, the management anticipates that the overall production output and sales volume of the PRC tobacco industry will enter a stage of steady development, as the stage of continuous growth for more than a decade will likely come to an end.

Over the past few years, the management has been closely monitoring the development of and changes to the PRC tobacco industry, with a view to responding timely and adopting effective measures in its own business. Firstly, as the Chinese government steps up its effort in smoking control, consumers' consciousness of health rises and the total smoking population is becoming saturated; secondly, as the Chinese government introduced policies for the restriction on government spending on business accounts, premium cigarette consumptions have been affected significantly; and thirdly, as the tobacco industry has entered into a post consolidation era and with cross-provincial consolidation being stagnant, it is therefore unlikely for the production output of branded products to significantly increase. Furthermore, as the industry is regulating on its cost of production, tender process for raw materials procurement will further be introduced. All these factors brought uncertainties to the future development of the PRC tobacco industry. However, obvious progresses have been achieved for low tar cigarette products which have been recently strongly promoted domestically and abroad. According to TobaccoChina Online, domestic sales volume of low tar cigarette (8 mg or below) in the first half of 2013 amounted to approximately 3.70 million cases, representing a year-on-year growth of approximately 19.8%, making it among one of the fast-growing categories of Chinese-style cigarettes in terms of sales. In light of the development of the cigarette market, the Group has recently made adjustments to its arrangement and proactively developed strategies to address the emerging rules and regulations, in order to create new business opportunities. Also, the Group has laid solid foundation for its long-term business development by enhancing the research and development ("R&D") and application of aromatic raw materials, promoting technology innovation in the fields of low tar cigarettes and other innovative tobacco products, and strengthening cooperation with customers.

During the reporting period, the "STMA's 5th Training Course for Senior Cigarette Flavorists" was held smoothly in Hua Fang Tobacco Flavors Ltd., with participation by approximately 20 core technicians from cigarette enterprises in all provinces and cities nationwide. The training course of senior cigarette flavorists, mainly covering theoretical study and practical operation, has not only increased the delegates' flavoring technique, and also promoted their interaction and cooperation with the Group in terms of technology and business. During the reporting period, Yunnan Tianhong Flavour & Fragrance Co Ltd. has achieved sound results and was awarded High-tech Enterprise certification again by leveraging on its R&D strength and advanced scientific research level. It has also passed review of the QEOHS management system by the review team of China Quality Certification Centre with its excellent product quality inspection capability.

In respect of food and beverage business, all subsidiaries carried out annual business targets and achieved overall steady developments although their performances varied as they faced different factors in their respective market segments. Shanghai H&K Flavours & Fragrances Co Ltd. ("Huabao Kongque") took advantage of the current industrial trend which favors healthy, nutritional and functional products and proactively developed fruity flavours and milky flavours applied to beverage dairy products. The products were well recognized by customers. Guangzhou Huabao Flavours & Fragrances Co Ltd. focused on developing sales from major customers in recent years and efforts were made to optimize purchase orders, selling prices and internal controls, thus resulting in improvement in its gross profit margin during the reporting period. In respect of Guangdong Zhaoqing Fragrances Limited, although remained constrained by the macro economy, it was able to overcome obstacles such as the impact of slowdown of consumption in the food market resulting from the avian influenza scare in the first half of 2013 and impact of certain government administrative measures. Sales revenue of the company still maintained a steady growth.

In the first half of 2013, sales of the flavours industry was negatively affected as growth in the macro economy and the upstream food manufacturing and beverage and catering industries in China relatively slowed down. However, from the long-term perspective, amid slow pace in economic recovery, and the influence of various medium to long term factors such as expanding domestic demand boosted by government policies and the accelerating urbanization process, the management is of the view that the food industry can still maintain a stable growth momentum in the future, and the management is still optimistic about the prospects of flavours and food additives industry.

Review of Fragrances Business

For the six months ended 30 September 2013, sales revenue of the Group's fragrances business amounted to HKD40,737,000, representing a significant decrease of approximately 56.0% from HKD92,619,000 for the corresponding period last year, representing approximately 2.1% of the total revenue of the Group. Operating profit of the fragrances segment reached HKD4,010,000; EBIT margin was approximately 9.8%. The significant decrease in sales revenue of the fragrances segment was mainly due to the Group's disposal of all the equity interests in Yunnan Huaxiangyuan.

Since last year, profitability of Yunnan Huaxiangyuan had fluctuated significantly mainly due to changes in prices of raw material. In order to control the price volatility risks of raw materials, the Group made timely adjustments to its management structure and business by controlling and properly reducing inventories of raw materials to regulate its scale of assets, and meanwhile maintained the transitional stage with limited production. In July 2013, the Group disposed of all the equity interest in Yunnan Huaxiangyuan. The management is of the view that despite the disposal of Yunnan Huaxiangyuan would have, comparatively, bigger impact on segment sales revenue in the short term, the impact on the overall profitability of the Group was minimal and the disposal was in line with the Group's overall strategic positioning.

Positive effects emerged for Xiamen Amber Fragrances Co Ltd. ("Xiamen Amber") following a series of adjustments in terms of business and customer management. Xiamen Amber recorded a relatively stable growth in the fields of aromatic, sanitizing and pesticide businesses which it intensely developed during April and September, a general period of slack sales in the industry. Also, it achieved a significant increase in respect of the scale of cooperation with some major customers such as Lanju. In terms of export business, its target markets remain to be the South-east Asian countries such as Vietnam and Indonesia which are its major focus in recent years, and it actively promoted typical hygienic-used fragrance and overseas popular fragrance-based products. Xiamen Amber will then continue to proceed with the preparation of its key city-level laboratory, and expects to improve on the three key areas, being raw materials quality, flavouring development and application services, and to set up its own technological integration system backed by its technological platform, so as to establish its competitive advantages of product development and technological services.

Review of RTL Business

For the six months ended 30 September 2013, sales revenue of the Group's RTL business reached HKD473,377,000, representing a significant increase of approximately 141.3% as compared to HKD196,142,000 for the corresponding period last year, while percentage to the total revenue of the Group increased significantly to approximately 24.4%. Operating profit of RTL segment reached HKD181,345,000, representing a significant increase of approximately 199.8% from the corresponding period last year. EBIT margin was approximately 38.3%, representing a significant increase of 7.5 percentage points over approximately 30.8% for the corresponding period last year. The significant increase in sales revenue and operating profit of RTL segment was mainly attributable to the continuing increase of product quality of the production line of Guangdong Jinke Reconstituted Tobacco Leaves Company Limited ("Guangdong Jinke") and a higher average selling price, and the operation commencement of the second phase of the production line of Guangdong Golden Leaf Technology Development Co., Ltd. ("Guangdong Jinye") in November 2012.

Since completion of acquisition of Guangdong Jinye and its subsidiaries and affiliated companies ("Guangdong Jinye Group") in November 2010, the Group energetically promoted the workmanship upgrade of Guangdong Jinke production line by its R&D and operational team with international level, thus product quality and target customer base were optimized with average selling price constantly increased, showing remarkable results. Currently, the product quality of Guangdong Jinke has reached domestically leading level. As to the second phase of Guangdong Jinye production line, since its operation commencement in November 2012, the operational team is exerting efforts to boost its production efficiency and is striving to further improve and maintain the balance between efficient production and product quality with an aim to match with international level. Currently, the quality and average selling price of the products turned out from second phase of Guangdong Jinye have reached domestically premium level. The management is satisfied with the results of the second phase of Guangdong Jinye production line since its operation commencement in November last year.

In January 2013, the Group established Guizhou Province Huashuo Biological Technology Co., Ltd. ("Guizhou Huashuo"). It is another strategic arrangement of the Group to promote production of upstream raw materials of RTL. The main product produced by Guizhou Huashuo is coating base, one of the core raw materials applied to RTL coating. RTL coating is an integral application product during production and flavouring of RTL, and its application will directly influence fragrance and quality of RTL. Keeping abreast of the production technology of coating base is instrumental for the Group to flexibly accommodate to the various needs of customers, so as to further provide customers with solutions on products' profile and comprehensive services such as products innovation and quality improvement.

For other cooperation and investment projects, the RTL production line of China Tobacco Anhui Reconstituted Tobacco Leaves Technology Limited, which the Group participated in construction by way of technical cooperation, successfully passed trial operation. In addition, the designing work for Guizhou Huangguoshu Jinye Technology Co., Ltd. ("Huangguoshu Jinye") RTL production line, an investment for which the Group holds 40% equity interest, has generally completed. With the preliminary investment fund has been gradually in place, the Group will actively participate in Huangguoshu Jinye's construction in the future. The management is satisfied with its rapid development achieved in the field of RTL.

As the STMA continues to promote reduction of tar content of cigarettes, the maximum tar limit has been lowered several times in recent years. Since 1 January 2013, cigarettes containing 11 mg or more of tar each cannot be sold in China, and from 1 January 2015, the tar content in each cigarette must not exceed 10 mg (source: TobaccoChina Online). As RTL plays an important role in terms of reducing tar content of cigarettes, strengthening style and features of cigarettes and increasing quality stability of cigarette products, the management believes that the above administrative regulations will further boost the application of RTL in the future. In addition, the STMA has listed RTL as one of the major developments in the Twelfth Five-Year Plan. Against such background, the management maintains its optimistic view on the outlook of RTL development. With the completion of the second phase of Guangdong Jinye production line, the Group currently has a total production capacity of approximately 30,000-ton per annum, representing a considerable market share in the domestic RTL industry. The management will then keep a close eye on various kinds of acquisition, cooperation and joint operation opportunities arising from domestic and overseas RTL areas, so as to seize the business opportunities in cigarette products presented from the reduction of tar content.

New cigarette materials updates

As the tobacco industry progressed through the rapid consolidation era, the market is becoming saturated in recent years and its growth has significantly slowed down. On the other hand, given that the STMA actively promotes the development of low tar cigarette products, new business opportunities have been presented to relevant industries. As a market leader in China's RTL industry, the Group had first disclosed the concept of new cigarette materials in its 2008-2009 annual report, and has thereafter adhered to its advantages in comprehensive technologies and knowledge in products taste profiles, to carry out research and investment in new cigarette materials that are with functions of tar reduction. Since the acquisition of Guangdong Jinye Group in 2010 and the completion of the second phase of Guangdong Jinye production line in 2012, the RTL business has developed rapidly and became another major business segment of the Group. During the reporting period, revenue from RTL accounted for over 24% of the overall revenue, and such outstanding result has proved the forward looking and strategic deployment of the Group.

Besides RTL, the Group has also obtained progressive results on other experimental products and technologies in the field of new cigarette materials and new workmanships. Three major platforms we currently focus on for development include:

– ***Cigarette smoke transmission technological platform***

  The transmission technological platform is mainly committed in the R&D of cigarette filters, which is to control the sensory and quality of smoke before being ingested into the body through burning. In addition, the transmission technological platform is also responsible for R&D of cigarette filters that are with other personalized functions with added value. In June 2012, the Group established a cigarette filter joint enterprise Huabao Korea Co., Ltd ("Huabao Korea") in Korea, and with a capital injection completed in April 2013, the accumulated investment by the Group reached approximately HKD79,180,000. The Group holds a 70% equity interest of Huabao Korea. Currently, the establishment of Huabao Korea is basically completed. With its production equipments in place, Huabao Korea is capable of trial production. We will then accelerate the development of more innovative cigarette filter products in the future;

– ***Specialized RTL technological platform***

  The Group acquired Zhejiang Xiangyuan Filter Materials Co., Ltd. in June 2012 and has sped up the Group's existing R&D on a specialized RTL production technology. Such RTL production technology is regarded as an innovation in technology workmanship, under which, tobacco materials are shaped directly after being crushed. Benefits from such water-less production technology include superior sensory quality, stronger in nature to endure processing, and less emission of production wastes, which makes it an effective supplement to and innovative development direction for the existing paper-making RTL; and

– ***Innovation tobacco stem technological platform***

  This platform is established to render further craft process in respect of tobacco stem raw materials and realize effective improvement of the application of such materials, thus to offer to the customers the systematic technology plan for process and application of tobacco stem. The new type of tobacco stem features with characteristics such as loosened structure, better flammability and lower in tar content, etc, which makes it easier to adapt to cigarettes and be utilized as well. Accordingly, utilization rate could be improved to realize various functions.

The Group will then utilize the above mentioned platforms, to further promote the R&D in the field of new cigarette materials and related products, so as to maintain its leading position in such field.

R&D and Innovation capability

The Group has a leading R&D platform in the China's flavours and fragrances industry and an international-calibre R&D team. The Group has constructed a State-recognised technical centre in Shanghai, which is a national post-doctorate scientific research workstation, a designated RTL production and R&D base in Shantou, Guangdong province authorised by the STMA, joint laboratories established with major tobacco enterprises, and an overseas R&D centre in Germany. The Group will also continue the establishment of its R&D centre in the U.S.. The Group possesses a R&D team that is comprised of experienced personnel, both domestically and abroad, with its R&D capability continuing to lead the domestic industry.

In terms of input into R&D, for the six months ended 30 September 2013, the Group's R&D expenses was approximately HKD107,417,000, representing an increase of approximately 9.4% compared with corresponding period last year. The Group will continue to increase its investment in R&D and technology innovation in the future. Other than strengthening the existing R&D projects, the Group will further promote the R&D for other innovative tobacco products.

BUSINESS PROSPECTS

Currently, uncertainties still exist in both domestic and global economies. As a leader of developed economies, the U.S. has yet to indicate a clear direction on its quantitative easing policy and other economic measures, which resulted in a cautions sentiment on the macro economy. The Eurozone has been put under the shadow of the European debt crisis for the recent years, and its economic development is still rather passive and vulnerable. In China, the new leadership and administrative direction remain to be observed. In addition, as the growth of the tobacco industry has slowed down, the pressure on cost of production has relatively increased. All of these may bring uncertainties to the industry's future prospects. Adhered to the development strategy of "multi-pronged, focus growth", the Group will continue to respond to the changes in the market with its management talents, industry-leading R&D team and integrated core value chain forged over the years. The Group will remain focused on tobacco business as its core segment, using RTL and new cigarette materials businesses as growth drivers; and to continue to develop the food and beverages business, to look for new business growth points based on market needs, to continue to probe for multi-channels of financing and identify cooperation and acquisition targets in related industries domestically and abroad. Furthermore, the Group will continue in the development path of organic growth paired with merger and acquisition, with an aim to upholding continuous and consistent development for the Group, in order to keep creating more values and returns for its shareholders!

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2013

Sales revenue

The Group's sales revenue amounted to HKD1,941,939,000 for the six months ended 30 September 2013, representing an increase of 15.3% as compared with HKD1,684,042,000 for the corresponding period last year. The speedy growth in the sales revenue was mainly attributable to the steady growth momentum kept by flavours and rapid growth in sales revenue of RTL. For the six months ended 30 September 2013, sales revenue from flavours increased by 2.3% to HKD1,427,825,000; sales revenue from fragrances decreased by 56.0% to HKD40,737,000; and sales revenue from RTL increased by 141.3% to HKD473,377,000.

Cost of goods sold

The Group's cost of goods sold amounted to HKD609,046,000 for the six months ended 30 September 2013, representing an increase of 13.4% as compared with HKD536,954,000 for the corresponding period last year. The increase of cost of goods sold being lower than the increase of sale revenue was mainly attributable to the slight increase in the Group's gross profit margin.

Gross profit and gross profit margin

The gross profit of the Group increased from HKD1,147,088,000 for the six months ended 30 September 2012 to HKD1,332,893,000 for the six months ended 30 September 2013, representing an increase of 16.2%. The Group's gross profit margin for the first half of the year reached 68.6% which was slightly higher than 68.1% of first half of last year, representing a sound management of cost of goods sold.

Other income

Other income of the Group was HKD84,838,000 for the six months ended 30 September 2013, representing an increase of HKD28,330,000 as compared with HKD56,508,000 for the six months ended 30 September 2012. The increase in other income was mainly attributable to exchange gain recorded during the reporting period due to RMB appreciation, whereas exchange loss was recorded in the corresponding period last year with the RMB exchange rate being lower.

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 2013 were HKD78,591,000, representing an increase of approximately 23.7% as compared with HKD63,519,000 for the corresponding period last year. Selling and marketing expenses to total sales revenue for the six months ended 30 September 2013 and 2012 amounted to approximately 4.0% and 3.8% respectively. The increase of such ratio was mainly attributable to increase in employee benefit expenses and the Group stepped up its selling efforts which resulted in increase of related expenses.

Administrative expenses

The Group's administrative expenses amounted to HKD296,215,000 for the six months ended 30 September 2013, representing an increase of 22.5% as compared with HKD241,889,000 for the corresponding period last year. The ratio of administrative expenses to total sales was approximately 15.3%, representing an increase of 0.9 percentage point as compared with 14.4% for the corresponding period last year. Among which the ratio of R&D expenses to total sales was approximately 5.5%, which was generally stable as compared with 5.8% for the corresponding period last year. The increase in ratio of administrative expenses to total sales revenue was mainly attributable to the increase in R&D expenses, employee salary, staff benefit expenses and depreciation expenses, etc.

Operating profit

The operating profit of the Group for the six months ended 30 September 2013 was HKD1,042,925,000, representing an increase of approximately 16.1% as compared with HKD898,188,000 for the corresponding period last year, while the operating profit margin slightly increased to approximately 53.7% during the first half of the year from approximately 53.3% for the first half of last year. The increase in operating profit was mainly attributable to speedy growth of sales revenue and significant increase in other income.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2013 was HKD157,462,000, representing a significant increase as compared with HKD109,702,000 for the corresponding period last year. Income tax rate of the current period was approximately 14.9%, which was increased by 2.8 percentage points as compared with approximately 12.1% for the corresponding period last year. The increase in income tax rate was mainly attributable to the expiration of preferential tax periods.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD893,188,000 for the six months ended 30 September 2013, representing an increase of 13.8% as compared with HKD784,903,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2013, the net current asset value of the Group was HKD3,325,175,000 (31 March 2013: HKD2,896,047,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2013, the Group's cash and bank balances amounted to HKD3,057,735,000 (31 March 2013: HKD2,323,349,000). The Group neither had any forex hedging products nor structured investment products or financial derivatives.

Bank borrowings and gearing ratio

As at 30 September 2013, the Group had bank borrowings of HKD480,135,000 (31 March 2013: HKD465,000,000). Among which, HKD465,000,000 are unsecured loan with interest calculated based on HK dollars inter-banks borrowings rate. For the six months ended 30 September 2013, the average annual interest rate of such unsecured loan was 2.38% (2012: 2.47%) and is due within 1 year; the average annual interest rate of the remaining secured loan was 6.30% (2012: nil) which is also 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 6.1% as at 30 September 2013, which was lowered further than that of 6.4% as at 31 March 2013.

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 at 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 2013, the Group's average debtors' turnover period was 80 days, representing an increase of 8 days as compared with 72 days for the last financial year ended 31 March 2013. The increase in debtors' turnover period was mainly attributable to the adjustment of accounts payable procedure of an individual customer that led to the Group's account receivables was temporary increased.

Creditors' turnover period

Creditors' turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at 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 2013, the Group's average creditors' turnover period was 119 days, representing an increase of 1 day as compared with 118 days for the last financial year ended 31 March 2013. Creditor's turnover period remains stable.

Inventory and inventory turnover period

As at 30 September 2013, the Group's inventory balance amounted to HKD761,418,000 (31 March 2013: HKD702,316,000). The Group has continued to improve its inventory management and to optimize its inventory structure, thus the inventory balance has slightly decreased. For the six months ended 30 September 2013, the inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at 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 216 days, representing a decrease of 3 days as compared with 219 days for the last financial year ended 31 March 2013. Inventory turnover period remains stable with a slight decrease.

Foreign exchange and exchange rate risk

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

Pledge of assets

As at 30 September 2013, the secured bank loan of the Group amounted to RMB12,000,000.

Capital Commitments

As at 30 September 2013, the Group had capital commitments in respect of the purchase of property, plant, equipment, and investment in an associate, contracted for but not provided for in the financial statements amounting to approximately HKD139,675,000, majority of which related to capital injection into Huangguoshu Jinye and procured property and equipment of various subsidiaries (31 March 2013: HKD188,930,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2013.

HUMAN RESOURCES

As at 30 September 2013, the Group employed a total of 2,689 employees in the PRC, Hong Kong, Germany, Botswana and Korea. The sound development of the Group attracts talents in the industry. During the reporting period, the Group continued to recruit a variation of talents based on the business needs.

To upgrade the Group to the international standard in terms of technology and management, the Group places great emphasis on staff training and talent recruitment, enhancement of the employees' initiative and creativity. The Group provides training to middle to 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. The Group has introduced its culture to its employees through the corporate website and internal monthly magazine. While also concerned with their well-being, diversified leisure-time activities were arranged for employees so as to provide them with ample space for development.

As to remuneration package, the Group monitors closely on changes in the PRC economics and market environment, reviews the remuneration level of its employees and human resources market on a regular basis and makes prompt adjustments to the remuneration and benefits of employees, targeting to maintain its competitiveness in the market. Meanwhile, the Group has aligned employees' salary with their business performance through a review system, so as to arouse employees' enthusiasm in their operations.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Throughout the reporting period, the Company had complied with the code provisions in the corporate governance code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and, where appropriate, adopted the recommended best practice as set out in the code provisions, except for code provisions A.2.1 and A.4.1:

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. CHU Lam Yiu, chairman of the Board ("Chairman") and executive director of the Company, took up the position of chief executive officer ("CEO") starting from 9 April 2013. As the Board meets regularly to consider matters relating to business operations of the Group, the Board is of the view that the above arrangement will not impair the balance of power and authority of the Board and the executive management. The effectiveness of corporate planning and implementation of corporate strategies and decisions will generally not be affected.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive directors ("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 Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry to all directors, all directors confirmed in writing that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2013.

INTERIM AND SPECIAL DIVIDENDS

The Board has resolved to declare an interim dividend of HK8.68 cents per share (2012: HK7.48 cents per share) and a special dividend of HK2.88 cents per share (2012: HK2.48 cents per share) both in cash for the six months ended 30 September 2013, which are expected to be paid around 28 February 2014, to shareholders whose names appear on the Register of Members of the Company on 17 February 2014.

CLOSE OF REGISTER OF MEMBERS

In order to determine shareholders who qualify for the interim and special dividends, the Register of Members of the Company will be closed from 13 February 2014 to 17 February 2014, both days inclusive, during which no transfer of shares will be effected. All properly completed transfers form(s) accompanied by relevant share certificate(s) must be lodged for registration with the Company's Branch Share Registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 February 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2013, the Company repurchased a total of 4,213,000 ordinary shares of HK$0.10 per share through the Stock Exchange at an aggregate consideration of approximately HK$13,892,000 (excluding transaction costs). The aforesaid repurchased shares together with 4,598,000 shares, which were repurchased in the last financial year but not yet cancelled, were both cancelled on 30 April 2013. Details of shares repurchased during the reporting period are set out as follows:

Month/year	**No. of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate price paid**
		HK$	*HK$*	*HK$'000*
April 2013	4,213,000	3.40	3.21	13,892

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2013.

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 Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung. The Audit Committee and the Board have reviewed and approved the Company's unaudited condensed consolidated interim financial information for the six months ended 30 September 2013.

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 2013-14 interim report will be dispatched to shareholders and will be published on the aforementioned websites in due course.

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

Hong Kong, 26 November 2013

As at the date of this announcement, the Board comprises five executive directors, namely Ms. CHU Lam Yiu (Chairman and CEO), Messrs. POON Chiu Kwok, WANG Guang Yu, XIA Li Qun, XIONG Qing, and four INEDs, namely Dr. DING Ningning, Mr. LEE Luk Shiu, Ms. MA Yun Yan and Mr. WU Chi Keung.