



Stock code: 336

Interim Report 2006

Huabao International

HUABAO
INTERNATIONAL
HOLDINGS LIMITED





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. CHU Lam Yiu (*Chairman*)

Mr. CHEN Yong Chang

Mr. POON Chiu Kwok

Mr. WANG Guang Yu

Mr. XIA Li Qun

Independent Non-executive Directors

Mr. LEE Luk Shiu

Ms. MA Yun Yan

Mr. MAK Kin Kwong, Peter

AUDIT COMMITTEE

Mr. MAK Kin Kwong, Peter (*Chairman*)

Mr. LEE Luk Shiu

Ms. MA Yun Yan

REMUNERATION COMMITTEE

Mr. MAK Kin Kwong, Peter (*Chairman*)

Mr. CHEN Yong Chang

Ms. MA Yun Yan

QUALIFIED ACCOUNTANT

Ms. CHOY Man Har

COMPANY SECRETARY

Mr. CHU Tak Shun

AUDITORS

PricewaterhouseCoopers

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Wanchai

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REGISTERED OFFICE

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Hamilton HM 11

Bermuda

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudian Road

Pembroke

Bermuda

BRANCH SHARE REGISTRAR

Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 336

COMPANY WEBSITE

www.hbwindow.com



MANAGEMENT DISCUSSION AND ANALYSIS

1. Very substantial acquisition, connected transactions and capital reorganisation

On 1st August, 2006, the Company completed the acquisition of 100% equity interests of Chemactive Investments Limited (“Chemactive Investments”), which engages in research and development, production and sales of flavours and fragrances, from Ms. Chu Lam Yiu, the controlling shareholder of the Company and the chairman of the Board at a consideration of HK\$3,995,516,747, which was satisfied by the Company by way of the issue and allotment of 2,219,731,526 new convertible preference shares at an issue price of HK\$1.80 per new convertible preference share. Details of which are set out in the announcement of the Company dated 7th June, 2006 and the circular dated 28th June, 2006.

Due to Yunnan Hongta Group Limited Company (“Yunnan Hongta”), the largest tobacco manufacturing group in the PRC, holding 40% of equity interests in Yunnan Tianhong Flavour & Fragrance Co., Ltd., a subsidiary of Chemactive Investments, Yunnan Hongta and its holding company Hongta Tobacco (Group) Limited Liability Company (“Hongta Tobacco Group”) and their associates will become connected persons of the Company upon the completion of the Acquisition. Any transactions between the Company and its subsidiaries (collectively referred to as the “Group”) and Hongta Tobacco Group shall be subject to the reporting, announcement and independent shareholders approval requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). For such purpose, Chemactive Investments entered into a framework agreement with Hongta Tobacco Group in respect of sales of tobacco flavours and fragrances from the Group to Hongta Tobacco Group and its associates. The framework agreement was approved by the shareholders at the special general meeting held on 26th July, 2006, details of which are set out in the announcement of the Company dated 23rd June, 2006 and the circular dated 28th June, 2006.

In addition, pursuant to the capital reorganisation of the Company which was approved at the special general meeting held on 26th July, 2006, the Company completed applying of the entire amount standing to the credit of its share premium account to eliminate the Company’s audited accumulated loss of HK\$384,792,000 as at 31st March, 2006 and the remaining balance of the credit was credited to the contributed surplus account of the Company on 30th August, 2006. Details of which are set out in the condensed consolidated interim statement of changes in equity for the six months ended 30th September, 2006 on page 16.

As both the Company and Chemactive Investments and its subsidiaries are under common control of Ms. Chu Lam Yiu before and after the Acquisition, for accounting purpose, the Acquisition of Chemactive Investments and its subsidiaries by the Company is treated as a “combination of entities under common control”. As a result, the Company adopted Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), to account for the equity interest of Chemactive Investments and its subsidiaries.



2. Business review

The Group recorded a sales of HK\$458,247,000 for the six months ended 30th September, 2006, representing an increase of 29.4% as compared with the corresponding period last year. In this regard, the sales revenue of tobacco flavours amounted to HK\$406,973,000, representing an increase of 33.5% as compared with the corresponding period last year; the sales revenue of food flavours amounted to HK\$46,167,000, representing an increase of 19.1% as compared with the corresponding period last year; and the sales revenue of fine chemicals products amounted to HK\$5,063,000, representing a decrease of 24.9% as compared with the corresponding period last year. In order to focus on flavours and fragrances business, the Company disposed Asiarim Associates Limited, a subsidiary mainly engaged in the trading of consumer electronic products, to an independent third party on 31st August, 2006. After the disposal, the principal businesses of the Group are production, distribution and sales of flavours and fragrances for tobacco, food and household related products. Excluding the consumer electronic products trading business, sales revenue of the Group increased by 30.8% as compared with the corresponding period last year.

Due to continuous growth in consumer products market and integration of tobacco industry in the PRC, as well as the Group's operation strategy and continuous improvement in its product and service quality, the Group's business recorded rapid expansion in the reporting period. For the first half of Year 2006, China's GDP grew by 10.9%, and back by rising people's average income and booming consumer demand, retail sale of social consumer goods made a year-on-year rise of 12.4%, all these factors provided the flavours and fragrances market with good development opportunity and drove the continuous rapid growth of China flavour and fragrance market.

In respect of tobacco flavours operation, the Group insisted on its operating strategy of developing key customers and major brand names and setting up long-term and stable cooperative relationship with renowned customers in tobacco industry. The in-depth integration in tobacco industry made the manufacturing enterprises and the brand names concentrate further, which contributed to the Group's sales revenue grew rapidly.

In respect of food flavours operation, the Group consolidated its operation networks and further strengthened the vigor in direct sales. At the same time, because of the intense competition in the PRC food industry, and the more stringent food sanitary and safety regulations imposed by the government, the Group anticipated that the integration activities in food industry would be accelerated, and the industrial concentration would increase progressively. Catering to the development tendency of large-scale operation of food industry in the future, the Group managed to adjust its product and customer structure, phased out inferior products, optimized its product structure and increased technology content in its products, and by so doing, the sales revenue from key direct sales customers increased rapidly.

In respect of fine fragrances operation, the Group has established its sales and R&D team after painstaking preparation and began its product research and development and market study.



Meanwhile, by making greater effort in product research and development to further extend its products into upstream range and by optimizing the raw material structure to further reduce cost of goods, along with the change of product structure, the Group's gross profit margin has been increased from 32.6% for the first half of last year to 65.4% for the first half of this year, representing a year-on-year increase of 100.6%. Due to increase in turnover and gross profit margin, the net income of the Group increased to HK\$248,160,000 of this year from HK\$72,873,000 of the last year, representing a year-on-year increase of 240.5%.

3. Analysis on interim results for the six months ended 30th September, 2006

Turnover

The Group recorded a turnover of HK\$458,247,000 for the six months ended 30th September, 2006, representing an increase of 29.4% as compared with HK\$354,141,000 for the corresponding period last year. The growth of turnover was mainly due to substantial increase in the sales of tobacco and food flavours. For the six months ended 30th September, 2006, the turnover of tobacco flavours of the Group increased by 33.5% to HK\$406,973,000, while that of food flavours increased by 19.1% to HK\$46,167,000. The growth in the turnover of tobacco flavours was due to the Group's perseverance in its marketing strategy of developing key customers and major brands names, as well as the integration of tobacco industry, which enabled the Group's market share to grow further. The growth in turnover of food flavours was attained by the Group's further efforts spent in research and development of new products and market exploration, as well as the rapid growth of food industry.

Cost of sales

Cost of sales of the Group amounted to HK\$158,469,000 for the six months ended 30th September, 2006, representing a decrease of 33.6% as compared with HK\$238,753,000 for the corresponding period last year. The decrease in cost of sales was mainly due to the remarkable reduction in the cost of direct raw materials as a result of the changes in its cost structure of raw material by the Group's upstream expansion of its product chain and research and development.

Gross profit and gross profit margin

Gross profit of the Group increased to HK\$299,778,000 for the six months ended 30th September, 2006 from HK\$115,388,000 for the six months ended 30th September, 2005, representing a growth of 159.8%, while the gross profit margin of the Group increased to 65.4% during the first half of this financial year from 32.6% for the first half of last financial year. The remarkable increase in gross profit margin was attributable to the substantial decrease in cost of goods sold as compared with the corresponding period last year and changes in the products' raw materials cost structure.



Other income

Other income of the Group was HK\$4,018,000 for the six months ended 30th September, 2006, representing an increase of 114.6% as compared with HK\$1,872,000 for the six months ended 30th September, 2005. The increase in other income was mainly due to the increase of government grants and interest income from bank deposits.

Selling and marketing expenses

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 30th September, 2006 was HK\$20,251,000, representing an increase of 37.5% as compared with HK\$14,732,000 for the corresponding period last year. Selling and marketing expenses represented 4.4% and 4.2% of the total sales during the period under review respectively. Such increase was a result of the Group's strengthened efforts in direct sales of food flavours and marketing promotion in tobacco flavours.

Administrative expenses

The administrative expenses of the Group for the half year ended 30th September, 2006 was HK\$32,612,000, representing an increase of 49.6% as compared with HK\$21,797,000 for the corresponding period last year. Administrative expenses accounted for 7.1% and 6.2% of the total sales during the period under review respectively, which mainly included salaries, R&D expenses, intermediary advisory fee, depreciation expenses, office administrative expenses, public utilities expenses, etc. The increase in administrative expenses was due to the increase in intermediary advisory fee and R&D expenses.

Operating profit

Operating profit of the Group for the half year ended 30th September, 2006 was HK\$250,933,000, representing an increase of 210.8% as compared with HK\$80,731,000 for the corresponding period last year. The operating margin of the Group increased from 22.8% for the corresponding period of last year to 54.8% for the corresponding period this year. The increase in operating profit was due to the increase in sales income and increase in gross profit margin.



Income tax expense

Income tax expense of the Group for the half year ended 30th September, 2006 was HK\$404,000, representing a decrease of 91.3% as compared with HK\$4,642,000 for the corresponding period last year. The effective income tax rates of these two periods were 0.16% and 5.99% respectively. The decrease in effective income tax rate was mainly due to the significant increase of deferred tax assets resulted from the recognition of unrealised profit arising from intra-group sale. Barring the effect of such factor, the actual income tax expense of the Group was HK\$8,491,000 and the actual effective income tax rate was 3.4%.

Net profit

Net profit of the Group for the half year ended 30th September, 2006 was HK\$248,160,000, representing an increase of 240.5% as compared with HK\$72,873,000 for the corresponding period last year. The net profit ratio of the Group increased from 20.6% for the first six months of last year to 54.2% for the first six months of this year.

Net current assets and financial resources

As at 30th September, 2006, the net current assets of the Group was HK\$569,494,000 (as at 31st March, 2006: HK\$323,250,000). The Group generates its working capital mainly through its operating activities and maintains a healthy financial position. As at 30th September, 2006, the Group had cash and cash equivalents of HK\$456,110,000 (as at 31st March, 2006: HK\$180,862,000), over 90% of which was denominated in RMB.

The Group had no outstanding bank loans or long-term liabilities.

Investing activities

Investing activities of the Group were primarily related to the purchase of fixed assets and merger and acquisition activities. For the half year ended 30th September 2006, net cash flows generated from investing activities amounted to HK\$20,525,000, mainly due to the maturity of the Group's time deposits. For the half year ended 30th September 2005, net cash flows used in investing activities amounted to HK\$40,703,000.

Financing activities

For the half year ended 30th September 2006, net cash outflows used in financing activities amounted to HK\$2,603,000, mainly due to the dividends paid to minority shareholders. For the half year ended 30th September 2005, no cash was generated from financing activities.



Debtors' turnover period

The calculation of debtors' turnover period is based on the average amount of trade receivables net of provision as at the beginning and end of the relevant financial period divided by total turnover of the corresponding period and multiplied by the number of days in that period. The Group generally offers its customers credit terms of 0-180 days, depending on the business volume and the history of business relationship with its customers. For the six months ended 30th September 2006, the Group's average debtors' turnover period were 128 days, representing a decrease of 14 days as compared with 142 days for the last financial year ended 31st March 2006. The debtors' turnover period decreased as a result of enhance credit management and control measures taken by the Group.

Creditors' turnover period

The calculation of creditors' turnover period is based on the average amount of trade payables as at the beginning and end of the relevant financial period divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period. Credit terms granted by suppliers to the Group ranged from 0 to 180 days. For the six months ended 30th September 2006, the Group's average creditors' turnover period were 158 days, representing a decrease of 7 days as compared with 165 days for the last financial year ended 31st March 2006. The creditors' turnover period decreased due to the Group's reduction in purchase amount during the current period.

Inventory and inventory turnover period

As at 30th September 2006, the Group's inventory balance amounted to HK\$74,827,000 (as at 31st March 2006: HK\$124,678,000). For the six months ended 30th September 2006, inventory turnover period, calculated based on the average amount of inventories as at the beginning and end of the relevant financial period divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period, were 115 days. The inventory turnover period remained stable during the reporting period.

Foreign exchange and exchange rate risk

The principal business of the Group are located in the PRC and most of the business transactions are denominated in RMB. The Board are 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.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30th September 2006.



4. Business prospects

As the sustained rapid growth of China's economy will drive up domestic demand, it is expected that the PRC consumer goods market will continue to expand, which in turn will positively boost the steady growth in demand for flavours and fragrances related to consumer goods. The Group will master these good opportunities, whilst maintaining tobacco flavours as its core business, it will also accelerate the development of food flavours business and proactively expand fine fragrances business. At the same time, the Group will aggressively explore channels to develop relevant upstream fragrance raw materials, with an aim to establish an integrated core industry chain.

While sticking to the current development mode which combines both internal organic growth and external merger and acquisition, the Group also keeps close contact with domestic and global flavours and fragrances industry and proactively seeks for merger and acquisition opportunities. Currently, the tobacco industry in the PRC is undergoing a faster integration under the guidance of the national tobacco management authorities, with the intention of constructing "Top Ten" enterprises in the PRC tobacco industry, under such circumstances, predominant enterprises with advantages and famous brand names will stand out. The Group will further enhance its cooperative relations with the leading enterprises in the tobacco industry and grasp the golden opportunity of market integration to increase its market share. In foods sector, in addition to the continuous strengthening of the distribution network of food flavours, the Group will make further adjustments on its product structure and customer base, enhance technology and competitive edges of its products and focus on the development of key large customers.

The Group will make greater effort in the R&D of its products. It is anticipated that its R&D centre in Germany will commence to operate by the end of 2006, realizing a direct link with international advanced technologies. The Group will further improve and pay more attention to its product quality and strive to provide its customers with customized products. Meanwhile, the Group will continue to leverage its advantages in all-around cooperative relations with its customers and strengthen its market competitive edges to maintain a relatively high growth speed. The Group stresses the introduction and training of high calibres, so as to improve staff qualifications and skills. The Group will strive to increase its operation efficiency and profitability through such measures as technology improvements, increase of income, cost savings and product structure optimization, so as to achieve mutual development of both enterprise and staff and create higher value for its shareholders.



Interim dividend

The board of directors has resolved to declare an interim dividend of HK1.8 cents per share (2005: nil) for the six months ended 30th September, 2006 which is expected to be paid on 1st February, 2007 to shareholders whose names appear on the Register of Members of the Company as at 23rd January, 2007.

Closing of register of members

The Register of Members of the Company will be closed from 19th January, 2007 to 23rd January, 2007, both days inclusive, during which no transfer of shares will be effected. All transfers of shares accompanied by relevant share certificate must be lodged with the Company's Share Registrars, Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road, Wanchai, Hong Kong not later than 4:00 p.m. on 18th January, 2007 in order to qualify for the interim dividend.

Management and employees

As at 30th September, 2006, the Group had a total of 601 employees. Salaries of employees are primarily based on prevailing market salary levels. The Group provides employees with comprehensive pension scheme and medical insurance through the provision of provident fund or the contribution to social security institutes in accordance with relevant governmental regulations.

Directors' interests in shares, underlying shares and debentures

As at 30th September, 2006, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each in the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued ordinary share capital of the Company
Chu Lam Yiu	Held through controlled corporations*	2,278,850,971	74.89%

* 2,278,850,971 ordinary shares of the Company are jointly held by Mogul Enterprises Limited, Resourceful Link International Limited, Power Nation International Limited, Jumbo Elite Limited and Real Elite Investments Limited. Ms. Chu Lam Yiu is the sole beneficial owner of the above five companies.



Save as disclosed above, as at 30th September, 2006, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its subsidiaries or associated corporations as defined in the SFO.

Share options

At the special general meeting of shareholders held on 22nd September, 2006, the Company approved revocation of the share option scheme adopted on 19th March, 2004 (the "Previous Share Option Scheme") and adoption of a new share option scheme. Since the adoption date of the Previous Share Option Scheme, no option had been granted to any person by the Company. During the period from the adoption date of the New Share Option Scheme to 30th September, 2006, no option had been granted to any person under the New Share Option Scheme either.

Directors' rights to acquire shares or debentures

Other than disclosed in Note 10 to the condensed consolidated interim financial information, at no time during the period was the Company, its holding companies or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

As at 30th September, 2006, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that other than the interests disclosed in the section "Directors' interests in shares, underlying shares and debentures", the Company has not been notified of any substantial shareholders' interests and short positions in the issued share capital of the Company.

Purchase, sale or redemption of the listed securities of the Company

The Group has not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2006.

Public Float

Throughout the six months ended 30th September, 2006, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.



Corporate Governance

The Company has complied with the code provisions recommended in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the period under review except for the following deviations from the code provisions:

Code provision A.2.1, which recommends separation of roles of chairman and chief executive officer. After due consideration, the Board has not adopted the recommendation of this code provision. The Board considers that existing structure enables the Company to make and implement decisions promptly and efficiently, and believes that the balance of power and authority can be ensured as over one-third of the Board is represented by Independent Non-Executive Directors (“INED”) throughout the whole period; and Code provision A.4.1, which sets out that INEDs should be appointed for a specific term and should be subject to retirement and re-election. Although INEDs of the Company are not appointed for a specific term, they are subject to retirement by rotation and re-election at the annual general meeting of the Company. As such, the Company considers that it has adopted sufficient measures to ensure that its corporate governance practice is no less exacting than the CG 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 Directors and relevant employees (as defined in the Listing Rules) of the Company. Having made specific enquiry to all Directors and relevant employees, all Directors and relevant employees confirmed that they have complied with the required standard as set out in the Model Code.

Audit Committee

The Audit Committee comprises three INEDs, namely Mr. MAK Kin Kwong, Peter, Mr. LEE Luk Shiu and Ms. MA Yun Yan. The Audit Committee has reviewed the interim financial report for the six months ended 30th September, 2006 together with the Board.

By order of the Board

CHU Lam Yiu

Chairman

Hong Kong, 1st December, 2006



羅兵咸永道會計師事務所

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INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HUABAO INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report of the Company set out on pages 14 to 34.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited requires the preparation of condensed consolidated interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on this interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2006.

PricewaterhouseCoopers
Certified Public Accountants

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

At 30th September, 2006

		Unaudited	
	Note	30th September, 2006 HK\$'000	31st March, 2006 HK\$'000 (Note 2)
Assets			
Non-current assets			
Property, plant and equipment	5	144,045	145,130
Land use rights	5	14,157	14,112
Intangible assets	5	12,105	12,337
Investment in associates		3,881	3,924
Deferred income tax assets	6	9,822	1,735
Total non-current assets		184,010	177,238
Current assets			
Inventories	7	74,827	124,678
Trade and other receivables	8	368,141	363,928
Time deposits with original maturity over 3 months		–	29,042
Cash and cash equivalents		456,110	180,862
Total current assets		899,078	698,510
Total assets		1,083,088	875,748
Equity			
Share capital and reserves attributable to equity holders of the Company			
Share capital	9	304,294	246,704
Reserves	11	(235,603)	148,043
Retained profits			
– Proposed interim dividend	19	54,773	–
– Others		577,138	2,963
		700,602	397,710
Minority interests		52,902	54,228
Total equity		753,504	451,938
Liabilities			
Non-current liabilities			
Liability component of preference shares	11(b)	–	48,550
Current liabilities			
Interest payable	12	6,244	–
Trade and other payables	13	320,549	372,115
Current income tax liabilities		2,791	3,145
Total current liabilities		329,584	375,260
Total liabilities		329,584	423,810
Total equity and liabilities		1,083,088	875,748
Net current assets		569,494	323,250
Total assets less current liabilities		753,504	500,488



CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30th September, 2006

		Unaudited For the six months ended 30th September,	
	Note	2006 HK\$'000	2005 HK\$'000 (Note 2)
Sales	4	458,247	354,141
Cost of goods sold	15	(158,469)	(238,753)
Gross profit		299,778	115,388
Other income – net	14	4,018	1,872
Selling and marketing expenses	15	(20,251)	(14,732)
Administrative expenses	15	(32,612)	(21,797)
Operating profits		250,933	80,731
Finance costs	16	(2,441)	(2,957)
Share of profits/(losses) of associates		72	(259)
Profit before income tax		248,564	77,515
Income tax expense	17	(404)	(4,642)
Profit for the half-year		248,160	72,873
Attributable to the Company's equity holders:			
Shareholders of the Company		244,751	69,713
Minority interests		3,409	3,160
		248,160	72,873
Earnings per share attributable to the Company's equity holders for the half-year		HK cents	HK cents
Basic	18(a)	9.23	2.83
Diluted	18(b)	8.13	2.39
Interim dividend per share	19	1.80	Nil

Notes on pages 18 to 34 constitute an integral part to this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2006

	Unaudited					
	Attributable to the Company's equity holders					
		Share capital	Reserves	Retained profits	Minority interests	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005		246,704	133,356	1,709	39,665	421,434
Acquisition of a subsidiary		–	–	–	22,308	22,308
Exchange adjustments		–	945	–	413	1,358
Profit for the half-year		–	–	69,713	3,160	72,873
At 30th September, 2005		246,704	134,301	71,422	65,546	517,973
At 1st April, 2006		246,704	148,043	2,963	54,228	451,938
Conversion of original preference shares into ordinary shares	9(c), 11(b)	52,690	(7,943)	–	–	44,747
Exercise of warrants	9(d)	4,900	–	–	–	4,900
Profit for the half-year		–	–	244,751	3,409	248,160
Exchange adjustments		–	10,912	–	999	11,911
Appropriations from net profit		–	595	(595)	–	–
Cost of issuance of shares		–	(2,102)	–	–	(2,102)
Dividends paid to minority shareholders		–	–	–	(5,335)	(5,335)
Purchase of additional interests in a subsidiary from a minority shareholder	21	–	(316)	–	(399)	(715)
Capital reorganisation	11(c)	–	(384,792)	384,792	–	–
At 30th September, 2006		304,294	(235,603)	631,911	52,902	753,504

Notes on pages 18 to 34 constitute an integral part to this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30th September, 2006

	Unaudited	
	For the six months ended 30th September,	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Note 2)</i>
Cash flows from operating activities, net	257,326	59,792
Cash flows from investing activities, net	20,525	(40,703)
Cash flows from financing activities, net	(2,603)	–
Net increase in cash and cash equivalents	275,248	19,089
Cash and cash equivalents at 1st April	180,862	161,394
Cash and cash equivalents at 30th September	456,110	180,483

Notes on pages 18 to 34 constitute an integral part to this condensed consolidated interim financial information.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30th September, 2006

1. GENERAL INFORMATION

Huabao International Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") mainly engage in the production, distribution and sale of flavours and fragrances in China. The Company's holding companies are five limited companies incorporated in the British Virgin Islands, namely Mogul Enterprises Limited ("Mogul"), Resourceful Link International Limited ("Resourceful Link"), Power Nation International Limited ("Power Nation"), Jumbo Elite Limited ("Jumbo Elite") and Real Elite Investments Limited ("Real Elite"), which are solely beneficially owned by Ms. Chu Lam Yiu, who is the Company's ultimate controlling shareholder and Chairman of the board of directors.

Pursuant to the Acquisition Agreement dated 7th June, 2006, the Company issued and allotted 2,219,731,526 new non-redeemable convertible preference shares at HK\$1.80 per share as consideration to acquire Chemactive Investments Limited ("Chemactive Investments") and its subsidiaries ("Chemactive Group") (Note 9). The Acquisition was a very substantial acquisition pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), details of which were set out in the circular dated 28th June, 2006 issued by the Company. The Acquisition was completed on 1st August, 2006.

Chemactive Investments is a company incorporated in the British Virgin Islands with limited liability on 6th April, 2006. Chemactive Group mainly engages in the production, distribution and sale of flavours and fragrances in China.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Hong Kong dollars.

This condensed consolidated interim financial information has been approved for issue by the board of directors on 1st December, 2006.



2. BASIS OF PREPARATION

Since the Company and Chemactive Investments were both controlled by Ms. Chu Lam Yiu before and after the completion of the Acquisition as mentioned in Note 1, the Acquisition was accounted for as a combination of entities under common control. The Company adopted the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) to prepare the condensed consolidated interim financial information (including the comparative figures), assuming that the current group structure had been in existence since Ms. Chu Lam Yiu controlled the Company and Chemactive Investments. Accordingly, the Group’s condensed consolidated interim balance sheet, condensed consolidated interim income statement, condensed consolidated interim statement of changes in equity and condensed consolidated interim cash flow statement for the six months ended 30th September, 2006 include the financial information of the Company and entities comprising Chemactive Group.

The Company’s condensed consolidated interim financial information for the six months ended 30th September, 2006 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the financial statements for the year ended 31st March, 2006 and the above-mentioned circular depicting the very substantial acquisition.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st March, 2006 and those described in the Appendix IV.A of the above-mentioned circular regarding the accounting policies adopted by Chemactive Group, except for the following new standards, amendments to standards and interpretations which are effective for accounting periods beginning on or after 1st January, 2006:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment (this interpretation is effective for accounting periods beginning on or after 1st December, 2005)

The adoption of the amendments to HKASs 19, 21, 39 and HKFRS 4, HKFRS 6, HKFRS-Ints 4, 5 and HK(IFRIC)-Int 6 did not result in significant changes to the Group’s accounting policies.

The Group has not early adopted the following new standards, amendments to standards and interpretations, which were published but are not yet effective in 2006:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

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

4. SEGMENT INFORMATION

(a) Primary reporting format – Business segment

The Group is organised into three main business segments:

- (1) production and sale of tobacco flavours;
- (2) production and sale of food flavours; and
- (3) trading of fine chemicals products.

Other Group business mainly includes research and development service, which does not constitute a separately reportable segment.

The segment results for the six months ended 30th September, 2006 are as follows:

	Unaudited				Total HK\$'000
	For the six months ended 30th September, 2006				
	Tobacco flavours HK\$'000	Food flavours HK\$'000	Fine chemicals products HK\$'000	Unallocated HK\$'000	
Total turnover	407,011	46,309	5,063	3,936	462,319
Inter-segment sales	(38)	(142)	–	(3,892)	(4,072)
Net turnover	406,973	46,167	5,063	44	458,247
Operating profits/(losses)	245,211	7,209	(138)	(1,349)	250,933
Finance costs					(2,441)
Share of profits of associates					72
Profit before income tax					248,564
Income tax expense					(404)
Profit for the half-year					248,160



The segment results for the six months ended 30th September, 2005 are as follows:

	Unaudited				
	For the six months ended 30th September, 2005				
	Tobacco	Food	Fine	Unallocated	Total
	flavours	flavours	chemicals		
	HK\$'000	HK\$'000	products	HK\$'000	HK\$'000
			HK\$'000		
Total turnover	304,927	38,781	6,739	3,717	354,164
Inter-segment sales	-	(23)	-	-	(23)
Net turnover	304,927	38,758	6,739	3,717	354,141
Operating profits/(losses)	78,916	5,389	121	(3,695)	80,731
Finance costs					(2,957)
Share of losses of associates					(259)
Profit before income tax					77,515
Income tax expense					(4,642)
Profit for the half-year					72,873

Pursuant to the Disposal Agreement dated 29th August, 2006, the Company disposed of Asiarim Associates Limited, a subsidiary of the Company which engaged in trading of consumer electronic products, at a consideration of HK\$1. The disposal did not constitute a discontinued operation as the trading of consumer electronic products is not the primary business of the Group.

(b) Secondary reporting format – Geographical segment

More than 99% of the Group's activities are carried out in the Mainland China and more than 90% of its assets and liabilities, and capital expenditures are located and incurred in the Mainland China, respectively. Accordingly, no additional information on geographical segment is presented.

5. CAPITAL EXPENDITURES

	Note	Unaudited				
		Property, plant and equipment (excluding construction in progress) HK\$'000	Construction in progress HK\$'000	Total property, plant and equipment (including construction in progress) HK\$'000	Land use rights HK\$'000	Intangible assets HK\$'000
For the six months ended						
30th September, 2005						
At 1st April, 2005		80,059	1,713	81,772	10,054	306
Acquisition of a subsidiary		23,796	–	23,796	2,311	3,244
Additions		5,196	12,395	17,591	1,769	4,453
Transfers		415	(415)	–	–	–
Disposals		(946)	–	(946)	–	–
Depreciation and amortisation	15	(4,299)	–	(4,299)	(133)	(1)
Exchange adjustments		271	32	303	170	52
At 30th September, 2005		104,492	13,725	118,217	14,171	8,054
For the six months ended						
30th September, 2006						
At 1st April, 2006		105,373	39,757	145,130	14,112	12,337
Additions		2,250	1,726	3,976	–	14
Transfers		30,029	(30,029)	–	–	–
Disposals		(1,408)	–	(1,408)	–	–
Depreciation and amortisation	15	(6,129)	–	(6,129)	(198)	(454)
Exchange adjustments		1,777	699	2,476	243	208
At 30th September, 2006		131,892	12,153	144,045	14,157	12,105



6. DEFERRED INCOME TAX ASSETS

Deferred income tax assets are recognised for unrealised profit arising from intra-group sales, calculated in respect of temporary differences under the liability method using the tax rates which are enacted or substantively enacted by the balance sheet date.

The movement in the deferred income tax assets is as follows:

	<i>Note</i>	Unaudited Unrealised profit arising from intra-group sales HK\$'000
At 1st April, 2005		631
Recognised in the income statement	17	(236)
At 30th September, 2005		395
At 1st April, 2006		1,735
Recognised in the income statement	17	8,087
At 30th September, 2006		9,822

(a) The deferred income tax assets are expected to be recovered within 12 months from the balance sheet date.

(b) The Group did not have other material unrecognised deferred income tax assets.

7. INVENTORIES

	Unaudited	
	30th September, 2006 HK\$'000	31st March, 2006 HK\$'000
At cost:		
Raw materials	39,890	65,068
Work in progress	167	314
Finished goods	34,770	59,296
	74,827	124,678

8. TRADE AND OTHER RECEIVABLES

		Unaudited	
		30th September, 2006	31st March, 2006
		HK\$'000	HK\$'000
	Note		
Trade receivables	8(b)	313,190	338,141
Less: impairment provision on receivables		(4,247)	(4,174)
Trade receivables – net		308,943	333,967
Bills receivables		46,359	20,585
Prepayments		1,087	1,168
Due from related parties	22(c)	–	1,353
Others		11,752	6,855
		368,141	363,928

- (a) The carrying amounts of trade and other receivables approximate their fair values.
- (b) The credit period generally granted to customers ranges from 0 to 180 days. The ageing analysis of the trade receivables as at the balance sheet dates is as follows:

		Unaudited	
		30th September, 2006	31st March, 2006
		HK\$'000	HK\$'000
0 – 90 days		257,024	296,107
91 – 180 days		38,942	33,337
181 – 360 days		11,034	2,712
Over 360 days		6,190	5,985
		313,190	338,141



9. SHARE CAPITAL

Note	Unaudited										
	Ordinary shares of HK\$0.10 each		Convertible cumulative non-voting preference shares of HK\$1.00 each ("Class 2")		Convertible cumulative non-voting preference shares of HK\$0.10 each ("Class 1")		Original convertible cumulative non-voting preference shares of HK\$0.10 each		New non-redeemable convertible preference shares of HK\$0.10 each		Total
	Number of shares	HK\$'000	Number of shares	HK\$'000	Number of shares	HK\$'000	Number of shares	HK\$'000	Number of shares	HK\$'000	
Authorised:											
At 1st April, 2005, 30th September, 2005 and 1st April, 2006											
Increase in authorised share capital	9(a)	3,000,000,000	300,000	-	-	-	-	-	-	2,500,000,000	250,000
At 30th September, 2006		5,000,000,000	500,000	50,000,000	50,000	350,000,000	35,000	526,900,000	52,690	2,500,000,000	250,000
Issued and fully paid:											
At 1st April, 2005, as previously reported		247,309,435	24,731	-	-	-	-	526,900,000	-	-	-
New preference shares issued in connection with the very substantial acquisition	9(b)	-	-	-	-	-	-	-	-	2,219,731,526	221,973
Conversion of new preference shares	9(b)	2,219,731,526	221,973	-	-	-	-	-	-	(2,219,731,526)	(221,973)
At 1st April, 2005, as restated, and 30th September, 2005		2,467,040,961	246,704	-	-	-	-	526,900,000	-	-	-
At 1st April, 2006, as previously reported		247,309,435	24,731	-	-	-	-	526,900,000	-	-	-
New preference shares issued in connection with the very substantial acquisition	9(b)	-	-	-	-	-	-	-	-	2,219,731,526	221,973
Conversion of new preference shares	9(b)	2,219,731,526	221,973	-	-	-	-	-	-	(2,219,731,526)	(221,973)
At 1st April, 2006, as restated		2,467,040,961	246,704	-	-	-	-	526,900,000	-	-	-
Conversion of original preference shares	9(c)	526,900,000	52,690	-	-	-	-	(526,900,000)	-	-	-
Exercise of warrants	9(d)	49,000,000	4,900	-	-	-	-	-	-	-	4,900
At 30th September, 2006		3,042,940,961	304,294	-	-	-	-	-	-	-	304,294

- (a) On 26th July, 2006, a resolution for the increase of authorised share capital of HK\$550,000,000 was duly passed during the special general meeting of shareholders of the Company. The total authorised share capital was increased to HK\$887,690,000.
- (b) On 1st August, 2006, pursuant to the Acquisition Agreement dated 7th June, 2006, the Company issued and allotted 2,219,731,526 new non-redeemable convertible preference shares at HK\$1.80 per share as consideration to acquire Chemactive Investments (Note 1). On 3rd August, 2006, Ms. Chu Lam Yiu, Resourceful Link, Power Nation, Jumbo Elite and Real Elite exercised the conversion right to convert 2,219,731,526 new non-redeemable convertible preference shares into ordinary shares at HK\$0.10 per share. In accordance with the Accounting Guideline 5 issued by the HKICPA, the share capital and premium (Note 11) issued for the purpose of acquiring entities under common control are recognised from the date upon which Ms. Chu Lam Yiu controlled the Company and Chemactive Investments. The merger reserve is also calculated in accordance with the merger accounting as depicted in that guideline (Note 11).
- (c) On 3rd August, 2006, Mogul exercised its conversion right and converted 526,900,000 original convertible preference shares into ordinary shares at the price of HK\$0.10 per share (Note 11(b)).
- (d) On 3rd August, 2006, Mogul exercised its warrants and subscribed 49,000,000 ordinary shares at the price of HK\$0.10 per share.

10. SHARE OPTION SCHEME

At the special general meeting of shareholders held on 22nd September, 2006, the resolution of revocation of the Share Option Scheme adopted on 19th March, 2004 (the "Previous Share Option Scheme") and the adoption of the New Share Option Scheme was approved. The terms of the New Share Option Scheme are substantially the same as those of the Previous Share Option Scheme except that, among other things, the New Share Option Scheme is valid for a period of 10 years from the date of adoption and the number of shares that may be issued upon exercise of all the options to be granted under the scheme shall not exceed 10% of the issued ordinary shares as at the date of the shareholders' approval of the New Share Option Scheme.

No share options had been granted to any persons under the Previous Share Option Scheme since its adoption. No share options had been granted to any persons under the New Share Option Scheme from its adoption to 30th September, 2006.

11. RESERVES

	Note	Unaudited					Other reserves	Total
		Contributed surplus	Merger reserve	Share premium	Capital reserve	Exchange reserve		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st April, 2005, as previously reported		51,111	–	244,588	18,233	266	41,119	355,317
Effect of very substantial acquisition	9(b)	–	(592,734)	370,773	–	–	–	(221,961)
At 1st April, 2005, as restated		51,111	(592,734)	615,361	18,233	266	41,119	133,356
Exchange adjustments		–	–	–	–	945	–	945
At 30th September, 2005		51,111	(592,734)	615,361	18,233	1,211	41,119	134,301
At 1st April, 2006, as previously reported		51,111	–	244,588	18,233	3,934	52,138	370,004
Effect of very substantial acquisition	9(b)	–	(592,734)	370,773	–	–	–	(221,961)
At 1st April, 2006, as restated		51,111	(592,734)	615,361	18,233	3,934	52,138	148,043
Conversion of original preference shares into ordinary shares	11(b)	–	–	8,613	(16,556)	–	–	(7,943)
Exchange adjustments		–	–	–	–	10,912	–	10,912
Appropriations from net profit		–	–	–	–	–	595	595
Cost of issuance of shares		–	–	(2,102)	–	–	–	(2,102)
Purchase of additional interests in a subsidiary from a minority shareholder	21	–	–	–	–	–	(316)	(316)
Capital reorganisation	11(c)	237,080	–	(621,872)	–	–	–	(384,792)
At 30th September, 2006		288,191	(592,734)	–	1,677	14,846	52,417	(235,603)



- (a) By adoption of the Accounting Guideline 5 issued by the HKICPA, the merger reserve of the Group represents the difference between the acquisition cost (i.e. the unaudited consolidated net assets of Chemactive Group prepared in accordance with Hong Kong Financial Reporting Standards on the completion date of the Acquisition) and the share capital of Chemactive Investments upon the completion of the acquisition of Chemactive Investments by the Company on 1st August, 2006.
- (b) On 3rd August, 2006, 526,900,000 original convertible preference shares were converted into ordinary shares by Mogul (Note 9(c)). The equity component, amounting to HK\$16,556,000, of these preference shares as calculated in accordance with HKAS 32 in the capital reserve was transferred to the share capital and share premium accounts.
- (c) Pursuant to the Capital Reorganisation approved at the special general meeting of shareholders held on 26th July, 2006 and the relevant laws and regulations in Bermuda, the Company cancelled all credits in its share premium account, which was used to eliminate the accumulated losses of the Company as at 31st March, 2006, with the balance credited to the contributed surplus account on 30th August, 2006.
- (d) In accordance with relevant rules and regulations on foreign investment enterprises incorporated in China, all subsidiaries of the Company established in China shall make appropriations from the net profit to the reserve fund and the enterprise expansion fund, after offsetting accumulated losses from previous years, and before distributing profit to its shareholders. The appropriation for the reserve fund shall not be less than 10% of the net profit and will cease to accrue when the accumulated appropriation exceeds 50% of the registered capital of each entity. The percentages to be appropriated to the enterprise expansion fund are determined by the board of directors of respective companies of the Group in China.

Upon approval from the board of directors of respective companies of the Group, the reserve fund can be used to offset accumulated losses or to increase capital; the enterprise expansion fund can be used to expand production or to increase capital.

12. INTEREST PAYABLE

On 3rd August, 2006, Mogul converted 526,900,000 original convertible preference shares issued by the Company on 22nd March, 2004 into ordinary shares. These preference shares bear an annual cumulative interest at 5% of the principal. As at 30th September, 2006, the unpaid interest amounted to HK\$6,244,000 (unaudited).

As at 31st March, 2006, Mogul, the holder of these preference shares, had issued a letter to the board of directors of the Company, stating that Mogul agreed that the Company might not redeem the preference shares by cash according to the terms of the preference shares within a period of twelve months from 31st March, 2006. Moreover, according to the Companies Act 1981 of Bermuda (as amended), the preference shares should not be redeemed if there are reasonable grounds to believe that the Company is not able to pay its liabilities as they become due. As a result, the relevant interest was recorded in the non-current liability component of preference shares as at 31st March, 2006.

13. TRADE AND OTHER PAYABLES

	Note	Unaudited	
		30th September, 2006 HK\$'000	31st March, 2006 HK\$'000
Trade payables	13(a)	116,794	157,273
Due to related parties	22(c)	63,879	77,955
Dividends payable	13(b)	94,022	94,022
Wages payable		2,418	1,463
Other taxes payable		29,760	30,115
Accrued expenses		1,880	3,080
Other payables		11,796	8,207
		320,549	372,115

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

	Unaudited	
	30th September, 2006 HK\$'000	31st March, 2006 HK\$'000
0 – 90 days	64,566	145,930
91 – 180 days	37,757	7,549
181 – 360 days	14,471	3,794
	116,794	157,273

(b) Dividends payable

It represents the dividends declared by Spanby Industrial Limited, Nocton International Limited and Future Dragon International Limited (which are the subsidiaries of Chemactive Investments) to their then shareholders prior to the incorporation of Chemactive Investments.



14. OTHER INCOME – NET

	Unaudited	
	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Interest income from bank deposits	1,778	890
Government grants	2,240	745
Others	–	237
	4,018	1,872

15. EXPENSES BY NATURE

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

	Note	Unaudited	
		Six months ended 30th September,	
		2006	2005
		HK\$'000	HK\$'000
Depreciation, excluding amounts included in research and development	5	4,476	2,852
Amortisation	5	652	134
Employee benefit expenses, excluding amounts included in research and development		11,193	10,115
Lease expenses		1,189	1,045
Travelling expenses		5,345	4,388
Entertainment expenses		5,565	3,777
Research and development			
– Employee benefit expenses		2,596	1,682
– Depreciation	5	1,653	1,447
– Others		3,578	2,112

16. FINANCE COSTS

	Unaudited	
	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Interest expense on liability component of preference shares	2,441	2,957

17. INCOME TAX EXPENSE

	Note	Unaudited	
		Six months ended 30th September,	
		2006	2005
		HK\$'000	HK\$'000
Current taxation:			
– Hong Kong profits tax	17(a)	53	94
– PRC enterprise income tax	17(b)	8,438	4,312
Deferred income tax	6	(8,087)	236
		404	4,642

- (a) Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period.
- (b) PRC enterprise income tax has been provided on the basis of the income as reported in the statutory accounts of the Group's companies operating in China, which have been prepared using the accounting rules and regulations applicable to Chinese enterprises, adjusted for income and expense items which are not taxable or deductible for income tax purpose.

18. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated based on earnings attributable to equity holders of the Company during the period divided by the weighted average number of ordinary shares in issue. In accordance with the Accounting Guideline 5 issued by the HKICPA, ordinary shares also include the consideration shares issued for the acquisition of Chemactive Investments.

	Unaudited	
	Six months ended 30th September,	
	2006	2005
Profit attributable to equity holders of the Company (HK\$'000)	244,751	69,713
Weighted average number of ordinary shares in issue ('000)	432,982	247,309
Shares issued for the acquisition of Chemactive Investments ('000)	2,219,732	2,219,732
Total ('000)	2,652,714	2,467,041
Basic earnings per share (HK cents per share)	9.23	2.83

**(b) Diluted**

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. The Company has two types of dilutive potential ordinary shares: original convertible preference shares and warrants. The original convertible preference shares are assumed to have been converted into ordinary shares, with net profit adjusted to eliminate interest expense less the tax effect. As for warrants, 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 warrants. The number of shares determined based on the above is compared with the number of shares which would have been issued assuming the exercise of warrants.

	Note	Unaudited	
		Six months ended 30th September, 2006	2005
Profit attributable to equity holders of the Company (HK\$'000)		244,751	69,713
Interest expense on liability component of preference shares (HK\$'000)	16	2,441	2,957
Earnings used to calculate diluted earnings per share (HK\$'000)		247,192	72,670
Weighted average number of ordinary shares used to calculate basic earnings per share ('000)		2,652,714	2,467,041
Adjustments for:			
– assuming conversion of original convertible preference shares ('000)		357,025	526,900
– warrants ('000)		31,736	45,096
Weighted average number of ordinary shares for diluted earnings per share ('000)		3,041,475	3,039,037
Diluted earnings per share (HK cents per share)		8.13	2.39

19. DIVIDEND

The interim dividend for the six months ended 30th September, 2006 declared after the balance sheet date amounts to HK1.8 cents per share (2005: Nil), HK\$54,773,000 in aggregate. As the interim dividend is declared after the balance sheet date, it is not recognised as dividend payable as at 30th September, 2006.

20. COMMITMENTS

(a) Capital commitments

The Group's capital commitments as at the balance dates are as follows:

	Unaudited	
	30th September, 2006 HK\$'000	31st March, 2006 HK\$'000
Property, plant and equipment		
Contracted but not provided for	1,505	2,005
Authorised but not contracted for	–	369
	1,505	2,374

(b) Operating lease commitments

The Group leases various plants and warehouses under irrevocable operating lease agreements. The future minimum lease payments are as follows:

	Unaudited	
	30th September, 2006 HK\$'000	31st March, 2006 HK\$'000
Within 1 year	1,954	1,308
After 1 year but within 5 years	2,906	4,539
	4,860	5,847

21. BUSINESS ACQUISITION

Qingdao Huabao Flavours and Fragrances Company Limited was a 51% subsidiary of Ingame Technology Limited ("Ingame"), a subsidiary of the Company, for the period between 11th June, 2004 and 22nd April, 2006. On 22nd April, 2006, Ingame acquired 19% interests from its minority shareholder, Qingdao Etsong Sunrise Investment Co., Ltd., at a cash consideration of HK\$715,000. The share of the carrying amount of net assets acquired was approximately HK\$399,000. The excess of consideration over the share of carrying amount of net assets acquired, amounting to approximately HK\$316,000, was debited to the other reserves.



22. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Chu Lam Yiu	The ultimate controlling equity holder of the Group
Mogul	One of the holding companies of the Company
Resourceful Link	One of the holding companies of the Company
Power Nation	One of the holding companies of the Company
Jumbo Elite	One of the holding companies of the Company
Real Elite	One of the holding companies of the Company
Mo Shu Zhen	A close family member of Ms. Chu Lam Yiu
Wang Hong Wei	A close family member of Ms. Chu Lam Yiu
Huabao International Limited ("Huabao International")	A company directly controlled by Ms. Chu Lam Yiu
Hua Kang Industrial & Trading Development Limited ("Huakang")	A company directly controlled by Ms. Chu Lam Yiu
Yingrun Investment Development Co. Ltd. ("Yingrun")	A company directly controlled by a close family member of Ms. Chu Lam Yiu
Champion International Limited ("Champion International")	A company directly controlled by a close family member of Ms. Chu Lam Yiu
Weihai Huayuan Green Industry Co., Ltd. ("Weihai Huayuan")	An associate indirectly owned by the Company

(b) Transactions with related parties

Save for the above, the Group has entered into the following significant transactions with related parties:

	Unaudited	
	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Sales of goods, net of value-added tax, to:		
– Weihai Huayuan	4,043	6,183
Purchase of raw materials from:		
– Weihai Huayuan	7,726	6,567
Loans to Yingrun:		
Beginning of the period	–	52,372
Repayments	–	(52,372)
End of the period	–	–

(c) Balances with related parties

		Unaudited	
		30th September, 2006	31st March, 2006
		HK\$'000	HK\$'000
Note			
Balances due from related parties:			
Included under trade receivables			
	– Weihai Huayuan	3,674	7,014
Balance of non-trade receivables from			
8	– Chu Lam Yiu	–	9
	– Huabao International	–	14
	– Huakang	–	324
	– Yingrun	–	192
	– Champion International	–	740
	– Weihai Huayuan	–	74
		–	1,353

		Unaudited	
		30th September, 2006	31st March, 2006
		HK\$'000	HK\$'000
Note			
Balances due to related parties:			
Included under trade payables			
	– Weihai Huayuan	4,795	4,488
Balance of non-trade payables to			
13	– Chu Lam Yiu	63,879	77,730
	– Mo Shuzhen	–	225
		63,879	77,955

All the balances with related parties were unsecured, non-interest bearing and repayable on demand.