



Huabao International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 00336

A large, detailed image of a dandelion seed head, rendered in a golden-yellow color, serving as the background for the central text.

***Your Feel  
Our Mission***

**INTERIM REPORT 2008-2009**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Ms. CHU Lam Yiu (*Chairman*)

Mr. LAU Chi Tak (*CEO*)

Mr. POON Chiu Kwok

Mr. WANG Guang Yu

Mr. XIA Li Qun

Mr. XIONG Qing

#### 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*)

Ms. MA Yun Yan

Mr. XIA Li Qun

### QUALIFIED ACCOUNTANT

Ms. CHOY Man Har *FCCA, FCCA*

### COMPANY SECRETARY

Mr. POON Chiu Kwok *ACIS, ACS*

### AUDITORS

PricewaterhouseCoopers

### LEGAL ADVISOR

Herbert Smith

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1103, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudian Road

Pembroke

Bermuda

### BRANCH SHARE REGISTRAR

Tricor Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

### STOCK CODE

The Stock Exchange of Hong Kong Limited: 00336

### COMPANY WEBSITE

[www.huabao.com.hk](http://www.huabao.com.hk)

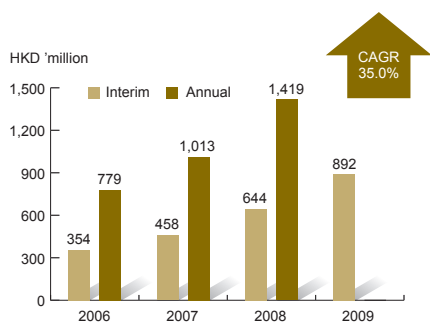
### INVESTOR RELATIONS WEBSITE

[www.irasia.com/listco/hk/huabao/index.htm](http://www.irasia.com/listco/hk/huabao/index.htm)

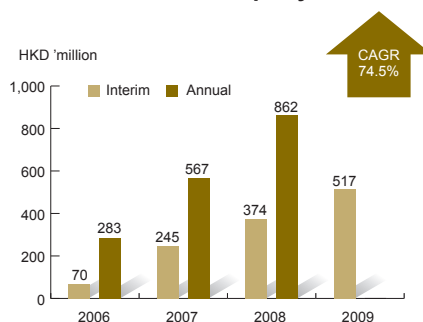
## FINANCIAL HIGHLIGHTS

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

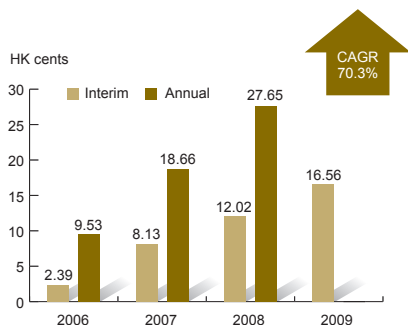
**Sales**



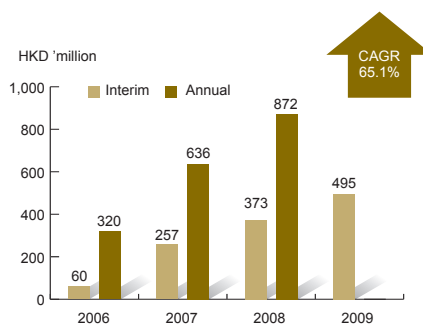
**Profit attributable to equity holders of the Company**



**Diluted EPS**



**Net cash generated from operating activities**



## CEO'S STATEMENT

Dear Shareholders,

**On behalf of the Board, I am pleased to present to our shareholders the excellent interim results of the Group for the six months ended 30 September 2008.**

Having overcome various momentous natural disasters as well as the complex and ever-changing global environment during the first half of 2008, the Chinese economy was yet able to maintain its on-going and rapid growth momentum. As a result of the continuous rapid growth in the national economy, increasing pace of urbanization and escalating consumption pattern in China, huge potential demand emerges in the domestic market. In a relatively stable environment within the industry, the Group benefited from our long term strategy of multi-pronged, focused growth strategy, as well as a sound financial position; the management adopted a series of initiatives to enhance management standard and execution capability in an on-going manner. During the reporting period, the Group again continued to achieve excellent operating results, accomplished its business development objectives as well as further improved its competitiveness.

### EXCELLENT OPERATING RESULTS AND SOUND FINANCIAL POSITION

The Group achieved sales revenue of HKD892,109,000 for the six months ended 30 September 2008, an increase of about 38.6% over the same period last year. Profit attributable to the equity holders was HKD517,256,000, increased by about 38.1% over the same period last year. Basic earnings per share increased by 37.6% over the same period last year to HK16.83 cents, delivering promising operating results. In addition, the Group's net cash flow generated from operating activities was HKD495,078,000, and, as at 30 September 2008, the Group's cash and cash equivalents exceeded HKD1 billion without bank loans and any financial products, representing a very healthy financial position. To reward all shareholders, the Board recommended the payment of interim cash dividend of HK5.0 cents per share for the period.

### PROPER DEVELOPMENT STRATEGY FOR HUABAO

The aforesaid excellent operating results was attributable to Huabao's multi-pronged, focus growth strategy which has enabled Huabao to focus on its core business all the time and constantly strengthen its competitive position in the current business to create an integrated core value chain and strive to accomplish the development strategy of building ourselves into an international top flavour and fragrance company.

As to the tobacco flavours business, the long-term commitment to the "Big Customers, Big Brands" development strategy has enabled Huabao to continue to benefit from the consolidation of China's tobacco industry and the development trend of high quality and healthy products. As to the food flavours business, Huabao adopted a strategy of providing localized tastes with international qualities, making itself become one of the largest local food flavour and fragrance companies within four years. Huabao will fully capitalize in the future on the enormous opportunities arising from the development of the PRC consumer products market.

## CEO'S STATEMENT (CONT'D)

Myself, together with the management team, abided by such strategy. For the six months ended 30 September 2008, sales revenue from both tobacco flavours and food flavours achieved a rapid growth, delivered the growth target set by the management.

Huabao officially commenced the fragrances business in May this year. It will speed up the pace of the fragrances business development in the future by combining Amber as a platform as well as the Group's strong R&D capability. Up to-date, Huabao has already established three major business segments focusing on tobacco flavours as its core business and covering food flavours and fragrances. This will offer broader space for the future development.

As to the development model, the Group continues to implement the development strategy combining organic growth plus M&As. By taking advantage of the fragmented flavour and fragrance sector in China, the Group carried out consolidation exercises that best fit Huabao. During the reporting period, the Group completed the acquisitions of Amber and Wealthy King Group, built a platform for the development of the fragrances business and further reinforced our position in the tobacco flavours sector.

### ENHANCING CORPORATE MANAGEMENT STANDARDS

Given management capability as its top priority at all times, the Group is enhancing its corporate management standards on an on-going basis to continuously improve the product competitiveness through technology renovation. As to cost control, in response to the impact of the rising prices of some raw materials, the Group has stepped up the inventory management so that the gross profit margin rose steadily. The Group always emphasizes the quality control of product and has established a stringent quality control system to ensure the product safety of production and quality. As to cash management, Huabao has been adopting a prudent approach towards cash management by specifying clearly the purposes of cash application to create an optimal value for Shareholders. As to risk control, Huabao has set up a tight risk control system so that not only a tight risk control mechanism is in place in day-to-day operations, business development, investment and cash management, but every investment and business development project must subject to a strict approval process. In addition, an interactive approach has been taken to constantly follow and study the development trend on domestic and overseas sectors and relevant sectors as well as to examine regulatory policy change to ensure that we grasped the opportunity in advance.

## **CEO'S STATEMENT** (CONT'D)

### **RESPECT TALENTED STAFF AND GOOD CORPORATE CULTURE**

The excellent operating results achieved by the Group were fundamentally attributable to our outstanding management team. Huabao respects and brings in qualified persons in an unprecedented manner, creating a good growth environment for our staff. As to corporate culture, I was deeply moved by its diversified, flexible and compatible as well as vigorous culture soon after I joined Huabao. This culture has created an optimal value for Huabao, a source for preserving its competitiveness. With this culture and excellent talented staff, we are sure that we are able to overcome challenges in the future and make a splendid success.

### **OUTLOOK**

During the period of just a few months after my duty since April this year, I have taken over the Group's operation smoothly and made initial progress, thanks to Huabao's good management system. Looking forward to the future, the management remains positive on the Chinese economic growth in the long run, and the relatively fragmented flavour and fragrance industry offers Huabao a unique opportunity.

The management and myself are fully confident for the whole year. Myself, together with other members of the management, will strive to create greater value and return for the shareholders in the future.

**LAU Chi Tak**

2 December 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPANY PROFILE

Huabao Group is a market leader in China's flavour and fragrance industry. For years, the Group has been the leading producer in terms of sales revenue in the flavour and fragrance industry in China, capturing significant market share. At the end of September 2008, the Company was the largest publicly listed company in terms of market capitalization in Asia Pacific within the flavour and fragrance industry.

The Group is primarily engaged in the R&D, production and sales of tobacco flavours, food flavours and fragrances. The Group has established its manufacturing bases in Shanghai, Yunnan, Guangdong, Jiangsu, Fujian, etc., and has established R&D centres in Shanghai, Guangdong, Yunnan, Fujian and Germany. The technical centre of Huabao Shanghai (a wholly owned subsidiary of the Group) is the only State-recognized technical centre in China's flavour and fragrance industry. The Group's senior management takes on leadership roles in a number of China's flavour and fragrance industry associations, including the Deputy Director of CAFFCI, Deputy Director of China Food Additives & Ingredients Association and Chairman of Shanghai Food Additive Industry Association, etc.

By leveraging its excellent management model, a team of high calibre talents with international perspective, outstanding quality of customer services and its high growing momentum, the Group is committed to continuously creating value for the society and bringing the best return to its investors.

### RESULTS

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

### ACQUISITION OF FLAVOUR AND FRAGRANCE COMPANIES COMPLETED IN THIS REPORTING PERIOD

The Group remains committed to its development strategy of combining organic growth plus M&A by identifying opportunities for carrying out consolidation in the flavour and fragrance industry. During the reporting period, the Group completed the acquisition of Amber and Wealthy King Group to build a platform for fragrances development and further enhance the position in the tobacco flavours sector.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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

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

### Completed acquisition of Amber

#### 1. *Summary of the acquisition*

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

#### 2. *Reasons for the acquisition*

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

#### 3. *Benefits of the acquisition*

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### Completed acquisition of Wealthy King Group

#### 1. Summary of the acquisition

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

#### 2. Reasons of the acquisition

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

#### 3. Benefits of the acquisition

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

### REVIEW OF RESULTS OF THE TOBACCO FLAVOURS BUSINESS

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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

### REVIEW OF RESULTS OF THE FOOD FLAVOURS BUSINESS

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

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

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

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

### REVIEW OF RESULTS OF FRAGRANCES BUSINESS

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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

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

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

### REVIEW OF R&D

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

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

## **MANAGEMENT DISCUSSION AND ANALYSIS** (CONT'D)

### **BUSINESS PROSPECTS**

#### **PRC economy continues to growth rapidly**

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

#### **Sustained and rapid growth in the demand from the flavour and fragrance market**

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

#### **Consolidation opportunity in the global flavour and fragrance industry and Huabao's internationalization strategy**

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### Development strategy

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

- Continue to focus the tobacco flavours business as the core business
- Speed up the pace of the development of food flavours business
- Expand the fragrances business by making full use of Amber as a platform
- Carry out the aggressive development of upstream raw materials, strive to create an integrated core industrial chain, and build the Group into a world top-class flavour and fragrance company

### FINANCIAL REVIEW

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

##### *Sales revenue*

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

##### *Cost of goods sold*

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

##### *Gross profit and gross profit margin*

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### *Other income*

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

### *Selling and marketing expenses*

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

### *Administrative expenses*

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### *Operating profit*

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

### *Income tax expenses*

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

### *Profit attributable to the equity holders of the Company*

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

### *Net current asset value and financial resources*

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

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

### *Debtors' turnover period*

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



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### *Creditors' turnover period*

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

### *Inventory and inventory turnover period*

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

### *Foreign exchange and exchange rate risk*

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

### *Contingent liabilities*

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### HUMAN RESOURCES

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

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

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

## OTHER INFORMATION

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, 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 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 pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

#### (a) Long positions in ordinary shares of HKD0.10 each of 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*	1,932,179,415	62.80%
POON Chiu Kwok	Beneficial owner	1,000,000	0.03%
XIA Li Qun	Beneficial owner	1,750,000	0.06%

\* 1,932,179,415 ordinary shares of the Company are held by Mogul Enterprises Limited, Resourceful Link International Limited, Power Nation International Limited, Jumbo Elite Limited and Real Elite Investments Limited. Ms. Chu is the sole beneficial owner of the above five companies.

#### (b) Interests in share options of the Company

The interests of the Directors in the share options of the Company are detailed in the "Share Options" section stated below.

Save as disclosed above, as at 30 September 2008, 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 companies as defined in the SFO.

## OTHER INFORMATION (CONT'D)

### SHARE OPTIONS

Pursuant to a resolution passed on the special general meeting of shareholders held on 22 September 2006, the Company adopted a share option scheme ("Share Option Scheme"). As at 30 September 2008, the shares of share options granted by the Company pursuant to the Share Option Scheme which are valid and outstanding amounted to 116,680,000 shares, represents approximately 3.8% of the Shares issued.

The details of share options granted, exercised, canceled and lapsed during the period under the Share Option Scheme are set out as follows:

Grantee	Grant Date	Exercise Price HKD	Exercisable Period	Number of Share Options					Balance as at 30 September 2008
				As at 1 April 2008	Granted during the period	Exercised during the period	Canceled during the period	Lapsed during the period	
<i>Executive Directors:</i>									
Mr. LAU Chi Tak	14 April 2008	6.39	14/4/2008-13/4/2018	-	7,000,000 <sup>1</sup>	-	-	-	7,000,000
Mr. POON Chiu Kwok	25 October 2006	3.09	25/10/2006-24/10/2016	7,000,000	-	1,000,000	-	-	6,000,000
Mr. WANG Guang Yu	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	-	-	-	-	5,250,000
Mr. XIA Li Qun	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	-	-	-	-	5,250,000
Mr. XIONG Qing	17 October 2007	6.65	17/4/2008-16/10/2017	3,600,000	-	-	-	-	3,600,000
	14 April 2008	6.39	14/4/2008-13/4/2018	-	3,400,000 <sup>1</sup>	-	-	-	3,400,000
<i>Independent Non-executive Directors:</i>									
Mr. LEE Luk Shiu	25 October 2006	3.09	25/10/2006-24/10/2016	800,000	-	-	-	-	800,000
Ms. MA Yun Yan	25 October 2006	3.09	25/10/2006-24/10/2016	800,000	-	-	-	-	800,000
Mr. MAK Kin Kwong, Peter	25 October 2006	3.09	25/10/2006-24/10/2016	800,000	-	-	-	-	800,000
<i>Other employees</i>									
	10 October 2006	3.09	10/10/2006-9/10/2016	73,080,000	-	6,650,000	-	1,800,000	64,630,000
	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	-	-	-	-	5,250,000
	17 October 2007	6.65	17/4/2008-16/10/2017	13,900,000	-	-	-	-	13,900,000
<b>Total</b>				<b>115,730,000</b>	<b>10,400,000</b>	<b>7,650,000</b>	<b>-</b>	<b>1,800,000</b>	<b>116,680,000</b>

*Note 1:* The closing market price per Share as at the date preceding the date on which the share options were granted was HKD6.48.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than disclosed in note 9 to the condensed consolidated interim financial information, at no time during the period was the Company, its ultimate holding companies or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## OTHER INFORMATION (CONT'D)

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, other than the interests disclosed in the section "Directors' interests in shares, underlying shares and debentures", the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following persons held interests or short positions in 5% or more issued Shares of the Company:

#### Long positions in ordinary shares of HKD0.10 each of the Company

Name of Shareholder	Capacity	Number of issued ordinary share held	Percentage of the issued ordinary share capital of the Company
JPMorgan Chase & Co.	Institution Investor	154,582,000	5.02%

### CORPORATE GOVERNANCE

#### Compliance with the Code on Corporate Governance Practice

The Company has complied with the code provisions recommended in the CG Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2008 except for the deviations from the following code provisions:

A.4.1 stipulates that INEDs should be appointed for specific term and subject to re-election. The INEDs of the Company were not appointed for a specific term as they are subject to retirement by rotation no later than the third annual general meetings of the Company since their last appointment or re-election and are eligible for re-election in accordance with the Company's bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

#### Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2008.

## OTHER INFORMATION (CONT'D)

### INTERIM DIVIDEND

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

### CLOSING OF REGISTER OF MEMBERS

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

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

### PUBLIC FLOAT

Throughout the six months ended 30 September 2008, 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.

### AUDIT COMMITTEE

The Audit Committee comprises three INEDs, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu. The Audit Committee has reviewed the condensed consolidated interim financial statements for the six months ended 30 September 2008 together with the Board.

By Order of the Board

**CHU Lam Yiu**

*Chairman*

Hong Kong, 2 December 2008

## REVIEW REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central, Hong Kong

### REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF HUABAO INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

### INTRODUCTION

We have reviewed the interim financial information set out on pages 23 to 43 which comprises the condensed consolidated balance sheet of Huabao International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 September 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review 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.

### SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 2 December 2008

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**

At 30 September 2008

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 30 September 2008 Unaudited	As at 31 March 2008 Audited
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	281,148	198,878
Land use rights	5	59,752	24,887
Intangible assets	5	1,531,472	699,959
Investments in associates		9,802	3,663
Deferred income tax assets	6	23,136	12,345
		<b>1,905,310</b>	939,732
<b>Current assets</b>			
Inventories		209,669	136,862
Trade and other receivables	7	514,724	429,192
Cash and cash equivalents		1,052,071	971,595
		<b>1,776,464</b>	1,537,649
<b>Total assets</b>		<b>3,681,774</b>	2,477,381
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	8	307,676	306,911
Reserves	10	227,308	130,748
Retained earnings			
– Proposed dividend	15	153,838	184,147
– Others		1,691,881	1,330,425
		<b>2,380,703</b>	1,952,231
<b>Minority interest</b>		<b>85,993</b>	69,746
<b>Total equity</b>		<b>2,466,696</b>	2,021,977
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	6	92,671	30,701
<b>Current liabilities</b>			
Trade and other payables	11	1,115,187	419,587
Current income tax liabilities		7,220	5,116
		<b>1,122,407</b>	424,703
<b>Total liabilities</b>		<b>1,215,078</b>	455,404
<b>Total equity and liabilities</b>		<b>3,681,774</b>	2,477,381
<b>Net current assets</b>		<b>654,057</b>	1,112,946
<b>Total assets less current liabilities</b>		<b>2,559,367</b>	2,052,678

The notes on pages 27 to 43 are an integral part of this condensed consolidated interim financial information.



**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**

For the six months ended 30 September 2008

(All amounts in HK dollar thousands unless otherwise stated)

		Unaudited For the six months ended 30 September	
	Note	2008	2007
<b>Sales</b>	4	892,109	643,551
Cost of goods sold		(220,044)	(164,607)
<b>Gross profit</b>		672,065	478,944
Other income		27,531	6,587
Selling and marketing expenses		(37,721)	(26,107)
Administrative expenses		(110,042)	(69,835)
<b>Operating profit</b>		551,833	389,589
Finance income		9,806	8,508
Finance costs		(1,704)	–
Finance income – net		8,102	8,508
Share of profit of associates		291	23
<b>Profit before income tax</b>		560,226	398,120
Income tax expense	13	(35,455)	(20,394)
<b>Profit for the half year</b>		524,771	377,726
<b>Attributable to:</b>			
Equity holders of the Company		517,256	374,487
Minority interest		7,515	3,239
		524,771	377,726
		<i>HK cents</i>	<i>HK cents</i>
<b>Earnings per share for profit attributable to the Company's equity holders for the half year</b>			
Basic	14(a)	16.83	12.23
Diluted	14(b)	16.56	12.02
<b>Interim dividend per share</b>	15	5.00	2.30

The notes on pages 27 to 43 are an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2008**(All amounts in HK dollar thousands unless otherwise stated)*

Unaudited						
Attributable to the Company's equity holders						
Note	Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
At 1 April 2007	306,269	(116,910)	890,630	1,079,989	60,915	1,140,904
Exchange differences	–	39,025	–	39,025	1,736	40,761
Profit for the half year	–	–	374,487	374,487	3,239	377,726
Dividends payable to minority shareholders	–	–	–	–	(3,169)	(3,169)
Dividends payable to shareholders	–	–	(116,397)	(116,397)	–	(116,397)
Appropriations from net profit	–	32,860	(32,860)	–	–	–
Combination of Win New Group	–	(4,833)	–	(4,833)	29,821	24,988
Employee share option scheme						
– Value of employee services	–	14,456	–	14,456	–	14,456
– Exercise of share options	40	1,196	–	1,236	–	1,236
At 30 September 2007	306,309	(34,206)	1,115,860	1,387,963	92,542	1,480,505
<b>At 1 April 2008</b>	<b>306,911</b>	<b>130,748</b>	<b>1,514,572</b>	<b>1,952,231</b>	<b>69,746</b>	<b>2,021,977</b>
Exchange differences	–	67,542	–	67,542	2,339	69,881
Profit for the half year	–	–	517,256	517,256	7,515	524,771
Dividends payable to minority shareholders	–	–	–	–	(5,651)	(5,651)
Dividends payable to shareholders	–	–	(184,540)	(184,540)	–	(184,540)
Appropriations from net profit	–	1,569	(1,569)	–	–	–
Combination of Wealthy King Group	2	(15,382)	–	(15,382)	–	(15,382)
Acquisition of Profit Fortune Group	16	–	–	–	12,044	12,044
Employee share option scheme						
– Value of employee services	–	19,957	–	19,957	–	19,957
– Exercise of share options	765	22,874	–	23,639	–	23,639
At 30 September 2008	307,676	227,308	1,845,719	2,380,703	85,993	2,466,696

The notes on pages 27 to 43 are an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT***For the six months ended 30 September 2008**(All amounts in HK dollar thousands unless otherwise stated)*

	<b>Unaudited</b>	
	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
Cash flows from operating activities, net	<b>495,078</b>	373,056
Cash flows used in investing activities, net	<b>(474,782)</b>	(630,433)
Cash flows from financing activities, net	<b>37,833</b>	1,236
Net increase/(decrease) in cash and cash equivalents	<b>58,129</b>	(256,141)
Cash and cash equivalents at 1 April	<b>971,595</b>	858,494
Effects of exchange rate changes on cash and cash equivalents	<b>22,347</b>	30,124
<b>Cash and cash equivalents at 30 September</b>	<b>1,052,071</b>	632,477

The notes on pages 27 to 43 are an integral part of this condensed consolidated interim financial information.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2008

(All amounts in HK dollar thousands unless otherwise stated)

### 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 has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

Wealthy King is a company incorporated in the British Virgin Islands with limited liability on 10 August 2007. Wealthy King Group is principally engaged in the manufacture and sale of flavours and fragrances used in tobacco in the PRC.

This condensed consolidated interim financial information is presented in thousands of units of HK dollars ("HKD'000") unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 2 December 2008.

### 2. BASIS OF PREPARATION

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

#### Application of merger accounting

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)*

The entities comprising Wealthy King Group were effectively controlled by Ms. Chu since 1 April 2008.

The following is a reconciliation of the effect arising from the Acquisition on the consolidated balance sheet.

The consolidated balance sheet as at 30 September 2008:

	<b>The Group (excluding Wealthy King Group)</b>	<b>Wealthy King Group</b>	<b>Adjustment (Note)</b>	<b>Consolidated</b>
Investment in Wealthy King Group	870,550	–	(870,550)	–
Other assets – net	1,541,171	925,525	–	2,466,696
<b>Net assets</b>	<b>2,411,721</b>	<b>925,525</b>		<b>2,466,696</b>
Share capital	307,676	–	–	307,676
Merger reserve	(597,567)	–	(15,382)	(612,949)
Retained earnings and other reserves	2,615,619	925,525	(855,168)	2,685,976
Minority interest	85,993	–	–	85,993
	<b>2,411,721</b>	<b>925,525</b>		<b>2,466,696</b>

*Note:* It represents an adjustment to eliminate the share capital, share premium, retained earnings and other reserves of the combining entities against the investment cost. The difference of approximately HKD15,382,000 has been debited to the merger reserve in the condensed consolidated financial information.

There were no changes to the consolidated balance sheet (including merger reserve) of the Group as at 31 March 2008 as a result of the Acquisition.

No significant adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

**3. ACCOUNTING POLICIES**

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONT'D)

*(All amounts in HK dollar thousands unless otherwise stated)*

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

- Hong Kong Financial Reporting Standards ('HKFRS') 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009.
- HKAS 23 (revised), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009.
- HKFRS 2 (amendment), 'Share-based Payment Vesting Conditions and Cancellations', effective for annual periods beginning on or after 1 January 2009.
- HKFRS 3 (revised), 'Business Combinations' and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements', HKAS 28, 'Investments in Associates' and HKAS 31, 'Interests in Joint Ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- HKAS 1 (revised), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009.
- HKAS 32 (amendment), 'Financial Instruments: Presentation', and consequential amendments to HKAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009.
- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008.
- HK(IFRIC)-Int 15, 'Agreements for Construction of Real Estates', effective for annual periods beginning on or after 1 January 2009.
- HK(IFRIC)-Int 16, 'Hedges of a Net Investment in a Foreign Operation', effective for annual periods beginning on or after 1 October 2008.

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

#### 4. TURNOVER AND SEGMENT INFORMATION

##### (a) Primary reporting format – Business segments

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

- (1) Production and sale of tobacco flavours;
- (2) Production and sale of food flavours; and
- (3) Production and sale of fragrances.

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)*

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

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONT'D)

(All amounts in HK dollar thousands unless otherwise stated)

### (b) Secondary reporting format – Geographical segments

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

### 5. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

		Unaudited						
		Property, plant and equipment (excluding Construction in progress)		Total property, plant and equipment	Land use rights	Goodwill	Other intangible assets	Total intangible assets
Note								
For the six months ended								
30 September 2007								
	At 1 April 2007	154,826	345	155,171	14,318	3,746	8,246	11,992
	Combination of Win New Group	15,500	–	15,500	9,145	514,472	126,441	640,913
	Additions	7,620	6,545	14,165	–	–	75	75
	Transfers	223	(223)	–	–	–	–	–
	Disposals	(235)	–	(235)	–	–	–	–
	Depreciation and amortization	12 (9,151)	–	(9,151)	(278)	–	(6,127)	(6,127)
	Exchange differences	3,756	8	3,764	454	9,737	2,583	12,320
	At 30 September 2007	172,539	6,675	179,214	23,639	527,955	131,218	659,173
For the six months ended								
30 September 2008								
	At 1 April 2008	187,707	11,171	198,878	24,887	566,184	133,775	699,959
	Combination of Wealthy King Group	(a) 44,183	–	44,183	26,965	648,164	99,631	747,795
	Acquisition of Profit Fortune Group	16 797	22,770	23,567	5,710	49,618	5,905	55,523
	Additions	13,457	7,205	20,662	1,212	–	81	81
	Transfers	7,025	(7,025)	–	–	–	–	–
	Disposals	(29)	–	(29)	–	–	–	–
	Depreciation and amortization	12 (13,432)	–	(13,432)	(817)	–	(12,623)	(12,623)
	Exchange differences	7,048	271	7,319	1,795	33,959	6,778	40,737
	At 30 September 2008	246,756	34,392	281,148	59,752	1,297,925	233,547	1,531,472

(a) These assets were originally presented in the consolidated financial statements of Wealthy King Group arising from various acquisitions before its combination with the Company as mentioned in Note 1. As at 30 September 2008, there was no indication of impairment for these assets.



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONT'D)***(All amounts in HK dollar thousands unless otherwise stated)***6. DEFERRED INCOME TAX ASSETS/LIABILITIES**

The movement in the deferred income tax is as follows:

	Note	Deferred income tax assets	Unaudited		Total
			Revaluation surplus of assets and recognition of intangible assets	Deferred income tax liabilities  Income tax on dividends expected to be declared from group entities incorporated in the PRC	
At 1 April 2007		26,022	–	–	–
Combination of Win New Group		–	29,854	–	29,854
Recognized in the income statement	13	(10,999)	(820)	–	(820)
Exchange differences		487	554	–	554
At 30 September 2007		15,510	29,588	–	29,588
At 1 April 2008		12,345	30,701	–	30,701
Combination of Wealthy King Group		3,614	30,939	–	30,939
Acquisition of Profit Fortune Group	16	–	1,551	–	1,551
Recognized in the income statement	13	6,647	(2,436)	30,117	27,681
Exchange differences		530	1,799	–	1,799
At 30 September 2008		23,136	62,554	30,117	92,671

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)***7. TRADE AND OTHER RECEIVABLES**

	Note	As at 30 September 2008 Unaudited	As at 31 March 2008 Audited
Trade receivables	(b)	433,697	377,554
Less: Provision for impairment of receivables		(2,161)	(2,100)
<hr/>			
Trade receivables – net		431,536	375,454
Note receivables		48,147	40,471
Due from related parties	18(c)	333	–
Prepayments and other receivables		10,156	2,832
Advances to staff		5,046	3,973
Others		19,506	6,462
<hr/>			
		514,724	429,192

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)***8. SHARE CAPITAL**

		Ordinary shares of HKD0.10 each	
	Note	Number of shares	Amount
Authorized:			
At 1 April 2007, 30 September 2007 and 30 September 2008		5,000,000,000	500,000
Issued and fully paid:			
At 1 April 2007		3,062,690,961	306,269
Exercise of share options	9	400,000	40
At 30 September 2007		3,063,090,961	306,309
At 1 April 2008		<b>3,069,110,961</b>	<b>306,911</b>
Exercise of share options	9	<b>7,650,000</b>	<b>765</b>
At 30 September 2008		<b>3,076,760,961</b>	<b>307,676</b>

**9. SHARE OPTION SCHEME**

On 10 October 2006 and 25 October 2006, the Group granted 97,200,000 and 30,400,000 share options with an exercise price of HKD3.09 per share and different vesting periods to employees and directors respectively. On 17 October 2007, the Group granted 13,900,000 and 3,600,000 share options with an exercise price of HKD6.65 per share and different vesting periods to employees and a director respectively. On 14 April 2008, the Group granted 10,400,000 share options with an exercise price of HKD6.39 per share and different vesting periods to two directors.

Movements in the number of share options outstanding during the half year and their related weighted average exercise price are as follows:

	Note	Weighted average exercise price in HKD per share	Number of share options (‘000) Unaudited
At 1 April 2007		3.09	107,850
Exercised	(a)	3.09	(400)
At 30 September 2007		3.09	107,450
At 1 April 2008		<b>3.63</b>	<b>115,730</b>
Granted		<b>6.39</b>	<b>10,400</b>
Exercised	(a)	<b>3.09</b>	<b>(7,650)</b>
Forfeited	(b)	<b>3.09</b>	<b>(1,800)</b>
At 30 September 2008		<b>3.92</b>	<b>116,680</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)*

(a) The weighted average closing price immediately before the share option exercised dates was HKD6.82 (30 September 2007: HKD7.15) per share.

(b) These represented share options forfeited due to resignation of directors or employees.

Share options outstanding as at 30 September 2008 are analyzed as follows:

Grantee	Exercise price in HKD per share	Number of	Expiry Date
		share options (‘000) Unaudited	
Directors	3.09	18,900	24 October 2016
	6.65	3,600	16 October 2017
	6.39	10,400	13 April 2018
Employees	3.09	64,630	9 October 2016
	3.09	5,250	24 October 2016
	6.65	13,900	16 October 2017
<b>At 30 September 2008</b>		<b>3.92</b>	<b>116,680</b>

Out of the 116,680,000 (31 March 2008: 115,730,000) share options outstanding as at 30 September 2008, 36,755,000 (31 March 2008: 34,430,000) share options are currently exercisable.

**10. RESERVES**

Note	Unaudited							Total
	Contributed surplus	Merger reserve	Share premium	Capital reserve	Share-based compensation reserve	Exchange reserve	Other reserves	
At 1 April 2007	288,191	(592,734)	68,285	1,677	18,966	37,502	61,203	(116,910)
Combination of Win New Group	-	(4,833)	-	-	-	-	-	(4,833)
Appropriations from net profit	-	-	-	-	-	-	32,860	32,860
Employee share option scheme								
- Value of employee services	-	-	-	-	14,456	-	-	14,456
- Exercise of share option	-	-	1,370	-	(174)	-	-	1,196
Exchange differences	-	-	-	-	-	39,025	-	39,025
At 30 September 2007	288,191	(597,567)	69,655	1,677	33,248	76,527	94,063	(34,206)
At 1 April 2008	288,191	(597,567)	90,481	1,677	48,013	177,700	122,253	130,748
Combination of Wealthy King Group	-	(15,382)	-	-	-	-	-	(15,382)
Appropriations from net profit	-	-	-	-	-	-	1,569	1,569
Employee share option scheme								
- Value of employee services	-	-	-	-	19,957	-	-	19,957
- Exercise of share option	-	-	26,564	-	(3,690)	-	-	22,874
Exchange differences	-	-	-	-	-	67,542	-	67,542
At 30 September 2008	288,191	(612,949)	117,045	1,677	64,280	245,242	123,822	227,308

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)***11. TRADE AND OTHER PAYABLES**

	Note	As at 30 September 2008 Unaudited	As at 31 March 2008 Audited
Trade payables	(a)	167,697	162,295
Due to related parties	18(c)	665,743	174,319
Dividends payable	(b)	190,248	–
Wages payable		4,908	3,572
Other taxes payable		39,401	37,442
Accrued expenses		6,131	4,319
Amount due to a minority shareholder		5,607	–
Amounts due to the then minority shareholders		–	22,117
Advance from customers		8,499	2,086
Other payables		26,953	13,437
		<b>1,115,187</b>	<b>419,587</b>

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

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

(b) Dividends payable

It represents:

- (i) Final dividend of the Company for the year ended 31 March 2008; and
- (ii) Dividend payable to a minority shareholder.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONT'D)

(All amounts in HK dollar thousands unless otherwise stated)

### 12. EXPENSES BY NATURE

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

		<b>Unaudited</b> <b>For the six months ended</b> <b>30 September</b>	
	<i>Note</i>	<b>2008</b>	2007
Depreciation, excluding amounts included in research and development	5	11,615	7,583
Amortization	5	13,440	6,405
Employee benefit expenses, excluding share option granted to directors and employees and amounts included in research and development		40,983	23,119
Lease expenses		3,107	2,831
Travelling expenses		8,946	7,291
Entertainment expenses		7,072	6,690
Share options granted to directors and employees		19,957	14,456
Research and development			
– Employee benefit expenses		11,920	8,512
– Depreciation	5	1,817	1,568
– Others		7,054	4,536

### 13. INCOME TAX EXPENSE

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

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period.
- (b) PRC enterprise income tax has been provided on the basis of the profit, which is prepared using the accounting rules and regulations applicable to enterprise in the PRC, adjusted for income and expense items, which are not assessable or deductible for income tax purpose.
- (c) No provision for income tax in other jurisdictions has been made as the Group has no assessable income for income tax in those jurisdictions during the period.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)***14. 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.

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

**(b) Diluted**

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

As for share options, the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) is determined based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options.

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)***15. DIVIDENDS**

The interim dividend for the six months ended 30 September 2008 declared after the balance sheet date amounts to HK5.0 cents (2007: HK2.3 cents) per ordinary share, HKD153,838,000 (2007: HKD70,579,000) in aggregate. As the interim dividend is declared after the balance sheet date, it is not recognized as dividend payable as at 30 September 2008.

**16. BUSINESS COMBINATIONS**

In May 2008, Bright Joy Enterprises Limited, a wholly owned subsidiary of the Company, entered into an agreement with an independent party to acquire 100% equity interests in Profit Fortune Holdings Limited ("Profit Fortune"), a company incorporated in the British Virgins Islands, and its subsidiaries ("Profit Fortune Group") at a cash consideration of approximately HKD61,558,000.

Profit Fortune indirectly holds 51% equity interest in Xiamen Amber Fragrances Co., Ltd., a company established in the PRC, and engaged in the manufacturing and sale of daily chemical fragrance in the PRC. Pursuant to the acquisition agreement, the acquisition was completed on 5 May 2008 and Profit Fortune became a subsidiary of the Group.

The acquired business contributed revenue of HKD20,251,000 and net profit of HKD4,255,000 to the Group for the period from May 2008 to 30 September 2008.

If the acquisition had occurred on 1 April 2008, consolidated revenue and consolidated net profit would have been increased by approximately HKD6,202,000 and HKD1,711,000, respectively.

Details of net assets acquired and goodwill are as follows:

	<b>Total</b>
Purchase consideration:	
Consideration – cash paid	61,558
Direct expenses relating to the acquisition	578
	<hr/>
Total purchase consideration	62,136
Fair value of identifiable net assets acquired – shown below	(12,518)
	<hr/>
Goodwill ( <i>Note 5</i> )	49,618

The goodwill is attributable to the profitability and the synergies expected to arise from the acquired business.



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)*

The assets and liabilities arising from the acquisition are as follows:

	<b>Fair value</b>	<b>Acquiree's carrying amount</b>
Net assets acquired		
Intangible assets	5,905	–
Land use rights	5,710	5,691
Construction in progress	22,770	22,381
Property, plant and equipment	797	582
Inventories	12,255	12,255
Trade and notes receivable	11,316	11,316
Other receivables, prepayments and deposits	421	421
Cash and cash equivalents	166	166
Trade payables	(8,128)	(8,128)
Short-term bank borrowings	(13,135)	(13,135)
Current tax liabilities	(848)	(848)
Other payables and accrued expenses	(11,116)	(11,116)
Deferred tax liabilities	(1,551)	–
	<hr/>	<hr/>
Net assets	24,562	19,585
Minority interest	(12,044)	
	<hr/>	
Net assets acquired	12,518	
	<hr/>	
Outflow of cash to acquire business, net of cash acquired		
Consideration – cash paid		61,558
Direct expenses relating to the acquisition		578
Cash and cash equivalents in subsidiary acquired		(166)
		<hr/>
Net cash outflow on acquisition		61,970
		<hr/>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)  
*(All amounts in HK dollar thousands unless otherwise stated)*

**17. COMMITMENTS**

**(a) Capital commitments**

The Group's capital expenditure at the balance date but not yet incurred is as follows:

	<b>As at 30 September 2008 Unaudited</b>	As at 31 March 2008 Audited
Property, plant and equipment Contracted but not provided for	<b>4,928</b>	13,550

**(b) Operating lease commitments**

The future aggregate minimum lease payments under non-cancellable operating leases at the balance sheet date are as follows:

	<b>As at 30 September 2008 Unaudited</b>	As at 31 March 2008 Audited
Land and buildings:		
Not later than 1 year	<b>6,610</b>	4,980
Later than 1 year and not later than 5 years	<b>5,758</b>	5,580
	<b>12,368</b>	10,560

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)*(All amounts in HK dollar thousands unless otherwise stated)***18. RELATED PARTY TRANSACTIONS****(a) Name and relationship of related parties**

Name	Relationship
Ms. Chu	The ultimate controlling shareholder of the Company
Owada International Flavors & Fragrances (Guangzhou) Limited ("Owada International")	A company controlled by Ms. Chu
Excel On International Limited ("Excel On")	A company controlled by Ms. Chu
State Prosper International Ltd. ("State Prosper")	A company controlled by Ms. Chu
Longkey Ltd. ("Longkey")	A company controlled by Ms. Chu
Henan Jinrui Flavours Co. Limited ("Henan Jinrui")	An associate indirectly held by the Company
Weihai Huayuan Green Industry Co., Ltd. ("Weihai Huayuan")	An associate indirectly held by the Company

**(b) Transactions with related parties**

Except for the connected and disclosable acquisition from Ms. Chu as mentioned in Note 1, the Group entered into the following significant transactions with related parties:

	<b>Unaudited</b>	
	<b>For the six months ended 30 September</b>	
	<b>2008</b>	2007
Sales of goods, net of value-added tax, to:		
–Henan Jinrui	18	–
–Weihai Huayuan	–	3,076
	<b>18</b>	3,076
Purchase of raw materials from:		
–Weihai Huayuan	27	3,520
–Owada International	2,313	–
	<b>2,340</b>	3,520
Interest expense to:		
–Ms. Chu	1,655	–

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (CONT'D)  
*(All amounts in HK dollar thousands unless otherwise stated)*

(c) **Balances with related parties**

	Note	As at 30 September 2008 Unaudited	As at 31 March 2008 Audited
<i>Balances due from related parties:</i>			
Included in trade receivables			
–Weihai Huayuan		9,369	9,233
–Henan Jinrui		135	–
		<b>9,504</b>	9,233
Included in non-trade receivables			
–Excel On		315	–
–State Prosper		14	–
–Longkey		4	–
	7	<b>333</b>	–
<i>Balances due to related parties:</i>			
Included in trade payables			
–Owada International	(i)	39,827	–
–Weihai Huayuan		8,182	8,003
		<b>48,009</b>	8,003
Included in non-trade payables			
–Ms. Chu		646,524	174,319
–Owada International	(i)	19,219	–
	11	<b>665,743</b>	174,319

All the balances with related parties were unsecured, interest-free and repayable on demand, except for the remaining consideration payable to Ms. Chu of approximately HKD475,550,000, which is interest bearing at 9-month HIBOR per annum and due for payment by 30 June 2009. This amount is related to the Acquisition of Wealthy King Group at a consideration of HKD870,550,000 as mentioned in Note 1.

- (i) The balances represent payables to Owada International by Wealthy King Group for the acquisition of assets and liabilities from Owada International before the acquisition date mentioned in Note 1.

## GLOSSARY

ACIS	Member of Institute of Chartered Secretaries and Administrators
ACS	Member of Hong Kong Institute of Chartered Secretaries
Amber	Xiamen Amber Perfumery Co., Ltd
Board	Board of the Company
CAFFCI	China Association of Fragrance Flavour and Cosmetic Industry
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CG Code	Code on Corporate Governance Practices
China or Mainland	Mainland of the PRC
Company or Huabao	Huabao International Holdings Limited
Director(s)	Director(s) of the Company
EPS	Earnings per share
FCCA	Fellow Member of Association of Chartered Certified Accountants
FCPA	Member of Hong Kong Institute of Certified Public Accountants
Group or Huabao Group	the Company and its subsidiaries
Guangzhou Huabao	Guangzhou Huabao Flavour & Fragrances Company Limited
HKD	Hong Kong dollars
Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
INED(s)	Independent Non-executive Director(s) of the Company
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
M&A	Mergers and acquisitions
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
PRC	The People's Republic of China
R&D	Research and development
RMB	Renminbi
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Share(s)	Ordinary share(s) of HKD0.10 each of the Company
Shareholder(s)	Shareholder(s) of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
Wealthy King Group	Wealthy King Investments Limited and its subsidiaries