HUABAO INTERNATIONAL HOLDINGS LIMITED
華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 00336)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

FINANCIAL HIGHLIGHTS

- Sales increased by approximately 10.4% to HKD1,684,042,000
- Operating profit decreased by approximately 3.3% to HKD898,188,000, if the amounts of Exchange Gain or Loss (please refer to the Table of Financial Highlights on P.3 for definition) were excluded, it represented a growth of approximately 4.3% over the corresponding period last year
- Profit attributable to the equity holders of the Company decreased by approximately 3.7% to HKD784,903,000, if the amounts of Exchange Gain or Loss were excluded, it represented a growth of approximately 5.0% over the corresponding period last year
- Net cash generated from operating activities increased by approximately 5.5% to HKD706,608,000
- Cash and cash equivalents increased by 17.7% to HKD2,691,881,000 as compared with 31 March 2012, net cash reached HKD1,764,381,000
- Proposed interim dividend of HK7.48 cents per share and a special dividend of HK2.48 cents per share, representing a total dividend payout ratio of 40%

RESULTS HIGHLIGHTS

- Has successfully overcome adverse macro economic environment, flavours segment maintains a steady growth momentum
- Reconstituted tobacco leaves ("RTL") business continues rapid development, with segment sales reached HKD196,142,000, representing a growth of 77.1% over the corresponding period last year; profitability also significantly elevated, segment operating profit greatly increased by 259.3%

* *For identification purpose only*

- As compared with 31 March 2012, inventory decreased while Working Capital Employed[‡] slightly increased by 4.8%, management of Working Capital Employed has gradually improved, resulting in net cash generated from operating activities increased by 5.5% over corresponding period last year

- The sales and profitability of fragrances business recovered significantly after business streamlining, segment operating profit increased significantly by approximately 63.9%

- Financial position remained sound, net cash reached HKD1.76 billion, representing an increase of 29.8% as compared with 31 March 2012

AREAS OF DEFICIENCY

- Overall sales revenue increased by approximately 10.4%, the growth rate decelerated over corresponding period last year

  Management's view: Due to certain adverse factors such as the slow-down of China macro economy and certain industry factors, overall sales growth has slowed down. The Group is in the midst of executing a new development concept and establishing a new growth engine. With the RTL segment entering rapid growth stage, the Group's overall sales revenue growth pace is expected to gradually recover.

- Overall operating profit decreased by 3.3% to HKD898 million, EBIT margin lowered to 53.3%

  Management's view: It was mainly due to the change in sectors' revenue mix which resulted in a lower gross profit margin. Also, Renminbi ("RMB") exchange rate was lower during the period resulting in exchange loss, if the amounts of Exchange Gain or Loss were excluded, operating profit was increased by approximately 4.3% over the corresponding period last year. The increases in the amount of administrative expenses and the ratio of it to sales revenue were mainly attributable to the increase in the Group's research and development ("R&D") expenses, adjustment of employee salary and increase in depreciation expenses, etc..

‡ *"Working Capital Employed" means "Inventory" plus "Trade receivables" plus "Notes receivables" minus "Trade payables".*

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September		
	2012	2011	**Growth**
	HK$'000	*HK$'000*	
Sales	**1,684,042**	1,525,451	**+10.4%**
Operating profit	**898,188**	928,837	**–3.3%**
Gross profit margin	***68.1%***	*70.6%*	
EBITDA margin+	***57.0%***	*64.4%*	
EBIT margin	***53.3%***	*60.9%*	
Profit before income tax	**905,262**	934,984	**–3.2%**
Profit attributable to the equity holders of the Company	**784,903**	814,920	**–3.7%**
Exchange (loss)/gain ("Exchange Gain or Loss") *(note 4)*	**(15,930)**	52,518	
Operating profit before Exchange Gain or Loss	**914,118**	876,319	**+4.3%**
Profit attributable to the equity holders of the Company before Exchange Gain or Loss	**800,833**	762,402	**+5.0%**
Net cash generated from operating activities	**706,608**	669,739	**+5.5%**
Earnings per share			
– Basic	**24.87 *HK cents***	25.85 *HK cents*	**–3.8%**
– Diluted	**24.85 *HK cents***	25.71 *HK cents*	**–3.3%**
Interim dividend per share	**7.48 *HK cents***	7.80 *HK cents*	
Special dividend per share	**2.48 *HK cents***	5.18 *HK cents*	
Dividend payout ratio	**40%**	50%	

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

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2012 together with the comparative figures for the corresponding period in 2011.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's Audit Committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The auditor's review report will be included in the interim report to be despatched to the shareholders of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2012

		Unaudited For the six months ended 30 September	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Sales	*3*	**1,684,042**	1,525,451
Cost of goods sold		**(536,954)**	(449,229)
Gross profit		**1,147,088**	1,076,222
Other income	*4*	**56,508**	92,436
Selling and marketing expenses		**(63,519)**	(45,718)
Administrative expenses		**(241,889)**	(194,103)
Operating profit		**898,188**	928,837
Finance income		**18,444**	10,283
Finance costs		**(11,473)**	(4,075)
Finance income – net		**6,971**	6,208
Share of profit/(loss) of associates		**103**	(61)
Profit before income tax		**905,262**	934,984
Income tax expense	*6*	**(109,702)**	(111,385)
Profit for the half year		**795,560**	823,599
Attributable to:			
Equity holders of the Company		**784,903**	814,920
Non-controlling interests		**10,657**	8,679
		795,560	823,599
Earnings per share for profit attributable to the Company's equity holders for the half year			
Basic	*7(a)*	**24.87** ***HK cents***	25.85 *HK cents*
Diluted	*7(b)*	**24.85** ***HK cents***	25.71 *HK cents*
Interim dividend	*8*	**235,033**	246,059
Special dividend	*8*	**77,926**	163,408
		312,959	409,467

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

	Unaudited For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Profit for the half year	**795,560**	823,599
Other comprehensive income:		
Fair value changes and related deferred tax liabilities on available-for-sale financial assets	**(2,511)**	814
Exchange differences on translating foreign operations	**(41,827)**	121,490
Other comprehensive (loss)/income for the half year, net of tax	**(44,338)**	122,304
Total comprehensive income for the half year, net of tax	**751,222**	945,903
Total comprehensive income attributable to:		
Equity holders of the Company	**745,718**	927,323
Non-controlling interests	**5,504**	18,580
	751,222	945,903

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2012

	Note	**As at 30 September 2012 *HK$'000* Unaudited**	As at 31 March 2012 *HK$'000* Audited
Assets			
Non-current assets			
Property, plant and equipment		**1,287,138**	1,115,382
Land use rights		**204,623**	209,233
Intangible assets		**2,914,118**	2,931,975
Investments in associates		**101,100**	101,545
Available-for-sale financial assets		**66,383**	65,931
Deferred income tax assets		**41,339**	44,436
		4,614,701	4,468,502
Current assets			
Inventories		**656,396**	667,871
Trade and other receivables	*9*	**1,010,101**	928,969
Assets held for sale		**5,038**	–
Cash and cash equivalents		**2,691,881**	2,286,577
		4,363,416	3,883,417
Total assets		**8,978,117**	8,351,919
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**314,517**	315,985
Reserves		**833,825**	867,402
Retained earnings			
– Proposed interim/final dividend		**235,033**	280,595
– Proposed special dividend		**77,926**	–
– Others		**5,251,372**	4,854,325
		6,712,673	6,318,307
Non-controlling interests		**324,851**	331,942
Total equity		**7,037,524**	6,650,249
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**73,018**	72,788
Current liabilities			
Borrowings	*10*	**927,500**	927,500
Trade and other payables	*11*	**884,387**	584,226
Current income tax liabilities		**55,688**	117,156
		1,867,575	1,628,882
Total liabilities		**1,940,593**	1,701,670
Total equity and liabilities		**8,978,117**	8,351,919
Net current assets		**2,495,841**	2,254,535
Total assets less current liabilities		**7,110,542**	6,723,037

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 September 2012

	Unaudited For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Cash flows from operating activities, net	**706,608**	669,739
Cash flows used in investing activities, net	**(219,209)**	(211,185)
Cash flows (used in)/from financing activities, net	**(60,864)**	64,399
Net increase in cash and cash equivalents	**426,535**	522,953
Cash and cash equivalents at 1 April	**2,286,577**	1,676,410
Effects of exchange rate changes on cash and cash equivalents	**(21,231)**	58,286
Cash and cash equivalents at 30 September	**2,691,881**	2,257,649

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2012 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2012, as described in those financial statements.

Assets held-for-sale

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets and financial assets, even if held for sale, would continue to be measured in accordance with the policies set out in note 2 of the annual financial statements for the year ended 31 March 2012.

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

The following amendments to standards are mandatory for the first time for the financial year beginning 1 April 2012, but are not currently relevant or do not have significant impact to the Group's operations:

- HKAS 12 (Amendment), "Deferred tax: Recovery of Underlying assets"
- HKFRS 1 (Amendment), "Severe hyperinflation and removal of fixed dates for first-time adopters"
- HKFRS 7 (Amendment), "Disclosures – Transfers of financial assets"

3. TURNOVER AND SEGMENT INFORMATION

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

- Flavours;
- Fragrances; and
- Reconstituted tobacco leaves.

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

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

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

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

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

The segment information for the six months ended 30 September 2011 is presented below:

	Unaudited For the six months ended 30 September 2011					
	Flavours *HK$'000*	Fragrances *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Total turnover	1,337,890	86,937	110,769	1,535,596	–	1,535,596
Inter-segment sales	(8,617)	(1,528)	–	(10,145)	–	(10,145)
Net turnover/Segment sales	1,329,273	85,409	110,769	1,525,451	–	1,525,451
Segment result	911,826	3,568	16,835	932,229	(3,392)	928,837
Finance income						10,283
Finance costs						(4,075)
Finance income – net						6,208
Share of loss of associates						(61)
Profit before income tax						934,984
Income tax expense						(111,385)
Profit for the half year						823,599

	Unaudited As at 30 September 2011					
	Flavours *HK$'000*	Fragrances *HK$'000*	Reconstituted tobacco leaves *HK$'000*	Total segments *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Segment assets	5,458,865	221,642	2,166,517	7,847,024	4,361	7,851,385

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

4. OTHER INCOME

	Unaudited For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Government grants	**55,926**	37,629
Exchange (loss)/gain	**(15,930)**	52,518
Others	**16,512**	2,289
	56,508	92,436

5. EXPENSES BY NATURE

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

	Unaudited For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Depreciation, excluding amounts included in research and development	**31,067**	23,788
Amortization	**24,899**	24,471
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	**86,848**	63,715
Share option compensation expenses	**–**	75
Lease rentals	**8,032**	5,927
Travelling expenses	**17,291**	14,249
Entertainment expenses	**14,262**	10,708
Research and development		
— Employee benefit expenses	**33,239**	25,816
— Depreciation	**5,457**	4,796
— Others	**59,471**	51,152

6. INCOME TAX EXPENSE

	Note	Unaudited For the six months ended 30 September **2012** ***HK$'000***	 2011 *HK$'000*
Current income tax:			
— Hong Kong profits tax	*(a)*	**4,329**	6,468
— PRC corporate income tax	*(b)*	**105,871**	136,206
— Germany company income tax	*(c)*	**148**	–
— Botswana company income tax	*(d)*	**161**	579
Deferred income tax assets		**2,717**	(381)
Deferred income tax liabilities		**(3,524)**	(31,487)
		109,702	111,385

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the period.

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

(c) Germany company income tax has been provided at the rate of 15% (2011: 15%) on the estimated assessable profit for the period.

(d) Botswana company income tax has been provided at the rate of 15% (2011: 15%) on the estimated assessable profit for the period.

7. EARNINGS PER SHARE

(a) Basic

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

	Unaudited For the six months ended 30 September **2012**	 2011
Profit attributable to equity holders of the Company *(HK$'000)*	**784,903**	814,920
Weighted average number of ordinary shares in issue *('000)*	**3,156,480**	3,152,630
Basic earnings per share *(HK cents per share)*	**24.87**	25.85

(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 2012, the Company has one type of dilutive potential ordinary shares, i.e. share options.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) 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 the share options.

	Unaudited For the six months ended 30 September	
	2012	2011
Profit attributable to equity holders of the Company *(HK$'000)*	**784,903**	814,920
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*	**3,156,480**	3,152,630
Adjustment for:		
– exercise of share options *('000)*	**2,265**	16,555
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,158,745**	3,169,185
Diluted earnings per share *(HK cents per share)*	**24.85**	25.71

8. DIVIDENDS

The interim dividend for the six months ended 30 September 2012 declared after the end of the reporting period amounts to HK7.48 cents (2011: HK7.80 cents) per share, HKD235,033,000 (2011: HKD246,059,000) in aggregate, together with a special dividend of HK2.48 cents (2011: HK5.18 cents) per share, HKD77,926,000 (2011: HKD163,408,000) in aggregate. As the interim and special dividends are declared after the end of the reporting period, they are not recognised as dividend payable as at 30 September 2012.

9. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 September 2012** *HK$'000* **Unaudited**	As at 31 March 2012 *HK$'000* Audited
Trade receivables	*(b)*	**707,456**	635,047
Less: Provision for impairment on receivables		**(7,112)**	(7,175)
Trade receivables – net		**700,344**	627,872
Notes receivable		**129,331**	169,760
Prepayments and other receivables		**148,049**	110,640
Advances to staff		**3,157**	6,996
Others		**29,220**	13,701
		1,010,101	928,969

(a) Except for prepayment of HKD54,002,000 (31 March 2012: HKD20,210,000), trade and other receivables balances are financial assets categorized under "loans and receivables". All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of the trade and other receivables approximate to their carrying values.

(b) The credit period generally granted to customers ranges from 0 to 180 days. At 30 September 2012 and 31 March 2012, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice dates were as follows:

	As at 30 September 2012 *HK$'000* **Unaudited**	As at 31 March 2012 *HK$'000* Audited
0 – 90 days	**648,423**	566,547
91 – 180 days	**33,979**	40,636
181 – 360 days	**10,715**	10,078
Over 360 days	**14,339**	17,786
	707,456	635,047

10. BORROWINGS

	As at 30 September 2012	As at 31 March 2012
	HK$'000	*HK$'000*
	Unaudited	Audited
Current		
– Unsecured	**927,500**	927,500
Total borrowings	**927,500**	927,500

Movement in borrowings is analysed as follows:

	Unaudited For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Opening balance as at 1 April	**927,500**	743,562
Exchange differences	**–**	117
Closing balance as at 30 September	**927,500**	743,679

The unsecured bank loans are denominated in HKD and are repayable within one year. During the period, the average interest rate is 2.47% (30 September 2011:1.49%) per annum.

The carrying amounts of the Group's borrowings approximate their fair values.

Interest expense on bank borrowings for the six months ended 30 September 2012 amounted to HKD11,456,000 (30 September 2011: HKD5,634,000).

11. TRADE AND OTHER PAYABLES

	Note	**As at 30 September 2012** *HK$'000* **Unaudited**	As at 31 March 2012 *HK$'000* Audited
Trade payables	*(a)*	**326,967**	359,310
Non-trade payables to related parties		**123,985**	123,985
Dividends payable	*(b)*	**310,961**	14,497
Wages payable		**18,633**	11,806
Other taxes payable		**37,063**	25,069
Accrued expenses		**17,128**	12,303
Advance from customers		**2,385**	5,333
Other payables		**47,265**	31,923
		884,387	584,226

Except for other taxes payable of HKD37,063,000 (31 March 2012: HKD25,069,000), wages payable of HKD18,633,000 (31 March 2012: HKD11,806,000) and advances from customers of HKD2,385,000 (31 March 2012: HKD5,333,000), trade and other payables balances are financial liabilities categorized under "financial liabilities measured at amortized cost". The fair values of trade and other payables approximate their carrying values.

(a) As at 30 September 2012 and 31 March 2012, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates were as follows:

	As at 30 September 2012 *HK$'000* **Unaudited**	As at 31 March 2012 *HK$'000* Audited
0 – 90 days	**259,015**	285,947
91 – 180 days	**43,476**	43,625
181 – 360 days	**7,289**	7,831
Over 360 days	**17,187**	21,907
	326,967	359,310

(b) Dividends payable

It represents:

(i) final dividend of the Company for the year ended 31 March 2012; and

(ii) dividend payable to non-controlling shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 September 2012, sales revenue of the Group reached approximately HKD1,684,042,000, representing an increase of approximately 10.4% over the corresponding period last year. The overall gross profit margin reached approximately 68.1%, slightly decreased as compared with the 70.6% of the corresponding period last year. Operating profit was approximately HKD898,188,000, representing a decrease of approximately 3.3% over the corresponding period last year. EBIT margin reached approximately 53.3%. Profit attributable to equity holders of the Company was approximately HKD784,903,000, representing a decrease of approximately 3.7% over the corresponding period last year. Diluted earnings per share was HK24.85 cents, representing a decrease of approximately 3.3% over the corresponding period last year.

BUSINESS REVIEW

Review of Flavours Business

For the six months ended 30 September 2012, sales revenue of the Group's flavours business amounted to HKD1,395,281,000, representing an increase of approximately 5.0% over HKD1,329,273,000 for the corresponding period last year. The operating profit of flavours segment reached HKD843,437,000, representing a decrease of approximately 7.5% over the corresponding period last year. The EBIT margin of flavours segment was approximately 60.4%. Growth in flavours business has slowed down, which was mainly due to industrial restructuring factors, including further slowdown of the tobacco industry consolidation and adjustment based on food flavours industry and food additives industry post food safety problems. Such decline in the operating profit and EBIT margin of the segment was mainly due to the increase in the ratio of R&D expenses to sales, the lower RMB exchange rate had caused exchange loss which led to a significant decrease in other income, and increase in administrative expenses associated with the implementation of a new employee incentive program by the Group, etc..

In respect of the tobacco business, the sales and production of China tobacco industry has seen a steady growth, with cigarette consumption structure continues to elevate. Major brands development momentum is sound. According to TobaccoChina Online, production output of the domestic tobacco industry amounted to approximately 26 million cases in the first half of 2012, representing an increase of about 1.9% over the corresponding period last year; industry cigarette sales reached 26.30 million cases, representing a growth of 2.8% over corresponding period last year; industrial and commercial profit tax reached approximately RMB480 billion, representing a year-on-year growth of approximately 17.7%. The management is of the view that as the tobacco industry entered into the post-consolidation era, for all major brands, the period of rapid growth through mergers and integration has ended, and focus of competition is gradually shifting to quality, innovation, personalization and services.

In light of the development of the cigarette market, the Group has proposed a new development direction, to promote business upgrading and innovation, from a singular business model of solely focusing on flavours and fragrances products, gradually shift to the research and integration of technical elements of a cigarette as a whole. Also, technology integration to the system will be performed by various aspects, such as upgrades in flavours and fragrances, upgrades in flavours application, RTL products, functional cigarette filters and new cigarette raw materials, so as to provide customers with a series of systematic technology solutions.

In order to stay close to the market and identify consumers' needs, the Group has set up a market planning and strategic research department. At the same time, through the joint laboratories or brand joint laboratories jointly established with certain key customers, to conduct in-depth communications and joint researches so as to effectively understand their needs. Through the integration of above two elements, the Group has set up a business model which is oriented toward end users' market and provides systematic technology solutions, resulting in the ability to launch innovative products continuously, so as to realize mutual growth with our customers.

On the other hand, the management has been closely monitoring smoking control activities in China and its negative impacts which may impose on the industry. In the past several decades, the development trend of cigarettes worldwide has favored cigarettes that are of low tar and less harmful content. The management is aware that, Chinese tobacco companies have strategically placed their focuses on such low tar and less harmful content cigarettes. Low tar (6 mg or 8 mg) cigarettes and ultra-low tar (3 mg) cigarettes emerge in recent years and a wide array of low tar products have been introduced in the market. However, when pursuing towards low tar, it may lead to serious defects such as lack of flavours and overly dryness. As a result, developing low tar cigarettes with flavours and moisture reinforcement remains an urgent issue to be solved, which has presented Huabao, one of the leading enterprises in flavours and fragrances, an opportunity. The Group will make use of its core technological advantages in flavours and fragrances to bring in innovative change in traditional flavours application method, to maintain the release of flavours in cigarette accessory materials evenly so as to retain the longevity of flavours. In addition, Huabao will combine the application of functional RTL and new cigarette materials to achieve favorable results. That will become a new competitive edge and growth driver for the Group's flavours business.

In respect of food and beverage, due to the slowdown of the domestic economy and the long-term recession of the European and U.S. economies, resulting in weaker exports of the domestic food enterprises, local small and medium-sized food enterprises ("SMEs") have been involved in a fierce price war in the mid-to-low end market with a view to obtaining short-term benefits from lower prices, SMEs were facing challenging economic conditions. After experiencing a series of safety incidents, the Chinese government has implemented increasingly stringent regulations on the entire food industry, resulting in domestic SMEs being forced to adjust their marketing strategies by slowing down the pace of development of new products, and delay launching of new products, this resulted in a slow down on the demand of flavours and fragrances from SMEs. For example, the savory flavours and dairy-related industry has entered a period of adjustment. The Group continued to pursue the long term development strategy of "Big customers, Big brands" and took advantage of the opportunity to sort out the customers base and its business, while seeking more business opportunities from core customers through product upgrades and technical services. For example, Shanghai H&K Flavours & Fragrances Co., Ltd. has pursued greater development of sweetened pear and tomato flavours food series which received favorable market response in recent years. Besides developing business, the Group has also increased efforts in the integration of previous acquisitions to further enhance product values and competitiveness in order to realize steady growth.

Review of Fragrances Business

For the six months ended 30 September 2012, sales revenue of the Group's fragrances business amounted to HKD92,619,000, representing an increase of approximately 8.4% over HKD85,409,000 for the corresponding period last year, representing approximately 5.5% of the total revenue of the Group. Operating profit of the fragrances segment reached HKD5,848,000, representing a substantial increase of approximately 63.9% from that of the corresponding period last year. EBIT margin was approximately 6.3%, representing a recovery from 4.2% in the corresponding period last year. The Group has commenced from last year to adjust the early development of its fragrances segment, mainly by way of streamlining the customer base and products of Xiamen Amber Perfumery Co., Ltd. ("Xiamen Amber") and increased efforts in managing operating funds of Yunnan Aroma Source Manufacturing Co., Ltd. Consequently, the sales and profitability of the fragrances segment recovered gradually.

Since last year, the export situation of China's daily chemical product industry has been critical, while safety concerns aroused by a series of incidents, including the plasticizer, had brought direct negative impact on consumption of skincare products made in China. Therefore, the fragrances business of Xiamen Amber was adversely affected to some extent. Under this tough situation, the management reacted proactively by adjusting the business, capitalizing on its advantage in aromatic and pesticide products, and securing relatively stable orders from existing large customers. In addition, business growth was further driven by the satisfactory growth in export sales to certain south east Asian markets. In regards to gross profit margin, the profit margin of fragrances segment improved slightly which was mainly attributable to the general downward trend of the prices of raw materials.

The management is aware that, along with improving standard of living, consumers have become more concerned about the themes of "green living", "environmental protection" and "low carbon". Product development trend has gradually shifted from the traditional fragrance-based concept to the increasingly popular "natural" concept. In the future, fragrances segment will focus mainly on the two major markets of aromatic and pesticide products. The Group will strengthen cooperation with domestically leading enterprises, develop and provide relevant auxiliary services, and ensure product quality and safety, in order to improve market share. Meanwhile, the Group will also develop the aromatic raw materials with unique features to enhance its competitiveness and diversify its products.

Review of RTL Business

For the six months ended 30 September 2012, sales revenue of the Group's RTL business reached approximately HKD196,142,000, representing an increase of approximately 77.1% as compared to HKD110,769,000 for the corresponding period last year, representing approximately 11.6% of the total revenue of the Group. Operating profit of RTL segment reached approximately HKD60,482,000, representing a significant increase of approximately 259.3% from the corresponding period last year. EBIT margin was approximately 30.8%. The increase in sales revenue and operating profit of RTL segment was mainly attributable to the increase of product prices due to the significant results achieved by workmanship upgrade and product optimization for the production line of Guangdong Jinke Reconstitute Tobacco Leaves Company Limited ("Guangdong Jinke").

In the first half of the year, China's tobacco industry has further promoted the progress of reducing tar and harmful content. The sale of cigarette products with tar content below 8 mg in each cigarette has doubled as compared with the same period of the previous year, and the percentage of such products to total domestic tobacco products increased by 6 percentage points to 12.3%. The fast growth of low-tar products was mainly attributable to the implementation of the government campaign to reducing tar and harmful content of cigarettes. The State Tobacco Monopoly Administration ("STMA") announced earlier this year that, from 1 January 2013, cigarettes containing 11 mg or more of tar each are not allowed to be sold in China. (Source: TobaccoChina Online) This is another definitive timetable set by the STMA following the first round of targets announced back in 2010. This indicates that the government of the People's Republic of China ("PRC") has steadily stepped up its efforts in reducing tar and harmful content in the long term. The trend of tar and harmful content reduction in the tobacco industry and measures therewith is expected to pave ways for greater development of the RTL industry.

In respect of RTL supply, the management understands that many industry players have identified RTL as a priority project and aims to expand existing of production facilities or add new facilities. The management expects that, as the RTL capacity rapidly grows in the next several years, competition within the market is slated to become more aggressive. The Group shall increase its input and pick up its pace in order to gain market share, through its comprehensive edge of products and technology, as well as the overall ability in technology integration, using the end market as a motivation to develop premium products for customers, so as to assure expansion of market share and elevation of pricing power.

During the reporting period, the Group through technology upgrading and product optimization for the production line of Guangdong Jinke, achieved significant results as evidenced by improved quality of its products. As far as R&D and innovation is concerned, the Group has established 6 departments, namely, Workmanship Technology Department, Workmanship & Equipment Department, New Technology R&D Department, Product Development Department, Technology Management Department and Analysis Department, covering most of the technical fields of RTL's R&D and manufacturing, and thereby Guangdong Province Jinye Reconstituted Tobacco Leaves Technology Development Company Limited ("Guangdong Jinye") has become, among domestic peers, one of the professional research institutions with comprehensive business departments, comprehensive disciplines and R&D abilities. At present, Guangdong Jinke, benefiting from technology upgrade and customer base optimization, has improved the quality of its products and obtained higher average selling prices, and gradually penetrated into certain major brands of domestic major tobacco group and earned wide recognition from its clients. More importantly, the management is aware that, since the general workmanship of RTL in China's tobacco industry is still relatively behind that of international peers, and that the overall supply of premium RTL falls short of demand, the management is glad to expect that future room for China RTL market development is big. The management is satisfied that Guangdong Jinke's mid-and-high end RTL products are recognized by its customers, and believes it will lay a solid foundation for the future development of second phase of Guangdong Jinye production line.

At present, the second phase of Guangdong Jinye 20,000-ton RTL production line has commenced trial production. As a domestic RTL production lines that is of international leading standards, the second phase of Guangdong Jinye production line will effectively improve the physical quality, sensory quality and functional features of RTL products through paper-making method, and plays a significant role in lowering tar and harmful content, enhancing flavours and retaining moisture as well as improving cigarette quality. Currently, the trial products produced by the second phase production line have gained recognition from its customers and sales orders are on pace. According to the management's development target, the second phase production line will reach its full capacity and target in the year of 2013.

In addition, the master planning of 10,000-ton RTL production line of the Guizhou Huangguoshu Jinye Technology Co., Ltd. ("Huangguoshu Jinye"), a joint venture with China Tobacco Guizhou Industrial Co., Ltd., has completed, and the technical team is currently busy concentrating on the key workmanship design of the project. Secondly, the RTL production line of China Tobacco Anhui Reconstituted Tobacco Leaves Technology Limited is currently under installation. The Group, by way of technical cooperation to the production line, will apply its leading-edge technology to assist in the completion of the trail production and product development. The Group is satisfied with the current development in all aspects of the RTL segment.

New cigarette materials updates

The management noted that, as the tobacco industry entered the post-consolidation era, the landscapes of remaining major tobacco enterprise groups and brands gradually became clear. Inter-brand competition was gradually elevated to focus on high quality, innovation, personalized products and services. Having perceived the development potential, Huabao started to conduct research and development on new cigarette materials a few years ago. Currently, the registration of a subsidiary in Korea to manufacture specialized cigarette filters has been completed. Certain production equipment is gradually put in place and trial operation has started. Such company was able to produce a small scale of samples and positive feedback was received from customers. For the R&D of new cigarette materials, the Group is working on new technologies such as cigarette filters using environment-friendly plant fiber as raw materials and applying restructured tobacco powder as tobacco combustion materials, mainly designed to assist customers to develop customized tobacco products with features and functionality in order to match the future trend of the tobacco market. During the period, the Group also pursued other forms of cooperation, formed alliances with several domestic companies specialized in the research and production of new cigarette materials, so as to carry out joint research, manufacture and promote new cigarette materials' commercializing operations.

R&D and Innovation capability

The Group has a leading R&D platform in the China's flavours and fragrances industry and an international-calibre R&D team. With a State-recognized technical centre in Shanghai, a national post-doctorate scientific research workstation, a designated RTL production and R&D base in Shantou, Guangdong province which is authorized by the STMA, joint laboratories setup established with major tobacco enterprises, an overseas R&D centre in Germany and a professional R&D team consisting of top talents from China and abroad, the Group has maintained a leading position among its domestic peers.

In terms of input into R&D, for the six months ended 30 September 2012, the Group's R&D expenses accounted for approximately 5.8% of sales revenue, it was slightly increased as compared with approximately 5.4% of the corresponding period of last year. The increase in R&D expenses elevated the Group's strength of sustained innovative capability.

BUSINESS PROSPECTS

Amid ongoing economic uncertainties from domestic and abroad at present, enterprises shall firmly grasp on their own businesses and operate businesses with great care. With new businesses led by the RTL will be seeing appealing progress in the second half of this financial year, the management takes a prudent positive attitude towards the prospects of the full year; adhering to the development strategy of "multi-pronged, focus growth" and integrated core value chain, the management will leverage on its core flavours and fragrances business, continue to push for full-gear development of the RTL and new cigarette materials; further increase input on R&D, by leveraging on the Group's overall competitive edge in respect of management, technology, products and services, the Group will strategically develop itself from a simple flavours and fragrances company into a company which is able to integrate technology and provide product supply chain management service to its customers, to gradually construct a multi-engine and sustainable growth momentum, in order to create more values and rewards for shareholders!

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2012

Sales revenue

The Group's sales revenue amounted to HKD1,684,042,000 for the six months ended 30 September 2012, representing an increase of 10.4% as compared with HKD1,525,451,000 for the corresponding period last year. The continuous growth in the sales revenue was mainly attributable to the increases in the sales of flavours, fragrances and RTL. For the six months ended 30 September 2012, sales revenue from flavours increased by 5.0% to HKD1,395,281,000; sales revenue from fragrances increased by 8.4% to HKD92,619,000; and sales revenue from RTL increased by 77.1% to HKD196,142,000.

Cost of goods sold

The Group's cost of goods sold amounted to HKD536,954,000 for the six months ended 30 September 2012, representing an increase of 19.5% as compared with HKD449,229,000 for the corresponding period last year. Except for the reason of increase in sales revenue, the increase in cost of goods sold was mainly attributable to the decrease in overall gross profit margin.

Gross profit and gross profit margin

The gross profit of the Group increased from HKD1,076,222,000 for the six months ended 30 September 2011 to HKD1,147,088,000 for the six months ended 30 September 2012, representing an increase of 6.6%, while the gross profit margin of the Group decreased from 70.6% of the first half of last financial year to 68.1% of the first half of current year. The increase in cost of goods sold was mainly attributable to change of the sector's revenue mix, with sales revenue of RTL (whose gross profit margins are relatively lower) to overall sales revenue ratio increased from approximately 7.3% last year to approximately 11.6% this year.

Other income

Other income of the Group was HKD56,508,000 for the six months ended 30 September 2012, representing a decrease of HKD35,928,000 as compared with HKD92,436,000 for the six months ended 30 September 2011. The significant decrease in other income was mainly attributable to the RMB exchange rate was lower during the reporting period which resulted in exchange losses.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, transportation cost, salaries and office expenses. The selling and marketing expenses of the Group for the six months ended 30 September 2012 were HKD63,519,000, representing an increase of approximately 38.9% as compared with HKD45,718,000 for the corresponding period last year. Selling and marketing expenses to total sales revenue for the 6 months ended 30 September 2012 and 2011 amounted to approximately 3.8% and 3.0% respectively. The increase in the ratio of selling and marketing expenses to sales revenue was mainly attributable to increase in employee benefit expenses and the Group stepped up its selling efforts which resulted in increase of related expenses.

Administrative expenses

The Group's administrative expenses amounted to HKD241,889,000 for the six months ended 30 September 2012, representing an increase of 24.6% as compared with HKD194,103,000 for the corresponding period last year. The ratio of administrative expenses to total sales was approximately 14.4%, representing an increase of 1.7 percentage points as compared with 12.7% for the corresponding period last year. Among which the ratio of R&D expenses to total sales was approximately 5.8%, increased by approximately 0.4 percentage point as compared with the corresponding period last year. The increase in ratio of administrative expenses to total sales revenue was mainly attributable to the increase in R&D expenses as well as employee benefit expenses and depreciation expenses, etc..

Operating profit

The operating profit of the Group for the six months ended 30 September 2012 was HKD898,188,000, representing a decrease of approximately 3.3% as compared with HKD928,837,000 for the corresponding period last year, while the operating profit margin decreased to approximately 53.3% during the first half of the year from approximately 60.9% for the first half of last year. The decrease in the operating profit margin was attributable to the significant decrease in other income, increase in selling and marketing expenses and administrative expenses and lower gross profit margin.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2012 was HKD109,702,000, representing a slight decrease as compared with HKD111,385,000 for the corresponding period last year. Income tax rate of the current period was approximately 12.1%, which was slightly increased as compared with approximately 11.9% for the corresponding period last year. The income tax rate was stable as a whole.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD784,903,000 for the six months ended 30 September 2012, representing a decrease of 3.7% as compared with HKD814,920,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2012, the net current asset value of the Group was HKD2,495,841,000 (31 March 2012: HKD2,254,535,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2012, the Group's cash and cash equivalents amounted to HKD2,691,881,000 (31 March 2012: HKD2,286,577,000). The Group neither had any forex hedging products nor structured investment products or financial derivatives.

Bank borrowings and gearing ratio

As at 30 September 2012, the Group had bank borrowings of HKD927,500,000 (31 March 2012: HKD927,500,000), which are entirely unsecured loan with interest calculated based on HK dollars inter-banks borrowings rate. For the six months ended 30 September 2012, the average annual interest rate of such unsecured loan was 2.47% (2011: 1.49%) which are due within 1 year. The Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was about 13.8% as at 30 September 2012 (31 March 2012: 14.7%).

Debtors' turnover period

Debtors' turnover period is calculated on the basis of the average amount of trade receivables net of provisions as at the beginning and at the end of a relevant financial period divided by the total sales revenue for the corresponding period and multiplied by 180 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with, the customers. For the six months ended 30 September 2012, the Group's average debtors' turnover period was 72 days, representing an increase of 2 days as compared with 70 days for the last financial year ended 31 March 2012. Debtors' turnover period remains stable.

Creditors' turnover period

Creditors' turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 180 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the six months ended 30 September 2012, the Group's average creditors' turnover period was 115 days, representing a decrease of 7 days as compared with 122 days for the last financial year ended 31 March 2012. The decrease in the creditors' turnover period was attributable to certain suppliers shortened the credit period and the increase in natural aromatic raw materials procurement amount along with a shorter creditors' turnover period.

Inventory and inventory turnover period

As at 30 September 2012, the Group's inventory balance amounted to HKD656,396,000 (31 March 2012: HKD667,871,000). The Group has continued to improve its inventory management and to optimize its inventory structure, thus the inventory balance has slightly decreased. For the six months ended 30 September 2012, the inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 180 days) was 222 days, representing an increase of 12 days as compared with 210 days for the last financial year ended 31 March 2012. The increase in inventory turnover period was mainly attributable to the relatively higher level of inventory at the beginning of the reporting period.

Foreign exchange and exchange rate risk

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

Pledge of assets

As at 30 September 2012, the Group did not pledge any of its assets.

Capital Commitments

As at 30 September 2012, the Group had capital commitments in respect of the purchase of property, plant, equipment, and investment in an associate, contracted for but not provided for in the financial statements amounting to approximately HKD307,901,000, majority of which related to capital injection into Huangguoshu Jinye and Guangdong Jinye procured property and equipment (31 March 2012: HKD385,586,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2012.

HUMAN RESOURCES

As at 30 September 2012, the Group employed a total of approximately 2,411 employees in the PRC, Hong Kong, Germany and Botswana. The sound development of the Group attracts talents in the industry. Moreover, during the period, the Group continued to recruit talents based on the business needs and, in the meantime, the Group kept the core staff of acquired enterprises upon the acquisition, assimilating them into the Group's corporate culture. The Board places great emphasis on the career development of employees and provides them with ample space for growth. Meanwhile, the Group provide them with competitive remuneration as compared with the existing market condition.

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

As to remuneration, the Group provides its employees with competitive remunerations, pension schemes and other fringe benefits, and grants awards to the employees based on their performance. The Group granted share options to 79 persons including directors, senior management, technical and business executives from 2006 to 2008, has then implemented a remuneration restructure in line with market benchmark and will further complement assessment indicator and system. Such remuneration restructure may motivate employees' motivation and to create higher values for the Company. In the future, the Group may based on the market landscapes, grant further share options or other long-term incentive programs as appropriate in order to further motivate its core team members so as to create long-term values for shareholders.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

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

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

Throughout the reporting period, save for Code Provision A.4.1 and A.6.7, the Company had complied with the code provisions in the Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code") and, where appropriate, adopted the recommended best practice as set out in the code provisions:

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

Code provision A.6.7 provided that, INEDs and other non-executive directors should attend general meetings. Due to other business commitment abroad, Dr. JIN Lizuo (INED of the Company) was unable to attend the annual general meeting of the Company held on 8 August 2012 (the "2012 AGM"). However, the other two INEDs of the Company, Mr. LEE Luk Shiu and Ms. MA Yun Yan attended the 2012 AGM.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2012.

INTERIM AND SPECIAL DIVIDENDS

The Board has resolved to declare an interim dividend of HK7.48 cents per share (2011: HK7.80 cents per share) and a special dividend of HK2.48 cents per share (2011: HK5.18 cents per share) both in cash for the six months ended 30 September 2012, which are expected to be paid around 22 February 2013 (Friday) to shareholders whose names appear on the Register of Members of the Company as at 31 January 2013 (Thursday).

CLOSE OF REGISTER OF MEMBERS

In order to determine shareholders who qualify for the interim and special dividends, the Register of Members of the Company will be closed from 28 January 2013 (Monday) to 31 January 2013 (Thursday), both days inclusive, during which no transfer of shares will be effected. All properly completed transfers form(s) accompanied by relevant share certificate(s) must be lodged with the Company's Branch Share Registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 January 2013 (Friday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2012, the Company repurchased a total of 17,696,000 ordinary shares of HK$0.10 per share through The Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK$73,781,000 (excluding transaction costs). Out of the 17,696,000 shares repurchased, 14,680,000 shares were cancelled during the period while the remaining 3,016,000 shares were cancelled subsequently on 29 October 2012. Details of shares repurchased during the period are set out as follows:

Month/year	**No. of shares repurchased**	**Highest price paid per share** *(HK$)*	**Lowest price paid per share** *(HK$)*	**Aggregate price paid** *(HK$'000)*
August 2012	14,082,000	4.55	3.70	58,220
September 2012	3,614,000	4.50	3.95	15,561
Total:	17,696,000			73,781

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2012.

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprise all of the INEDs, namely Mr. LEE Luk Shiu, Ms. MA Yun Yan and Dr. JIN Lizuo. The Audit Committee has reviewed and approved the Company's unaudited condensed consolidated interim financial information for the six months ended 30 September 2012 together with the Board.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of HKExnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2012-13 interim report will be dispatched to shareholders and will be published on the aforementioned websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu (Chairman), Messrs. LAU Chi Tak (Chief Executive Officer), POON Chiu Kwok, WANG Guang Yu, XIA Li Qun, XIONG Qing, and three INEDs, namely Dr. JIN Lizuo, Mr. LEE Luk Shiu and Ms. MA Yun Yan.

By Order of the Board
CHU Lam Yiu
Chairman

Hong Kong, 19 November 2012