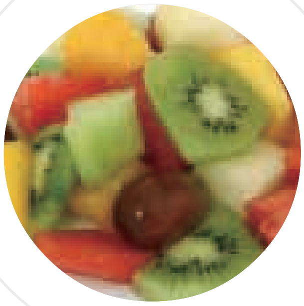
華寶
Huabao

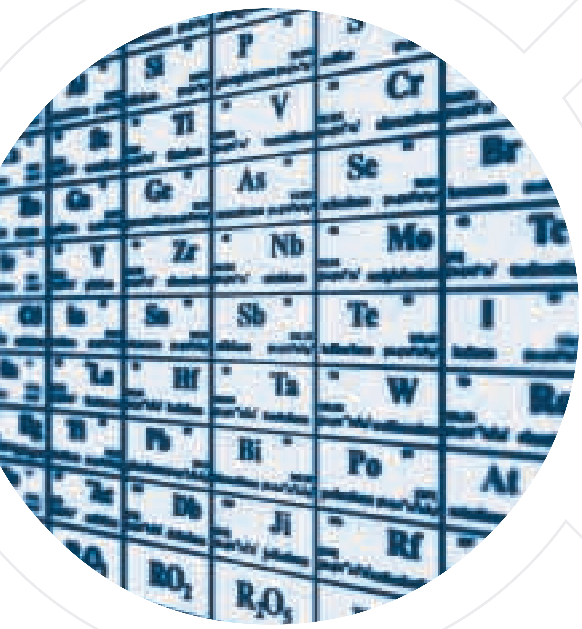
Huabao International Holdings Limited
(Incorporated in Bermuda with limited liability)
Stock Code : 336

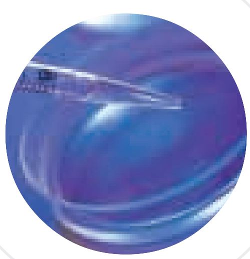
YOUR **FEEL**
OUR **MISSION**

Annual Report ***2007-2008***

Contents







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 *FCPA, 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: 336

COMPANY WEBSITE

www.huabao.com.hk

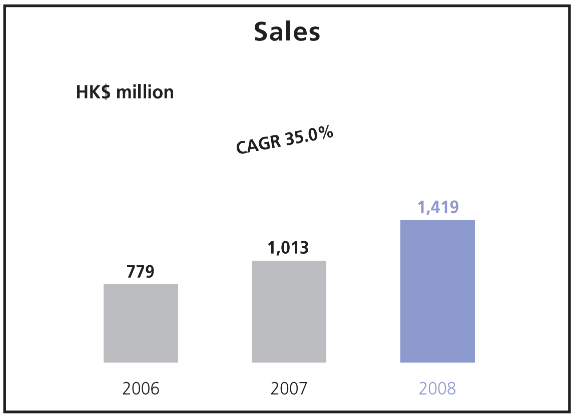
INVESTOR RELATIONS WEBSITE

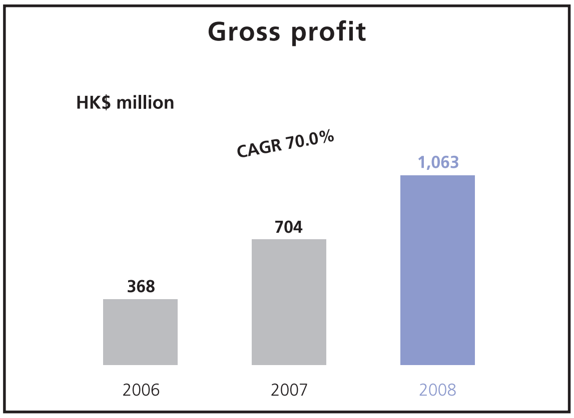
www.irasia.com/listco/hk/huabao/index.htm

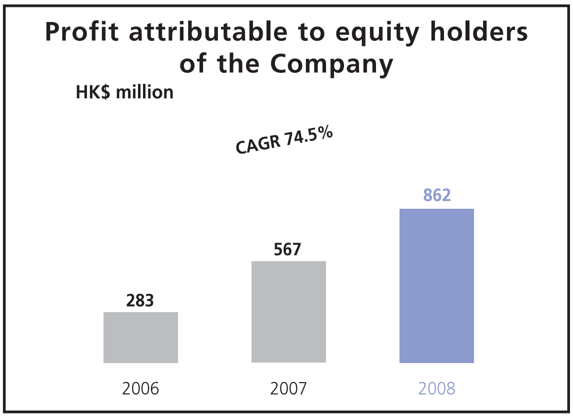
Financial Highlights

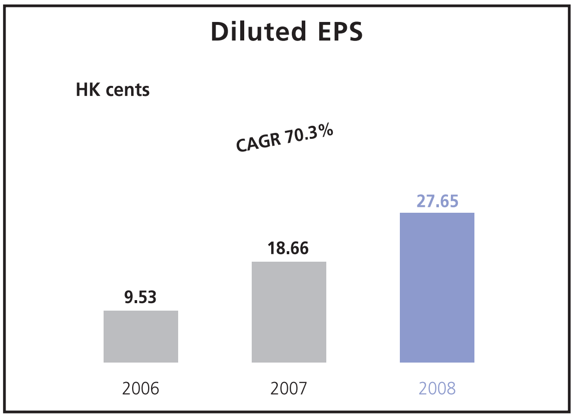
The summary of the results during the previous three years

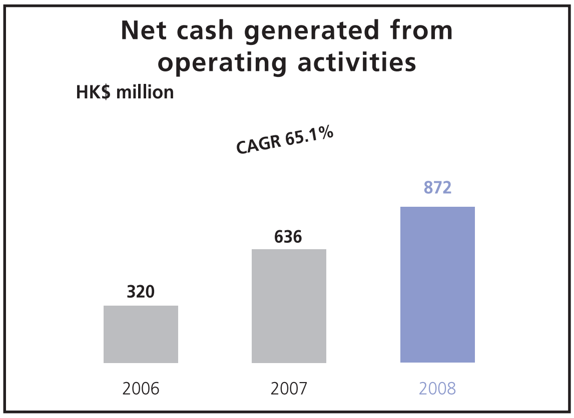
- ✓ **Realized rapid growth in sales with a 3 years' CAGR of 35.0%**
- ✓ **Realized rapid growth in gross profit with a 3 years' CAGR of 70.0%**
- ✓ **Delivered robust lift in results with over twofold during the last 3 years**
- ✓ **Generated significant returns for shareholders with a 3 years' CAGR of diluted EPS of 70.3%**
- ✓ **Strong cash flow, no borrowing from financial institution; with CAGR of net cash generated from operating activities of 65.1% in the past 3 years**

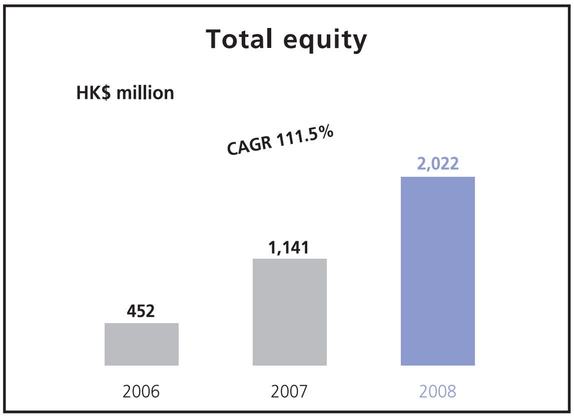












Financial Highlights

	2008 HKD'000	2007 HKD'000	Change in percentage %	3 Years' CAGR
Sales	**1,419,137**	1,013,229	+40.1%	+35.0%
Gross profit	**1,063,148**	704,146	+51.0%	+70.0%
Gross profit margin	**74.9%**	69.5%		
Operating profit	**889,901**	574,992	+54.8%	+71.1%
Operating profit margin	**62.7%**	56.7%		
Selling and marketing expenses to sales	**4.1%**	4.4%		
Administration expenses to sales	**+11.0%**	+9.4%		
– Share option compensation expenses	**32,047**	28,199		
– Amortization of intangible assets as a result of M&A	**12,254**	0		
Profit before income tax	**904,000**	578,662	+56.2%	+73.6%
Profit attributable to the equity holders of the Company	**862,145**	567,031	+52.0%	+74.5%
Net margin attributable to equity holders of the Company	**60.8%**	56.0%		
Earnings per share (HK cents)				
– Basic	**28.13**	19.91	+41.3%	+56.6%
– Diluted	**27.65**	18.66	+48.2%	+70.3%
Net cash generated from operating activities	**871,964**	635,795	+37.1%	+65.1%
Cash and cash equivalents	**971,595**	858,494	+13.2%	
Total equity	**2,021,977**	1,140,904	+77.2%	+111.5%
Dividend per share (HK cents)	**8.3**	5.6	+48.2%	
Dividend payout ratio	**30%**	30%		
Gearing ratio*	**Nil**	Nil		
Current ratio (times)	**3.6**	3.9		
Liquidity ratio (times)	**3.3**	3.7		
Inventory turnover (days)	**102**	110		
Trade receivables turnover (days)	**83**	109		
Trade payables turnover (days)	**124**	140		

* Equal to "Loan from financial institutions" divided by "Total equity"

Company Profile, Corporate Culture and Key Events for the Year

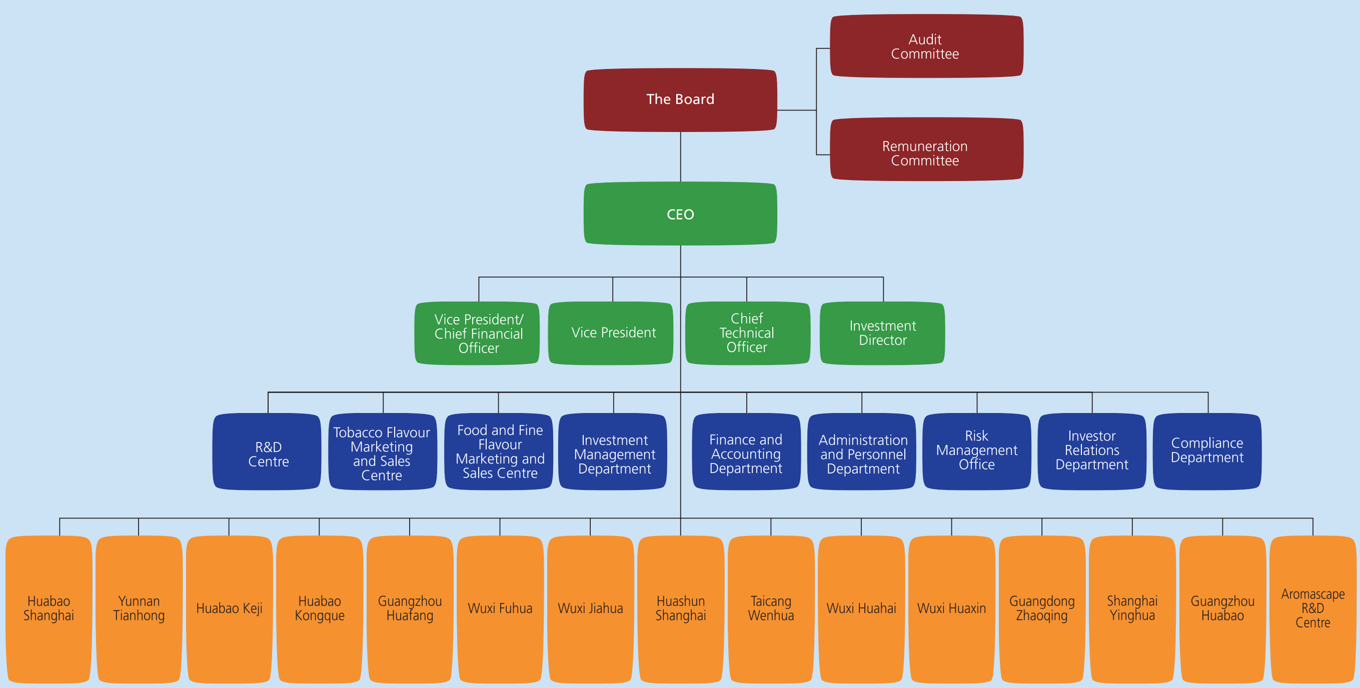
COMPANY PROFILE

Huabao Group is a market leader in China's flavour and fragrance industry. After the successfully acquired Chemactive Investments on 1 August 2006, the Group has been the leading producer in terms of sales revenue in the flavour and fragrance industry in China, capturing significant market share. As at June 2008, the Company was the largest publicly listed company in terms of market capitalization in Asia Pacific within the flavour and fragrance industry, with a total market capitalization of over USD2.5 billion.

The Group is primarily engaged in the R&D, production and sales of tobacco and food flavours. The Group has established its consolidated manufacturing bases in Shanghai, Yunnan, Guangzhou, Wuxi and Qingdao, etc., and has established R&D centres in Shanghai, Guangzhou, Yunnan 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 industry associations, including the Deputy Director of CAFFCI, Deputy Director of China Association of Bakery and Confectionary Industry and Chairman of Shanghai Food Additive Industry Association.

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.

MANAGEMENT STRUCTURE AND PRINCIPAL OPERATING SUBSIDIARIES



CORPORATE CULTURE

Vision	Striving to be No. 1
Core Value	Adhere to the "market driven and client first" philosophy and achieve mutual growth for both the Group and its staff
Spirit	Innovative, pragmatic, loyal and cooperative
Strategy	• Focus on tobacco flavours as core value with diversification • Accelerate the development of food flavour and fragrances businesses • Expand upstream to relevant flavours raw materials business and strive to form an integrated value chain • Expand through organic growth and M&A • Leverage China's market to grow into a global leading player in flavour and fragrance industry

KEY EVENTS FOR THE YEAR

07

FEB

Mr. Wang Guang Yu, the Executive Director and Chief Technical Officer of the Group, was awarded special allowance granted by the State Council for his outstanding contribution to the engineering technology sector of China

07

JUL

Wuxi Huahai engaging in the partition and purification of natural fragrance and Chinese herbal medicines was established to engage in the partition and purification of natural fragrance and Chinese herbal medicines operations which signify a breakthrough for Huabao in raw material field

"Research on the Technology of Microemulsion and Nanoemulsion and Controlled Release of Nutrients" were approved by the MOST as a National 863 project

07

SEP

The Company completed the acquisition of Win New Group with the approval obtained at the special general meeting, enabling the Group to further strengthen its position in the industry

08

JAN

Guangzhou Huabao was established to engage in the development of savoury flavour based on traditional tastes with natural concept

08

MAR

"Key Technological Research on Asymmetric Resolution and Preparation of L-Menthol by Whole Cell Biocatalysis" were approved by the MOST as a National 863 project

08

MAR

Huabao participated in the International Food Additive Ingredients Exhibition in Shanghai and received high appreciation from many domestic and overseas food experts and enterprises

08

APR

Appointed Mr. Lau Chi Tak, an experienced practitioner in the industry, to join as the CEO of the Group. Mr. Lau has over 20 years experience in the international flavour and fragrance industry. His appointment will further strengthen the Company's business and managerial standards

08

MAY

The Company made a big stride and acquired 51% of equity interests of Amber to launch the fragrances business successfully

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present to our shareholders the annual results of the Group for the year ended 31 March 2008.

CHAIRMAN'S STATEMENT

In 2007, the economy of China continued its rapid growth while China consumer market also kept its fast growing momentum. Having overcome certain unfavourable factors, the Group achieved outstanding results in all areas of businesses. Revenue and profit attributable to shareholders increased by more than 40% and 50%, respectively. For M&As, the acquisition of Win New Group in the first half of the Year realized significant success, exceed the earnings target than that originally set for the period. On capital market side, Huabao, with the rising of its reputation and influence, becomes more attractive to world-renowned institutional investors. With further improved ranking in market capitalization, the Group is now one of the world's leading listed companies in the flavour and fragrance industry.

In respect of development strategy, Huabao is targeting at becoming the leading flavour and fragrance company in the world, therefore, the Group has put strong emphasis on the management team structure. Since its listing in Hong Kong, the Group has hired some global top talents, including our CEO, Mr. Lau Chi Tak and some world-renowned flavourists, who help to enhance the management and technology standard of Huabao, and proactively develop an international, professional and specialized management style, to meet with international standard.

PROMISING FINANCIAL RESULTS

The Group achieved a sales revenue of HKD1,419,137,000 for the year ended 31 March 2008, an increase of 40.1%, which exceeded the expected growth target as set by the management. Gross profit margin reached about 74.9%, continuing to mount steadily. Profit attributable to the equity holders increased by about 52.0% to HKD862,145,000. Basic EPS increased by 41.3% to about HK28.13 cents. With such strong operating results, the Group's net cash generated from operating activities were HKD871,964,000, representing an increase of 37.1% and the financial position is very healthy. To reward all shareholders, the Board recommended a final dividend for the year of HK6.0 cents per share.

BUSINESS REVIEW

The achievement of the aforesaid excellent operating results of the Group was attributable to the operation and development strategies that the Group has been carrying out consistently for a long time. For tobacco flavour, the combination of the development strategy of "Big Customers, Big Brands" insisted for a long time and the strong customer resource through the acquisition of Win New Group made the Group continue to benefit from China tobacco industry consolidation and the development of high-end quality products. Tobacco flavours sales revenues for the Year recorded a strong growth of 37.7% which further strengthened our dominant position in the industry.

For food flavour, the sales increased by about 69.5% as a result of strong organic growth and our ability to integrate the acquisition, which far exceeded the growth target. On products mix, through the newly established savoury flavour centre to further diversify the product categories; the Group is able to provide more specialized and localized tastes to core direct sales customers.

For raw materials, the Group has been actively developing the key and advanced technology for flavours and fragrances industry by leveraging the overseas research centre in Germany and the R&D centre in Shanghai, which is the only State-recognized technical centre. The Group achieved a significant breakthrough in the partition and purification technology of natural flavours. The establishment of Wuxi Huahai provided the Group with a new raw material platform, which significantly enhanced the competitiveness of the products, led the direction of the R&D of the flavour and fragrance industry in China, and made a solid foundation for the long-term development of the Group.

For R&D, on the one hand the Group actively established sound R&D cooperation with key customers by fully utilizing its domestic leading position in the industry; on the other hand, together with the overseas R&D centre in Germany, the Group will proactively for fundamental research, seize advanced core technologies of flavour and fragrance industry and achieve fruitful results. The Group applied for 10 patents for invention and obtained two National 863 projects in 2007. The strong R&D ability and advanced raw material technology enabled the Group to further improve the competitiveness of the products and the gross profit margin increased from about 69.5% of last year to about 74.9% of the current year.

MANAGEMENT TEAM

The promising operating result achieved by the Group was fundamentally attributable to an outstanding management team. In addition to their great ambition to make Huabao a world leading company based in China, they also share the common value of "Client first" and the spirit of Huabao – "Innovative, pragmatic, loyal and cooperative". The Group has established a team of experienced professional management of world-class standard and employees that adapts to future development, the Group will continue to pursue Huabao's human resources standard of "Moral, Integrity, Capability and Execution". The Group will also continue to devote itself to cultivate and bring in excellent professionals and to create good environment for the employees. These help to assure to keep Huabao's business progressing and growing.

OUTLOOK

We will continue to make use of the prime opportunity where China's economy will continue its robust growth and the flavour and fragrance industry is at sun-rising stage and still relatively scattered. These favourable external factors provide Huabao with a strategic development opportunity. In the coming years, we anticipate that the consolidation of the tobacco industry in China will further accelerate, Chinese style cigarettes will move towards high-end quality and take a healthier direction and the consumer goods market will maintain promising growth, demanding more and greater varieties of products. We must grasp these great market opportunities, insist on maintaining the tobacco flavour as the core business, accelerate the pace of growth for food flavour business and actively develop fragrances business. For fragrances aspect, through several year endeavours, the Group has gained experiences in the market and products development. In May 2008, the Company acquired 51% equity interests of Amber which signified a strategic step of fragrances segment of Huabao. In the future, the Group will set Amber as the platform for fragrances development and leverage the strong R&D capability and brand advantage of the Group to boost the growth of fragrances business. Meanwhile, the Group will keep on actively enhancing its upstream raw material business and forming an integrated value chain. The Group will continue to adhere to the development path combining organic growth and M&A. We will maintain close relationship with the flavour and fragrance industry in China and overseas, and look for good opportunities for acquisition. We will explore building up strategic partnership with world leading players in the flavour and fragrance industry to expand the food flavour and daily chemical market in the PRC. While market is the driving force, technology is the key. The Group will further and continue to perfectly meet the domestic demand with internationally the most advanced technology and to try best to provide customers with comprehensive and more professional services, in order to solidify our competitive edge in the market. We believe that, Huabao will continue to enjoy rapid development in the coming years.

I would like to take this opportunity to thank our shareholders, customers and suppliers for their continuous concern and support. I truly express my appreciation to the Directors, the management and the staff of the Group for their loyalty, diligence and hard work in the past year. Together with the Directors and the staff, we will uphold the spirit of Huabao: "innovative, pragmatic, loyal and cooperative", to strive for the best for Huabao and to deliver more prosperous returns for all the Shareholders.

CHU Lam Yiu
Chairman
Hong Kong, 18 June 2008

CEO's Statement

CEO'S STATEMENT

Dear Shareholders, I joined Huabao in April 2008. Huabao is the market leader in China's flavour and fragrance industry and has been developing rapidly and made remarkable achievement in recent years. As the newly appointed CEO, I would like to take this opportunity to share with you my perception to the Group and the vision to the future.

With regard to corporate culture and standard of management, I have visited most of the plants of Huabao and get to know our employees over the past two months. Huabao's culture impressed me very much. The backgrounds of our staff members are very diversified. The founder members and the professional managers are able to work seamlessly together by sharing over corporate culture. I like the culture very much, which is extremely diversified, flexible and compatible as well as vigorous. I feel very excited working in such atmosphere. I have been working at multinational peers for more than 20 years and fully appreciate the value of such culture. It is the foundation of an enterprise's sustainable competitiveness. In terms of its managerial standard, I found Huabao is in a brand-new development phase in which its management style is moving towards international and professional direction. No matter which position you have, president or general staff, so long as you have the good ethics and working experience, Huabao will indeed provide you with the opportunity. I will make all use of my experience to keep upgrading the Group's standard of management and internationalization.

The intention of having Huabao to go public listing is to pursue globalisation strategy. The first step was to globalize the talent base which already made significant achievement. Top-notch individuals were attracted from all over the world to join the Group. Now the team is ready, I will lead the management to actively promote the globalisation of the Group, mainly through the following three ways: firstly, to penetrate into international markets with Huabao's internationally competitive products; secondly, to actively identify targets for M&As and to selectively enter into those overseas markets which is suitable for Huabao; thirdly, to actively develop the corporation with other foreign corporations. Our success and growth are gaining a broad attention from international players in the industry, Huabao should take this opportunity to identify suitable partners to realize the mutual benefits.

With regard to our future development, such rare development opportunity in the industry provides Huabao with extensive room for future expansion. Currently, China is placed in the most rapid growing consumer market with the biggest potential. I have witnessed what the significant development of consumer markets in Japan and Korea brought huge impact the flavour and fragrance industry over the last 20 years. I am convinced that Huabao will grow into a global industry giant based on Chinese market!

I would like to express again my excitement for joining Huabao, and will work with the management and the staff of Huabao, striving to create more return to the Shareholders!

LAU Chi Tak
Chief Executive Officer
Hong Kong, 18 June 2008

Management Discussion and Analysis

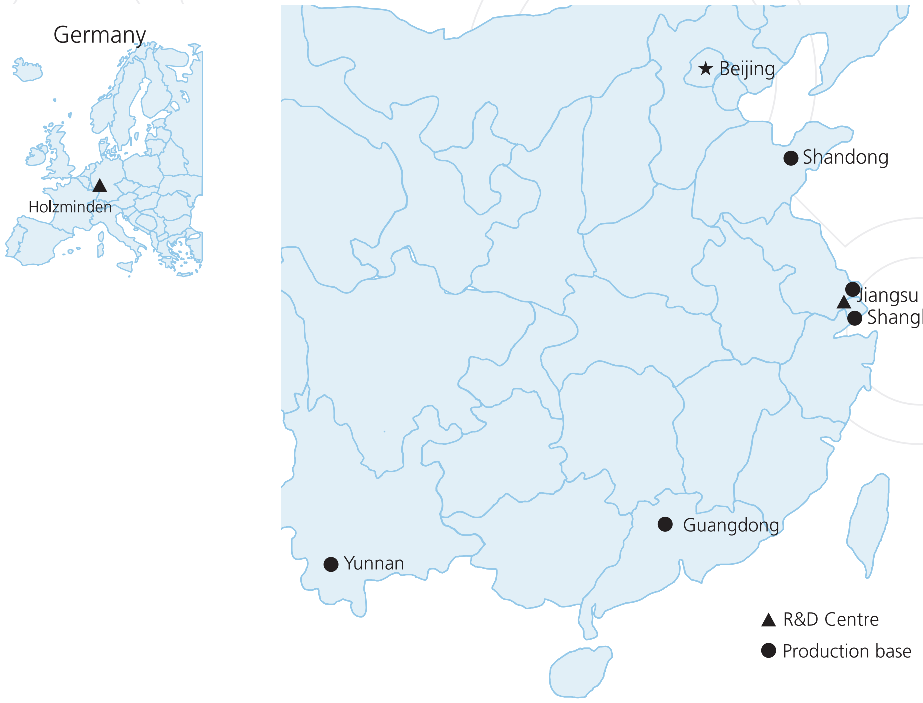
BACKGROUND

As at 31 March 2008, Huabao had a total of 13 major plants and one R&D centre in China, and an overseas R&D centre in Holzminden, Germany. The Company is also the No. 1 flavour and fragrance company in the Asia Pacific Region and ranked amongst the top ten in the world in terms of market capitalization.

Production capacity of flavours and fragrances of major subsidiaries (As at 31 March 2008)

	(tons)
Shanghai	
Huabao Shanghai	**3,000**
Huabao Kongque	**4,500**
Huashun Shanghai	**1,300**
Shanghai Yinghua	**1,500**
Jiangsu	
Wuxi Fuhua	**1,500**
Wuxi Jiahua	**1,200**
Wuxi Huaxin	**600**
Wuxi Huahai	**500**
Taicang Wenhua	**800**
Others	
Yunnan Tianhong	**2,500**
Guangzhou Huafang	**1,500**
Guangdong Zhaoqing	**800**
Qingdao Huabao	**1,000**
Total production capacity	**20,700**

Existing Manufacturing Bases and R&D Centres



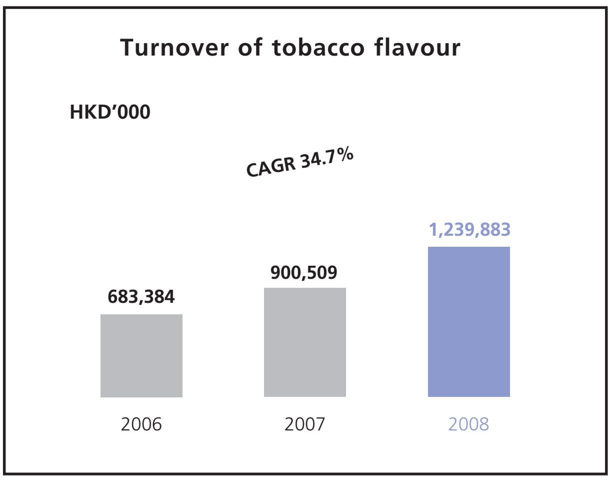
REVIEW OF THE TOBACCO FLAVOUR BUSINESS

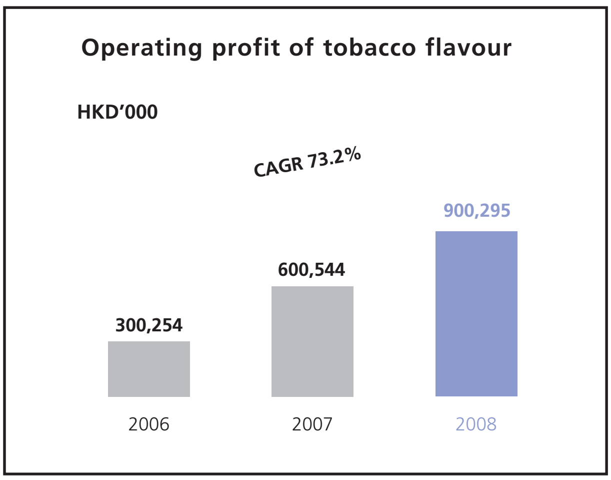
1. Review of Results

For the year ended 31 March 2008, the sales of tobacco flavour reached HKD1,239,883,000, representing an increase of 37.7% as compared with corresponding period last year and a CAGR of 34.7% in the past three continuous financial years. These exceeded the growth target set by the management. The sustainable and rapid growth of tobacco flavour was mainly attributable to the consolidation of the tobacco industry, the structure of tobacco products moving towards high-end and the Group's continuously reinforcing on the development strategy of "Big Customers, Big Brands". During the year, China's top ten tobacco enterprises all became the end customers of the Group. Eight of the top ten cigarette brands in China chose the Group as their core supplier for tobacco flavours. The eight famous tobacco brands all chose the Group as their core supplier for tobacco flavours.

For the year ended 31 March 2008, the operating profit of tobacco flavour amounted to HKD900,295,000, while the operating profit margin reached 72.6%, representing an increase of 49.9% as compared with corresponding period last year and a CAGR of 73.2% in the past three continuous financial years.

The leading players of the tobacco industry upgraded their products and improved their technology to secure the market position of their leading brands with relentless efforts. In 2007, the growth of the top ten brands in sales volume achieved approximately 25% and the Group was the core supplier of most of the leading brands with an average history of over ten years. Eight of the Group's top ten end customers were among the existing top ten largest tobacco companies in the industry. The five largest customers of the Group contributed over 60% to the sales revenue of tobacco flavour. The Group's loyal customers helped achieved our continuous and steady growth of the operating profit of the tobacco flavour and the Group demonstrated economies of scale.





Top 10 Cigarette Brands ranked by sales volume in China in 2007

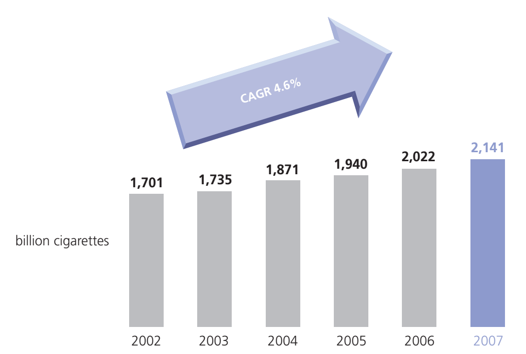
SN	Brand	Is it a current customer	Is it a core supplier
1	Hongmei	✓	✓
2	Baisha	✓	✓
3	Hongjinlong	✓	
4	Honghe	✓	✓
5	Hatamen	✓	✓
6	Huangguoshu	✓	✓
7	Hongqiqu	✓	✓
8	The Scarlet Camellia	✓	
9	Shuangxi	✓	✓
10	Hongtashan	✓	✓

Data source: Tobacco Online

2. Recent development in Tobacco Industry

China is the largest cigarette consumption country, accounting for approximately one-third of the total consumption in the world. China consumes over 2 trillion cigarettes each year. In recent years, China's tobacco industry has been growing steadily, with around 4.6% CAGR in sales volume. In 2007, the sales of cigarettes in the industry amounted to 2,141 billion, representing an increase of approximately 5.9% over the same period in the previous year. The tobacco industry continues to play a significant role in China's national economy, contributing approximately RMB388 billion tax revenues in 2007, which was about 7.6% of the state's fiscal revenue and represented an increase of 33.8% compared with approximately RMB290 billion in the previous year.

Total sales volume in China tobacco market saw steady growth (2002 – 2007)



Source: Euromonitor International, Tobacco Online

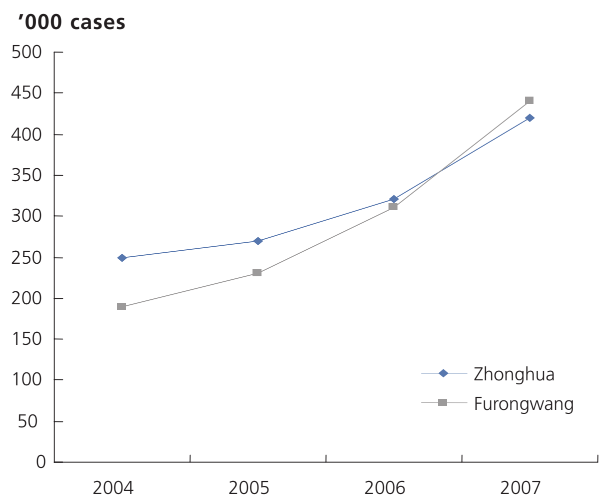
Increasing consolidation in the tobacco industry

In 2007, the consolidation in the industry maintained its momentum, with a further increase in the scale of major brands and their market shares. As of December 2007, "Hongmei" and "Baisha" brands recorded an annual output of over 2 million cases; other 13 brands, including "Hongjinlong", "Honghe", "Hatamen" and "Huangguoshu", recorded an annual output of over 1 million cases; and 19 brands achieved an annual turnover of more than RMB10 billion. The sales volume of the top ten brands accounted for approximately 37.8% of the industry, representing an increase of approximately 5.9 percentage point over that of last year, or an increase of 25% in sales volume. The above statistics indicate that the "Double Ten Strategy" introduced by the State Tobacco Monopoly Administration is being implemented progressively, and China's tobacco industry is in an accelerated stage of consolidation, giving rise to greater concentration in the industry.

Tobacco industry appeared a trend towards high-end product

The tobacco industry in China has a development trend towards high-end products, as mainly reflected by the increasing average price. From 2002 to 2006, the CAGR of sales revenue in tobacco industry was about 7.7%, which was higher than the CAGR in the sale volume of tobacco industry of about 4.6% in recent years. In 2007, the top ten brands accounted for approximately 41.2% in total sales, which exceeded the proportion it took in the sales volume of approximately 37.8%. The production of low-end tobacco products is declining constantly. The total production volume of low-end tobacco cigarettes amounted to approximately 700 billion in 2007, decreased by approximately 7.6% comparing with that in 2006. High-end or super high-end cigarettes have been growing rapidly in recent years. For example "Zhonghua" and "Furongwang", two most typical high-end brands, have recorded rapid growth in sales volume over the past 3 years as shown on the chart. Tobacco flavour plays a very important role in the trend towards high-end brand, the management believes that China's tobacco industry will expedite the high-end trend in the later stage of industry consolidation, bringing bigger room for the growth of the tobacco flavour segment.

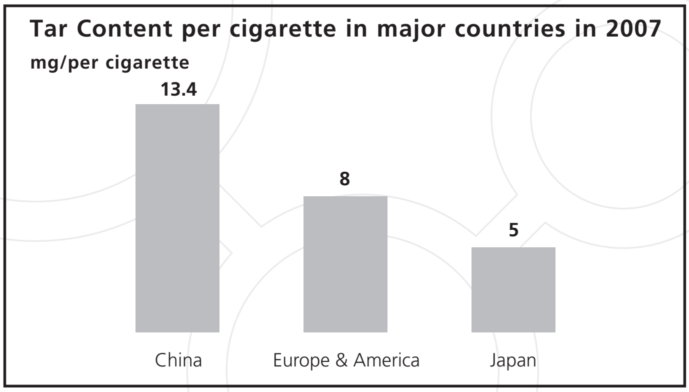
Sales volume of Zhonghua and Furongwang from 2004 to 2007



Source: Tobacco Online

Development trend of healthier Chinese style cigarettes

It is inevitable for the development trend of healthier Chinese style cigarettes, mainly reflected in the decrease in tar content in cigarettes. The government has promulgated that cigarettes produced by tobacco companies with tar content indicated in the box exceeding 15mg per cigarette have been prohibited from entering into the PRC market since 1 July 2004. In the middle of 2007, the average tar content per cigarette in China has decreased to approximately 13.4mg. The Chinese government intends to lower the tar content to a level below 12mg per cigarette in the future. After researches, the Group learns that the tar content of the major brands in Europe and US is below 8mg per cigarette while the level in Japan is even below 5mg per cigarette.



Source: Tobacco Science & Technology; State Tobacco Monopoly Administration and company research

Studies in the industry reveal that reduction of tar content in cigarettes results in substantial loss of cigarette's fragrances. It is specifically indicated by the aroma becomes less intense, flatter, drier, and less enjoyable. Therefore, researchers of tobacco companies are making efforts to maintain the original quality, aroma and taste of cigarettes, which mainly involve increasing the amount of tobacco flavours, adding flavours to reconstituted tobacco leaf and expanded stem. These efforts provide new opportunities for the growth of flavour and fragrance companies.

3. Outlook of tobacco flavour industry

Tobacco flavour has been undergoing a rapid development over the past ten years and played an important role in the development of China tobacco industry and the Chinese style cigarettes. According to certain broker research reports, last 3 years' CAGR of tobacco flavours was over 9%, which was much higher than last 3 years' CAGR of about 5.1% in tobacco industry sales volume. Tobacco flavours will have bigger room for development in the trend towards high-end quality and healthier products. The management is confident in the future growth of tobacco flavour on the following grounds:

- It is inevitable for the tobacco industry to develop Chinese style cigarette into high-end trend. However, constrained by supply of tobacco leaves, the improvement of quality of high-end cigarettes demands more tailor-made tobacco flavours;

- Chinese style cigarettes will speed up to become healthier in the future. Lowering the tar content and reducing nocuousness will be the major development trend for a long period of time in the future, which is also the major development trend in the current international market. These measures undoubtedly provide new opportunities for flavour and fragrance companies for their sustainable growth; and

- Leveraging on its extensive experience and technological strength as a leading company in the industry, Huabao will unceasingly explore new applications of tobacco flavours into cigarette production.

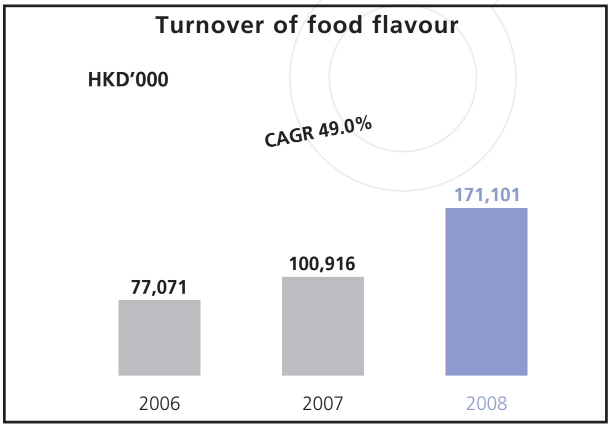
4. Development strategy of tobacco flavour

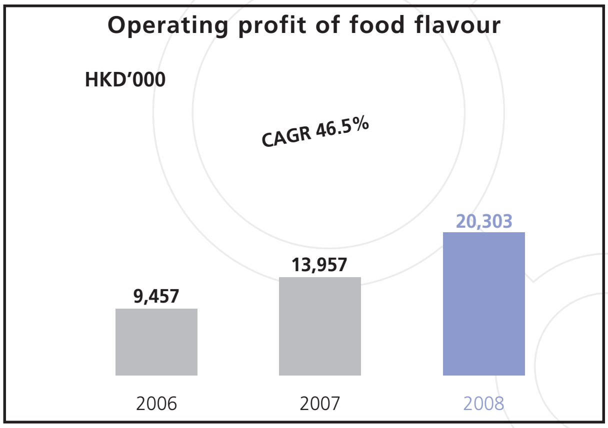
- Continue adhering to the "Big Customers, Big Brands" development strategy, and capitalize on industry consolidation to capture greater market share.
- Utilize the technical advantages to seize new opportunities brought from the trend towards high-end brand, healthier product in China tobacco industry; to develop new products with greater market potential and to further expand the sales revenue.
- With regard to raw materials, we will actively develop natural extraction technologies to further enhance the competitiveness of the products.
- Establish technological exchange and cooperation with the leading players in the tobacco industry and increasingly promote the application of tobacco flavours in cigarette production.
- Consolidate flavour companies via M&A so as to maintain the Group's strategic position in the sector.
- Develop overseas markets and launch competitive products into the international market, especially in Southeast Asia; allocate more resources to the research of overseas tobacco markets to follow the overseas development strategy of the Chinese tobacco companies.

REVIEW OF THE FOOD FLAVOUR BUSINESS

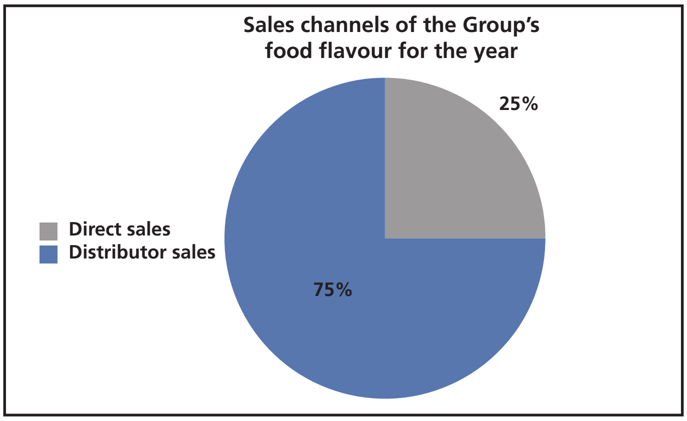
1. Review of Results

For the year ended 31 March 2008, the Group recorded the sales of food flavour of HKD171,101,000, representing an increase of 69.5% over the last year. Maintaining the stable gross profit margin, food flavour business achieved a rapid growth, thereby increased the scale in a short time. The increase in revenue of food flavour business was mainly attributable to the acquisition of Win New Group and the rapid growth of the existing businesses.





In terms of the sales channels of food flavour, the percentage of direct sales in the segment increased from 20% in the previous year to 25% this year. The Group is working actively to establish long-term relationships with a number of quality and renowned domestic and foreign end customers in China's market, including Danone, Taitaile, Yurun, VV Company, Bright, Master Kong, Mengniu, Yili, Watson's, Yeo's, etc. For the year ended 31 March 2008, the sales revenue from the Group's direct sales customers increased by approximately 111.9% as compared with last year.



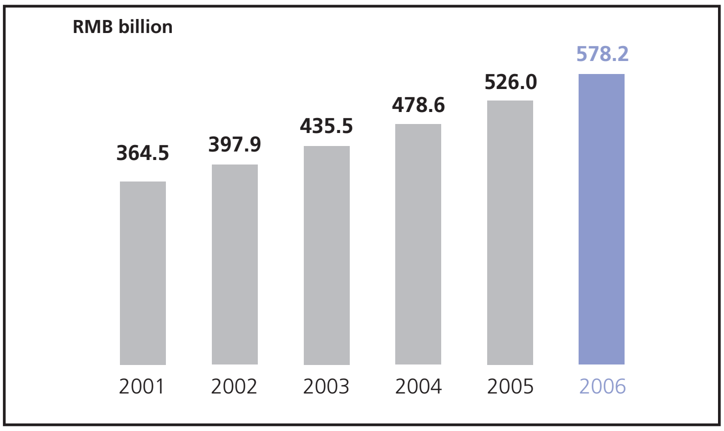
Regarding the product structure, food flavour were mainly sweet products. The Group established Guangzhou Huabao, specialized in savoury flavour, during the year to put greater efforts in the development of localized and unique tastes. The establishment of Guangzhou Huabao demonstrates that the Group is moving towards a more specialised and localized direction in the field of food flavour, which provides a solid foundation to further develop key customers in the long run. Savoury flavour is mainly applied into four areas: meat products, snacks, instant noodles and commercial and domestic seasonings. As the Chinese consumer market is developing to a higher level, the local tastes will become more abundant. Consequently the savory flavour will have more opportunities for further development. As a local flavour and fragrance company, we believe we have competitive advantages and more business opportunities in this segment. For the year ended 31 March 2008, the Group launched a total of 82 new products, including 51 sweet flavours and 31 savoury flavours.

2. Recent development in the food and beverage industry

The growing economy and improving living standard in China were directly translated into continuous and rapid growth in overall consumption market in China. The consumption market in China is experiencing a transformation from developing stage to mature stage, which had two main characteristics:

Continuous increase in total consumption

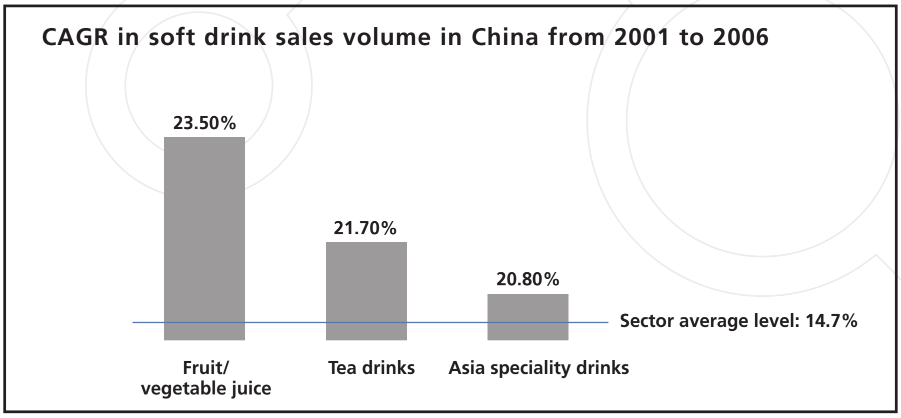
According to 'Euromonitor International', the sales of packaged food in China has increased from approximately RMB364.5 billion in 2001 to approximately RMB578.2 billion in 2006, representing a CAGR of approximately 9.7%. The following diagram shows the total annual sales of packaged food in China in the aforesaid period:



Source: Euromonitor International

Continuous increase in diversity and improvement in tailor-made products

According to the statistics from 'Euromonitor International', from 2001 to 2006, the CAGR of sales volume of major soft drink products was about 14.7%. However, the CAGR of sales volume of juice, tea drinks and Asia speciality drinks increased by more than 20%. These data showed that the demand of consumers for tailor-made and localized tastes has increased constantly, which resulted in a rapid growth of the industry driven by the tailor-made, flavoured consumer products.



Source: Euromonitor International

Development of food flavour ties closely to the development of the consumer market, and the rapid growth of the consumer goods sector in China is driving the growth of the flavours and fragrances industry. However, China's food industry is highly fragmented. We expect the future food industry will have the following features:

- Sustained rapid growth of total consumption
- Further development of tailor-made, localized tastes and variety of products, especially the traditional savoury Chinese food
- Increasing awareness of food safety
- Rising industry threshold resulting from technological and safety issues, leading to gradual increase of market concentration

3. Development strategy of food flavour

The development strategy of food flavour can be summarized as follows: to produce Chinese tastes with quality of international standard, to develop the scale of operation and achieve its scale advantages in the near future in parallel with maintaining the current gross margin.

- *In respect of sales and marketing:* adhere to the two-thronged approach of distribution and direct sales, further consolidate and improve the distribution network, tap on the market recognition of "Kongque" brand, put more resources on product promotion, and move the service network closer to the end users.

  Focus on developing direct sales, secure key customers in the industry, and establish all-round relationship with key customers through such technology platforms as the State-level corporate technology centre, in a bid to promote the rapid growth of direct sales.

- *In respect of product development:* focus on sweet products and actively develop savoury flavour. Guangzhou Huabao was established by the Group to develop more localized products with response to different dietary tradition and regional tastes. There will be more room for the development of savoury flavour along with the growth of the consumer goods market in China.

- *In respect of R&D:* bring product R&D in line with international technological standard. Introduce top-notch R&D personnel in the world, and leverage the knowledge of China's native technical staff about taste of Chinese customers and the China market with international technologies of international standard.

  Start research in industry standards and participate in formulating industry standards, stress and ensure food safety, and enhance the recognition and influence of the products of the Group.

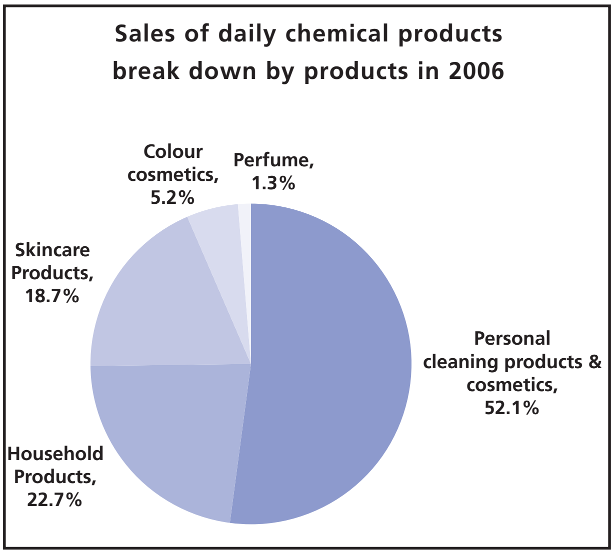
- *In respect of M&A:* be attentive to industry development, keep a close eye on the flavour and fragrance industry, and seek opportunity to acquire and merge those enterprises whose products and market are complementary with the Group, thereby achieving rapid growth.

DEVELOPMENT OF FRAGRANCES BUSINESS

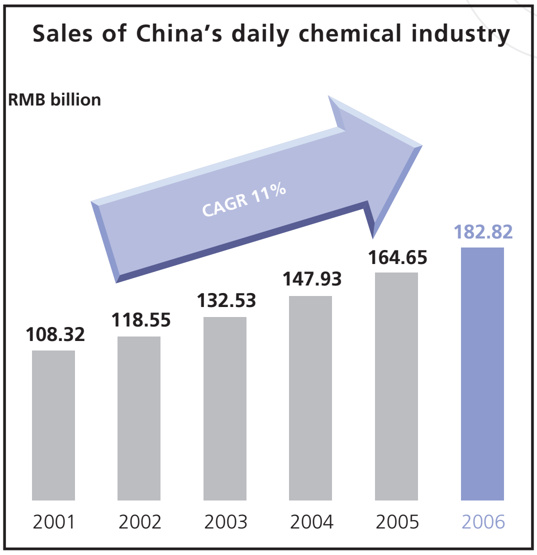
Fragrances are used in daily chemical products, which are closely related to our daily life and widely applied in every aspect of our necessities. In 2005, the Group organized a team to research fragrances market and products and developed a strategy to establish a platform for fragrances business through M&A. In May 2008, the Group successfully acquired 51% of equity interests of Amber, which signified a new achievement in the Group's fragrances segment.

1. An overview of the daily chemical industry in China

The daily chemical industry is featured with a high level of consumption and relatively scattered players. The middle-end and high-end markets are mainly occupied by the international daily chemical groups. However, the low-end market is very fragmented and has lots of local daily chemical players. The per capita consumption level in China is relatively lower than that in the developed countries. The industry is still in its infant stage and has huge room for development, with personal cleaning products and household products accounting for more than 70% of the total consumption in the industry. It has been growing very fast. From 2001 to 2006, the CAGR of sales of China's daily chemical industry is about 11% according to 'Euromintor International'. Driven by these characteristics, the daily chemical industry in China is highly scattered and developing in a prompt pace.



Source: Euromintor International



Source: Euromintor International

2. The value of Amber to the Group

Amber plays an important role in the daily chemical industry and is a council member of CAFFCI, an associate council member of China Association of Commodity Industry (中國日用雜品工業協會) and a high-tech company in Xiamen. Amber has a standardized factory with an area of about 20,000 square metres with ISO9001 certification for quality management system. Amber has established its own research centre with leading fragrances compounding capability and advanced testing equipment. Its major products include aromatherapy flavors, detergent fragrances, etc.

3. Development strategy of fragrances

- Set Amber as the development platform for fragrances and leverage the strong R&D capability and brand advantage of the Group to boost the growth of the fragrances business

- Take differentiation strategy to segment product markets and customer markets and to explore different markets with different products, based on the vast territory, different consumption levels and various types of daily chemical products in China. The Group will further develop aromatherapy flavours to strengthen its leading market position; focus on development of detergent products and gradually develop personal care products to gain market share. In respect of the products, the Group emphasizes on market researches aiming to accommodate customers' need and to develop personalized products for the consumers in China

- Put more effort into product development by recruiting more senior technicians for the development and application of fragrances by leveraging the advantages of the state-recognised technical centre and overseas research centre of the Group in respect of fundamental research, analysis & examination and raw material etc. The Group will develop products in response to market demand and enhance the quality and technical level of the products. In addition, the Group will strengthen the cooperation with international counterpart and related research institutions so as to make full use of external resources, to partnership with strong players and to benefit from synergy

- Adopt the two-thronged approach of direct sales and distribution to continue to adhere to direct sales driven model of Amber in order to strengthen the partnership with key customers, and to identify reliable distributors in areas with a relatively scattered market for fragrances in order to broaden the distribution network with more medium and small daily chemical companies

REVIEW OF RESEARCH AND DEVELOPMENT

The corporate technical centre of the Group, which has been known as the only state-recognized technical centre in the China's flavour and fragrance industry since 2003, represents the leading R&D standards in flavour and fragrance industry in China. In January 2007, the R&D centre in Germany commenced operation, enabling the R&D strength of the Group to be upgrade to international advanced technological standard and further strengthening our R&D capabilities and product competitiveness. The R&D strategy of the Group has always been market-driven to closely trace the latest industry trends globally and to accelerate mastering of key raw material technology. Moreover, the Group developed products and technologies that meets the market demand, providing a comprehensive technical service for customers, and devoted in creating more value for clients.

Internationalized R&D Team

As a flavour and fragrance company with the strongest R&D capability in China, the Group keeps introducing world-calibre talents and increasing investment in R&D. Currently, the Group has the following experts and professionals:

Foreign experts	6
Senior experts	18
Tobacco flavour experts	45
Food flavour experts	56
Fragrances experts	5
Fragrance developer	15
Analysis, testing and quality control professionals	25
Total	170

Fostering Talents

The Group kept recruiting brilliant local and foreign R&D talents from the market, and also focused on nurturing talents internally. The Group regularly recruited fresh graduates and provided them with long-term development opportunities in the Group. Therefore the Group becomes a good choice for those graduated from the relevant vocational institutions. The Group provides intensive on-the-job training to the research staff in an organized way with both external and internal training programmes based on their job nature and their professions. The core competitiveness of the Group is strengthened through improving the professionalism of the research staff of the Group, widening their horizons, and enhancing their team spirit and job satisfaction.

Numerous Achievements

The Group fully leveraged the advantages of the domestic and international R&D platform to obtain numerous results vertically, i.e. in the field of fundamental research to self-develop the key technologies and core technologies with intellectual property and their application into the tobacco, food, fragrances, biology and chemical segments. Horizontally, the Group undertook several projects with the State Tobacco Monopoly Administration jointly with R&D of major tobacco producers in China to further improve Chinese style cigarette products.

Horizontally

Vertically

expanded tobacco stems

expanded cut tobaccos

accelerating aging of tobacco leaves

quality improvement of low-grade tobacco leaves

Two National 863 projects under the MOST of PRC

Research on the Technology of Microemulsion and Nanoemulsion and Controlled Release of Nutrients

Key Technological Research on Asymmetric Resolution and Preparation of L-Menthol by Whole Cell Biocatalysis

NDRC

State-level corporate technical centre innovation capability establishment project

Intellectual property resided in US

10 invention patents

Core journal

11 technical papers

International Conference on Food Science & Technology 2007

5 papers

High-end new flavours and fragrances products	**Total 254**
Tobacco flavour	56
Food flavour	82
Fragrances	20
Natural flavouring	40
Bioflavour	11
Synthetic aromatics	21
Reaction flavour	24

Raw Materials

Raw materials technology is one of the core capabilities for flavour and fragrance companies' long term sustainable development. The Group continuously increased investment in R&D for self-innovation, focused on the key technology, core technology and prospective technology for flavour and fragrance industry by utilizing the State-recognized technical centre in Shanghai, and German R&D centre. With years of in-depth researches, the Group has made lots of technological achievement. In particular, there is a leaping breakthrough in the partition and purification technology of flavours and fragrances, some of which have applied for national patent. To accelerate and facilitate the commercialization of such achievements, the Group established Wuxi Huahai in Wuxi in 2007, which is engaged in extraction and concentration technology of natural aromatic plants, Chinese herbs and medicine plants by bringing in advanced production lines with international standard. The establishment of the Wuxi Huahai brings the core technology of new raw material of the Group, which greatly enhances the competitiveness of products; leads the direction of research and development of the flavours and fragrances industry in China and lays a solid foundation of the long-term development.

The extraction system of Wuxi Huahai is flexible to adopt various extraction methods, in order to meet requirements from various extracting natural plants, and is applicable to extract raw material as leaves and flowers, fruits, roots and stems, seeds, minerals and animals.

For the separation system, the technologies of centrifugal separation, column separation and liquid-liquid isolation can be used to separate and purify extracts, so as to eliminate hazard substance or unnecessary components, to produce essence and fragrance products with clear functions and internationally advanced standards.

For the automatic control system, the adoption of well-developed and advanced control system in the industry reflects the currently advanced technologies in the extraction and production of natural products.

OTHER INFORMATION

Human resources

During the year, the Group continuously recruited more talents and enhanced their training to meet the needs of the Group's rapid growth. The sound development of the Group attracts professionals from around the world. Furthermore, because of the Group's acquisition of Win New Group, the number of employees further increased. The Board placed great emphasis on the career development of new comers and provides them ample space for growth. Meanwhile, we provide them with competitive remuneration as compared with the existing market condition.

As at 31 March 2008, the Group employed a total of 1,020 employees in the PRC, Hong Kong and Germany, representing an increase of 55.5% or 364 employees from 656 employees of last year. The labour cost of the year amounted to HKD106,448,000, representing an increase of 61.4% or HKD40,475,000 from HKD65,973,000 for the previous year. The increase of labour cost was mainly due to the increase in the number of employees and the improvement of the average level of the employees.

To upgrade the Group to the international standard in terms of technology and management, the Group highly values the stability of the employees and has continuously enhanced the employees' initiatives and creativity. To that end, the Group provides its employees with competitive remunerations, pensions contribution schemes and other fringe benefits, and grants awards to the employees based on their performance. The Group's share option scheme is also in position to reward employees (including directors) who have made significant contributions to the business development of the Group. The Group granted a total of 17,500,000 share options again to 16 persons, including directors, senior executives, technicians and business executives. Including the share options granted last year, the Group has granted a total of 145,100,000 share options to 78 employees (including directors). The Group cherishes its people and endeavours to provide its employees with a good operational system and sound working environment for their better growth and development, guide them towards common values, encourage innovation and cooperation, and provide them with diversified training programs to upgrade their qualifications, thereby achieving mutual growth of both the employees and the Group.

FINANCIAL REVIEW

Analysis of consolidated results for the year ended 31 March 2008

Sales

The Group recorded a sales of HKD1,419,137,000 for the year ended 31 March 2008, representing an increase of 40.1% as compared with HKD1,013,229,000 of last year. The rapid growth of sales was mainly due to substantial increase in the sales of tobacco and food flavours of the Group and the acquisition of Win New Group. For the year ended 31 March 2008, the turnover of tobacco flavours of the Group increased by 37.7% to HKD1,239,883,000, contributing 87.4% of the total income, while that of food flavours increased by 69.5% to HKD171,101,000, contributing 12.1% of the total income.

Cost of sales

Cost of sales of the Group amounted to HKD355,989,000 for the year ended 31 March 2008, representing an increase of HKD46,906,000 as compared with HKD309,083,000 for the corresponding period of last year.

Gross profit and gross profit margin

Gross profit of the Group increased to HKD1,063,148,000 for the year ended 31 March 2008 from HKD704,146,000 for the year ended 31 March 2007, representing a growth of 51.0%, while the gross profit margin of the Group increased to 74.9% for this financial year from 69.5% for the last financial year. The increase of gross profit of the Group was mainly attributable to the rapid growth in sales revenue for this year. The remarkable increase in gross profit margin was primarily due to the Group's tightening control over the purchase cost of raw materials, more competitive products developed by using new raw materials technology, and changes in the cost structure of raw materials.

Other income

Other income of the Group was HKD40,548,000 for the year ended 31 March 2008, representing an increase of 278.5% as compared with HKD10,713,000 for the year ended 31 March 2007. The increase in other income was mainly attributable to the exchange gains from RMB appreciation and increase in income from government grants.

Selling and marketing expenses

Selling and marketing expenses of the Group mainly comprised of travelling expenses, transportation cost, salaries and office expenses. The selling and marketing expenses of the Group amounted to HKD58,348,000 for the year ended 31 March 2008, representing an increase of 31.6% as compared with HKD44,331,000 for the previous year. Selling and marketing expenses represented 4.1% and 4.4% of the total sales during the period under review respectively. Such decrease was a result of the Group's economies of scale and a growing customer loyalty.

Administrative expenses

The Group's administrative expenses amounted to HKD155,447,000 for the year ended 31 March 2008, representing an increase of 62.7% as compared with HKD95,536,000 for the previous year. Administrative expenses accounted for 11.0% and 9.4% of the total sales during the periods under review respectively. Administrative expenses mainly included salaries, R&D expenses, professional advisory fees, depreciation expenses, office administration expenses, and public utilities expenses etc. Excluding the amount of share options compensation expenses of HKD11,509,000 (newly granted to a director and employees) and amortization expenses of HKD12,254,000 for intangible assets (originally held by the newly acquired Win New Group), which are not comparable with the corresponding period of last year, the administrative expenses for the current period would be HKD131,684,000, representing an increase of 37.8% as compared to the corresponding period last year. Administrative expenses, excluding the above items, accounted for 9.3% of total sales for the current period, basically in line with that of last year of 9.4%. Apart from the above reasons, the substantial increase in administrative expenses for the period was mainly due to the establishment of a number of new companies and the acquisition of Win New Group, and the increase of R&D expenses and employees' remuneration and other fringe benefits during the current period.

Operating profit

The operating profit of the Group was HKD889,901,000 for the year ended 31 March 2008, representing an increase of 54.8% as compared with HKD574,992,000 for the previous year. The operating margin of the Group increased from 56.7% for the previous year to 62.7% for the current year. The increase in operating profit was mainly due to the increase in sales revenue and increase in gross profit margin.

Income tax expenses

Income tax expenses of the Group amounted to HKD34,384,000 for the year ended 31 March 2008, representing an increase of 2,296.1% as compared with HKD1,435,000 for the previous year, and the income tax rates were 3.8% and 0.2% respectively. The increase in income tax rate was mainly due to the significant decrease of deferred income tax assets recognized for the unrealised profits arising from intra-group sales and the preferential tax periods (two-year exemption and three-year half rate) for certain subsidiaries of the Group were expired.

Net current assets and financial resources

As at 31 March 2008, the net current assets of the Group was HKD1,112,946,000 (2007: HKD929,426,000). The Group generates its working capital mainly through its operating activities and maintains a healthy financial position. As at 31 March 2008, the Group had cash and cash equivalents of HKD971,595,000 (2007: HKD858,494,000), over 90% of which was denominated in RMB.

The Group had no outstanding bank loans.

Investing activities

The Group's investing activities were mainly incurred for the purchase of fixed assets and the strategically development strategies for M&A. For the year ended 31 March 2008, the net cash used in investing activities amounted to HKD644,599,000, mainly incurred for the acquisition of Win New Group. For the year ended 31 March 2007, the net cash generated from investing activities amounted to HKD13,679,000.

Financing activities

For the year ended 31 March 2008, the net cash used in financing activities amounted to HKD171,962,000, mainly used for dividend distribution to shareholders. For the year ended 31 March 2007, the net cash generated from financing activities amounted to HKD3,510,000.

Debtors' turnover period

The calculation of debtors' turnover period is based on the average amount of trade receivables net of provision as at the beginning and end of the relevant financial period divided by total turnover of the corresponding period and multiplied by the number of days in that period. The Group generally offers its customers credit terms of 0-180 days, depending on the business volume and the history of business relationship with its customers. For the year ended 31 March 2008, the Group's average debtors' turnover period was 83 days, representing a decrease of 26 days as compared with 109 days for the last financial year ended 31 March 2007. The debtors' turnover period decreased as a result of enhancing credit management and control measures undertaken by the Group.

Creditors' turnover period

The calculation of creditors' turnover period is based on the average amount of trade payables as at the beginning and end of the relevant financial period divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period. Credit terms granted by suppliers to the Group ranged from 0 to 180 days. For the year ended 31 March 2008, the Group's average creditors' turnover period was 124 days, representing a decrease of 16 days as compared with 140 days for the last financial year ended 31 March 2007. The shorter creditors' turnover period was due to the Group's decrease of its single purchases and increase of its frequency of purchase to meet clients' timely delivery requirement and avoidance of risk of fluctuation for the prices of raw material which resulted in shortened period for payment to suppliers.

Inventory and inventory turnover period

As at 31 March 2008, the Group's inventory balance amounted to HKD136,862,000 (2007: HKD61,871,000). For the year ended 31 March 2008, the inventory turnover period, calculated based on the average amount of inventories as at the beginning and the end of the relevant financial year divided by cost of sales for the corresponding period and multiplied by the number of days in that period, was 102 days, representing a decrease of 8 days as compared with 110 days for the previous year. The shorter inventory turnover period for the period was a result of the Group's strengthened management of inventory.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in the PRC and most of the business transactions are denominated in RMB. The Board is of the view that the Group's exposure to foreign exchange risk is insignificant. There is insignificant pressure for the depreciation of RMB and thus the Group's exposure to exchange rate risk is relatively low.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 31 March 2008.

ACQUISITION

Recently completed major strategic acquisition of Win New Group

On 30 July 2007, the Company entered into an acquisition agreement whereby the Company acquired 100% interest in Win New Group at a total consideration of HKD652,337,000 (the "Acquisition"). The consideration was funded by the Company's internal resources in form of cash. The transaction was unanimously approved by independent shareholders attending the special general meeting held in September 2007 and completed accordingly.

(1) Summary of the Acquisition

Win New Group is mainly engaged in the production and sales of tobacco and food flavours as well as fragrances in China, with its tobacco flavour and fragrance business mainly targeting at large and quality tobacco groups in Eastern and Central China, such as Shanghai Tobacco Group Corporation which is the tobacco manufacturer of various famous cigarette brands, including "Panda", "Chunghwa", "Shanghai", "Double Happiness" and "Peony" etc. Win New Group also has a leading food flavour and fragrance business in China with its products widely used in different kinds of food products including, confectionaries, bakery and meat products, and also in tobacco flavours.

(2) Reasons for the Acquisition

The Acquisition of Win New Group results from the Group's adherence to the development strategy of combining organic growth with M&A. It marks a milestone to consolidate the industry. Both customers of tobacco flavours of Win New Group and the existing customers of the Group are highly complementary to each other. As a result of the Acquisition, the market share of the Group is increased; the Group's dominant position in the tobacco flavour industry in China is reinforced. This fits in the Group's development strategy which treats tobacco flavours as a core business. For food flavours, Win New Group owns a number of famous brands and a series of brand new products to the Group, which significantly enhance the Group's position and competitiveness in the food flavour market. In view of the highly complementary fit of the business, the directors believe that the consideration of the Acquisition, that is the effective guaranteed profit after taxation (before impairment and amortization of goodwill and intangible assets) for the year ending 31 March 2008 (the "Effective Guaranteed Profit") provided by the vendor of approximately HKD54,360,000 and a price to earnings multiple of no more than 12 times, made the conditions of the Acquisition very attractive.

(3) Synergy from the Acquisition

The unaudited net profit after taxation (before impairment and amortization of goodwill and intangible assets) of Win New Group for the year ending 31 March 2008 reached HKD85,757,000, which exceeded the Effective Guaranteed Profit provided by the vendor. Accordingly, the vendor has fulfilled her obligations under the agreement of Acquisition. The significant increase in the profit of Win New Group was mainly because the vendor has taken effective consolidation measures to integrate its major subsidiaries after the acquisition by the vendor, which resulted in higher operation efficiency.

Recently completed acquisition of Amber

The Group launched daily chemical fragrances through the acquisition of 51% equity interests in Amber in May 2008 for a consideration of approximately RMB54,803,000.

(1) *Summary of the Acquisition*

Amber plays an important role in the daily chemical fragrances industry, and is a member of CAFFCI, an associate council member of China Association of Commodity Industry (中國日用雜品工業協會) and the state high-tech company of China. Amber has about 20,000 square metres of standardized factory with ISO9001 certification for quality management system. Amber has established its own research centre with leading fragrances compounding capability and advanced testing equipment. Its major products include aromatherapy flavors, detergent fragrances, etc.

(2) *Reasons for the Acquisition*

The daily chemical industry in China is featured with a high level of consumption and relatively scattered players. The middle-end and high-end markets are mainly occupied by the international daily chemical groups. However, the low-end market is very fragmented and has lots of local daily chemical players. The per capita consumption level in China is relatively lower than that in the developed countries. The industry is still in an initial stage and has huge room for development, with personal cleaning products and household products accounting for more than 70% of the total consumption in the industry. It has been growing very fast. From 2001 to 2006, the CAGR of sales of China's daily chemical industry is about 11% according to "Euromintor International". Driven by these characteristics, the fragrances industry in China is highly scattered and developing in a prompt pace.

Recent acquisition made by the major shareholder

As of the date of this report, Ms. Chu Lam Yiu ("Ms. Chu") has acquired an enterprise engaging in business in supply of flavours and fragrances in PRC. For details, please refer to page 51.

FUTURE PROSPECTS

Economic development of China maintains a strong growth momentum

In 2007, China recorded a rapid economic growth with a GDP of approximately RMB2,250 billion, representing an increase of approximately 11.5% compared with the previous year. The domestic demand will be driven by the rapid growth of the economic development of China, thereby maintaining the swift growth momentum of the consumer market in China.

Capture the opportunity of industry consolidation and strengthen efforts in M&As

The flavour and fragrance industry in China is in its early stage with a relatively fragmented pattern, providing large room for development. Being the largest flavour and fragrance company in China, the Group will fully leverage its capacity to capture the opportunity of industry consolidation and strengthen its efforts in M&A. Through the organic growth and M&A, the Group will further expand its market share and engage in new businesses so as to further enhance the Company's overall competitiveness.

Development Strategy

Our future development strategy remains to lay on the rapid growth of China's economy, maintain tobacco flavours as the core business, adhere to the strategy of diversification, and score rapid growth through organic growth and M&A:

- Continue to maintain tobacco flavours as the core business
- Expand development of food flavours
- Give a full play of Amber, the platform, to expand fragrances business
- Actively develop upstream flavours raw materials segment, strive to form an integrated value chain, and develop the Group into a worldwide leading flavours and fragrances company

Growth of the existing businesses

- Tobacco flavour: Leverage on the strengths in products and technologies, further strengthen the cooperation with market leaders in tobacco industry, further expand its market share in leading tobacco companies and in famous and quality brands, and keep identifying new applications of tobacco flavours
- Food flavour: step up the development of savoury flavours, develop new products, and expand direct sales
- Fragrances: speed up the integration of Amber to make it bigger and stronger
- Upstream raw materials: Develop its unique advantages in raw materials to further enhance its core competitiveness of the products

Aggressively seek the opportunities for M&A

- Tobacco flavour: Further strengthen the strategic position in the industry through M&A
- Food flavour: Further enhance industry leadership through M&A
- Fragrances: Further enlarge the scale through M&A

Further progress globalization

The Group keeps progressing globalization. Talents and technology are the core competitive edges of the Group, as well as the first step for globalization. Looking forward, the Group will endeavour to create a favourable environment in order to continuously attract overseas and domestic professionals to join the Group. Meanwhile, the Group will also accelerate the research on overseas markets and enter into international markets in due course.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. CHU Lam Yiu, aged 38, has been serving as the Chairman and Executive Director of the Company since March 2004. Ms. Chu is currently the Deputy Director of CAFFCI, Deputy Director of China Food Additive Production Application Industry Association and a member of the Fourth Chinese People's Political Consultative Conference Committee (Shenzhen, Guangdong province). Ms. Chu is experienced in formulating strategies and making executive decisions on business operation, investments and market development.

Mr. LAU Chi Tak, aged 51, has been serving as the CEO and an Executive Director of the Company since April 2008. Mr. Lau holds a Bachelor's Degree in Chemistry and has over 20 years' experience in the international flavours and fragrances industry. He held a managerial position in a leading international flavour and fragrance company before joining us. He possesses in-depth knowledge of the Asian market and is particularly experienced in the business development in the greater China area.

Mr. POON Chiu Kwok, aged 46, has been serving the Board since March 2004 and is currently an Executive Director and the Company Secretary of the Company. Mr. Poon holds a master degree in international accounting, a postgraduate certificate in laws, a bachelor degree in laws, and a bachelor degree in business studies. He is a member of the HKSI, ICSA, HKICS, and Professional Education Committee of HKSI. Mr. Poon has extensive experience in securities regulations and commercial and investment banking. He has been working as a regulator, investment banker and financial adviser in the financial and securities sector for around 22 years. Mr. Poon currently serves as an independent non-executive director of Tsingtao Brewery Company Limited and CATIC Shenzhen Holdings Limited both are H shares companies listed on the Main Board of the Stock Exchange.

Mr. WANG Guang Yu, aged 44, has been serving as an Executive Director of the Company since August 2004. Mr. Wang is also the Chief Technical Officer of the Company. He holds a Master's Degree in Chemical Analysis and has a qualification of senior engineer. He has the special allowance provided by the PRC government. Mr. Wang previously worked in management positions of large-scale chemical company in China and is currently the Deputy Director of CAFFCI. Mr. Wang has nearly 15 years of R&D and management experiences in the chemical industry.

Mr. XIA Li Qun, aged 42, has been serving as the Executive Director, Vice President and Chief Financial Officer of the Company since September 2006. Mr. Xia has around 20 years of financial and corporate management experience. He previously worked in domestic accounting firms in China and was a senior management member of a foreign invested enterprise in China. He is currently the Chairman of the Shanghai Food Additive Association. He holds a Bachelor of Arts in Economics and is a certified accountant, certified tax specialist and certified appraiser in China. He is responsible for the Group's finance, administration and human resources.

Mr. XIONG Qing, aged 31, has been serving as the Executive Director of the Company since February 2008. Mr. Xiong joined the Group as Assistant to the President in May 2007. Prior to join the Group, he previously worked in several international investment banks for years. Mr. Xiong has extensive experiences with Chinese enterprises and international capital market. Mr. Xiong majored in international accounting from Tsinghua University School of Economics and Management, and graduated with a Bachelor's Degree in Economics and he is also a EMBA degree holder of INSEAD in France.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Luk Shiu, aged 50, joined the Group on 1 May 2006 as an Independent Non-executive Director of the Company. Mr. Lee is the Senior Consultant of an investment bank. Mr. Lee has about 25 years' ample experience in commercial accounting and corporate finance. Mr. Lee has principally engaged in corporate finance and regulatory aspects in the Stock Exchange. Mr. Lee was an Assistant Vice President of the Listing Division of the Stock Exchange, and his duties included regulating and monitoring the Hong Kong listed companies in relation to their compliance with the Listing Rules and processing new listing applications. He is a fellow member of ACCA and an associate member of HKICPA.

Ms. MA Yun Yan, aged 47, has been serving as an Independent Non-executive Director of the Company since September 2004. She graduated from the Law School of Peking University in 1984 and has been qualified as a lawyer in China in 1986. Ms. Ma has been dedicated to teaching and doing research in the Law School in relation to international commerce and investment aspects for 10 years. She is now the Partner of Shu Jin Law Firm. Ms. Ma has extensive experience in the legal field in relation to the capital markets, including investments, acquisition and mergers, issuance of securities etc, and has lead-managed the issuance of shares and convertible bonds and major restructuring of numerous listed companies such as China Vanke Co., Ltd., China Petroleum Jilin Chemical Engineering Construction Co. Ltd., China Merchants Property Development Co., Ltd., which shares are listed in the Mainland, and also AAC Acoustic Technologies Holdings Inc., Vital BioTech Holdings Limited and Shenzhen High-Tech Holdings Limited, which shares are listed in Hong Kong. Ms. Ma is now an Independent Non-executive Director of Shenzhen Laibao High Technology Co. Ltd, which is a member of Shenzhen Stock Exchange Listing Committee and is listed in Shenzhen.

Mr. MAK Kin Kwong, Peter, aged 46, has been serving as an Independent Non-executive Director of the Company since March 2004. Mr. Mak is the managing director of Venfund Investment. Venfund Investment is a boutique investment banking firm specializing in cross-border mergers and acquisitions, corporate restructuring and international financial advisory services for clients in China, which he co-founded in late 2001. Prior to that, Mr. Mak spent 17 years at Arthur Andersen Worldwide where he was a Firm partner and served as the managing partner of Arthur Andersen Southern China in his last position with the Firm. Mr. Mak also serves as an independent non-executive director and audit committee chairman of Trina Solar Limited, China GrenTech Corp. Ltd., Dragon Pharmaceutical Inc., Network CN Inc. and China Security & Surveillance Technology, Inc. all of which are companies listed in the U.S.; Gemdale Industries Inc., listed in Mainland China and China Dongxiang (Group) Co., Ltd., listed on the Hong Kong Stock Exchange. Mr. Mak is also the non-executive director of Bright World Precision Machinery Ltd., a company listed in the Republic of Singapore and Vinda International Holdings Ltd., a company listed on the Hong Kong Stock Exchange.

Mr. Mak is a graduate of the Hong Kong Polytechnic University, and a fellow member of HKICPA and ACCA, and a member of the Institute of Chartered Accountants, in England and Wales.

SENIOR MANAGEMENT

Mr. ZHANG Yong, aged 47, is Vice President of the Group and is responsible for marketing and sales. He holds a Bachelor's Degree in Engineering. He served in local governments and large enterprises in the Mainland. Mr. Zhang has nearly 20 years' experience in marketing and management.

Mr. Alan DAVIES, aged 60, is Chief Technical Officer of tobacco flavours and Head of Aromascape Development Centre in Germany. Mr. Davies holds a Higher National Diploma in Food Science of Grimsby College of Technology, UK. Mr. Davies served as senior flavourist in charge of creation and applications in a number of world renowned flavours and fragrances companies and tobacco factory, including BBA, Carreras Rothmans, Dragoco and Symrise. Mr. Davies has over 35 years' experience in tobacco flavours.

Mr. Helmut GEHLE, aged 50, is Chief Technical Officer of food flavours, and holds Chemical Technology Certificate of Industrial Vocational School, Holzminden, Germany. Mr. Gehle served as senior flavourist and senior technical officer in a number of world renowned flavour and fragrance companies including Dragoco, Quest and Symrise. Mr. Gehle has more than 20 years' experience in flavouring and management.

Mr. LIN Chang Kui, aged 45, is Administrative and Personnel Director of the Group. Mr. Lin is a doctor graduate student of enterprise management and holds an MBA degree; he served as senior executive in a large enterprise group and has years' experience in operations management of enterprise group, proficient in corporate strategy planning, group strategy management, design of standard corporate governance, and well experienced in capital operations including project planning and enterprise M&A.

Mr. LI Xiu Quan, aged 44, is Investment Director of the Group, He holds a Bachelor's Degree in Economics and is a senior accountant. Mr. Li served as senior executive in a Mainland listed company. Mr. Li has nearly 20 years' experience in financial and investment management.

Corporate Governance Report

Corporate governance refers to the rules and incentives by which the management of a company is directed and controlled to maximize the profitability and long-term value of the firm for shareholders while taking into account the interest of other legitimate stakeholders (UK Cadbury Report 1992). The Board recognizes the importance and benefits of good corporate governance practices and has adopted certain corporate governance and disclosure practices aiming at a high level of transparency and accountability. The Company is committed to continuously improving its corporate governance practices as part of its own corporate culture.

The Company has complied with the code provisions under the CG Code as set out in Appendix 14 to the Listing Rules throughout the year except for the deviations from the code provisions A.2.1, regarding separation of roles of chairman and chief executive officer ("CEO") and A.4.1, in respect of the terms of non-executive directors. Further explanations are set out below. However, in view of good corporate governance practices, the Company has separated the roles of chairman and CEO with effect from 9 April 2008. The division of responsibilities between the chairman and CEO were clearly established as well. As such, the Company believes that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

1. DIRECTORS

The Board

The primary objective of the Board is to maximize the profitability of the company and to enhance long-term value of the company for the shareholders. To this end, the Board assumes the responsibilities for leadership and control of the Company and oversees the businesses, strategic development, financial performance and corporate governance of the Group. All new board members have been briefed the general business background and policy of the Company on joining the board and all directors have been given regular training to update and refresh their skills and knowledge so far relating to discharge of their duties as directors.

Board members meet regularly and at least four times a year to discuss strategies and business issues, including financial performance, of the Group.

Directors declare their interests in the resolutions to be considered by the Board and abstain from voting on resolutions in which they have material interests.

Minutes of Board meetings and board committees meetings kept by the Company Secretary are sent to the Directors and committee members respectively for records and are open for inspection by the Directors. Details of the attendance of the Directors at the physical regular meetings are set out in point 6 of this CG Report. The Company has arranged appropriate insurance cover for the Directors and senior management of the Company in respect of legal action against them in the course of execution of their duties.

Chairman and Chief Executive Officer

The roles of Chairman and CEO of the Company have been separated with effect from 9 April 2008. To ensure a balance of power, the Company has established a clear division of the responsibilities between the Chairman, Ms. CHU Lam Yiu who is the ultimate controlling shareholder of the Company and the CEO, Mr. LAU Chi Tak.

The Chairman's responsibility is to manage the Board including the following:

- To provide leadership for the Board and ensure that the Directors meet regularly and whenever necessary to consider all key and appropriate issues in a timely manner and thus ensure the Board functions effectively and discharges its responsibilities;

- With the supports of the Chief Financial Officer ("CFO"), the Qualified Accountant ("QA") and the Company Secretary, to ensure all Directors are properly briefed on issues arising at board meetings and receive adequate, complete, reliable and timely information for making decisions;

- To lead and set the strategic plan of the Company and supervise the implementation of resolutions approved by the Board. Each Executive Director is to oversee and monitor different functions of the Group according to individual's profession skills and expertise;

- To play a leading role in maintaining the balanced composition of the Board and sub-board committees, so as to make the Board an effective team, working with high degree of harmony;

- The Chairman has delegated to the designated director(s) and the Company Secretary the responsibilities of drawing up and approving the agenda for each board meeting and contacting other directors for any matters proposed for inclusion in the agenda before each board meeting; and

- To ensure good corporate governance practices and procedures are in place. In the Company, the Chairman, through the CFO, the QA and Company Secretary, oversees the implementation of the practices and procedures set out in the CG Code.

The CEO's responsibility is to manage the Company's business including the following:

- To provide leadership for the management;

- To implement the strategic planning and business development;

- To supervise the business and operational management of the Company;

- Cooperate closely with management teams from all function to ensure the Company's smooth operation and development and to report regularly to the Board on major business development; and

- With the assistance of CFO, establishing and maintaining proper internal controls and systems.

Board Composition

The Company has a balanced board. The Board currently comprises six Executive Directors and three INEDs. One-third of the Board was represented by INEDs. The INEDs who bring strong independent judgment, knowledge and experience to the Board's deliberations.

The present Board has a diverse wealth of skills, expertise, and qualifications in the aspect of production, management, accounting and finance, legal and regulatory experience both in Hong Kong and China. Two out of three INEDs possess recognized professional qualification in accounting and financial management expertise. This diversity of experiences and backgrounds enables the Board to enhance good corporate governance and performance standard and to bring in valuable contributions and objective advices for the development of the Group's businesses.

Biographies of the Directors are set out on pages 33 to 35 of this annual report and are published on the Company's website www.huabao.com.hk.

The Company has received, from each of the INEDs, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the INEDs are perceived and actual independent pursuant to the Listing Rules.

Directors' Appointments and Re-election

Although INEDs are not appointed for a specific term, which deviates from the code provision A.4.1 of the CG Code, they shall retire from office by rotation no later than the third AGM of the Company since their last appointment or re-election and are eligible for re-election.

The Company has not established a nomination committee. New director is sought mainly through referrals, internal promotions or from the management of any acquired businesses. In evaluating whether an appointee is suitable to act as a Director, the Board will review the independence, experience and skills of the appointee as well as personal ethics, integrity and time commitment of the appointee. Appointment of a new Director requires the unanimous approval of the Board members. All directors appointed by the Board are subject to election by Shareholders at the forthcoming general meeting.

Responsibilities of Directors

The Directors are collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the performance of the operations on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term strategies;
- approving the strategic, operational and financial plans;
- setting the dividend policy; and
- committing to major acquisitions and disposals.

The Directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate them in discharging their responsibilities.

INEDs take an active role in Board meetings and serve on the sub-board committees.

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

Supply of and Access to Information

All Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.

Board members are supplied with agenda and comprehensive Board papers in respect of regular Board meetings at least three days before the intended date of meeting.

2. REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company was established in July 2005 which comprises two INEDs, namely Mr. MAK Kin Kwong, Peter, who is the Chairman of the Remuneration Committee, Ms. MA Yun Yan and one Executive Director namely Mr. XIA Liqun.

The terms of reference of the Remuneration Committee are posted on the Company's website www.huabao.com.hk.

The principal responsibilities of the Remuneration Committee include making recommendations for approval by the Board with respect to matters relating to the remuneration of Executive Directors. In discharging its responsibilities, the Remuneration Committee has performed the following work:

- made recommendations on the Company's policies and structure for all the remuneration of the Executive Directors;

- proposed the specific remuneration packages of the Executive Directors, and made recommendations on the remuneration of the INEDs for the Board's approval by reference to market conditions, performance of the Group and the individual and corporate goals and objectives as set by the Board from time to time; and

- reviewed and evaluated the Company's share option scheme.

Directors abstain from voting in determining their own remuneration packages.

The Remuneration Committee met at least once during the year and the attendance record is set out in point 6 of this CG Report.

Details of the emoluments of each Director are set out in note 22(b) to the consolidated financial statements. Details of the Share Option Scheme and the share options granted to the Directors are set out on pages 49 and 50 of this annual report respectively.

3. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the preparation and timely publication of financial statements. In preparing the financial statements, relevant statutory requirements have been complied, applicable accounting standards in force in Hong Kong have been adopted, appropriate accounting policies have been applied on a consistent basis, going concern basis has been adopted and reasonable and prudent judgments and estimates have been made.

The auditors have a primary responsibility for auditing and reporting on the financial statements and the Auditors' Report to the Shareholders is set out on pages 55 and 56 of this annual report.

Internal Controls

Internal controls is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations.

Initiated by the Audit Committee, PricewaterhouseCoopers Consultants (Shenzhen) Ltd. has conducted a review of the internal controls system of the Group under the principles set out by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") covering major control aspects. The Board considers that the internal controls systems of the Company are in broad effective.

Training on relevant regulations of a listed issuer in Hong Kong has been conducted jointly by an Executive Director, the Company Secretary, Herbert Smith, which is the Company's counsel for the Board and senior management team on regular basis.

Audit Committee

The Audit Committee of the Company was established in June 2002 and currently comprises three INEDs, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu. The Audit Committee possesses a wealth of experience and expertise including accounting, legal and regulatory experience both in Hong Kong and China.

The terms of reference of the Audit Committee are posted on the Company's website www.huabao.com.hk.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting system, internal control procedures and to maintain good and independent communications with the management as well as auditors of the Company.

In discharging its responsibility, the Audit Committee has performed the following work:

- reviewed the draft annual and interim financial statements and draft results announcements during the year;
- discussed with the external auditors and the management on possible accounting risks;
- reviewed the effectiveness of the Group's financial controls, internal controls and risk management systems;
- approved the audit fees and terms of engagement of the external auditors; and
- reviewed the independence of the external auditors and recommendation to the Board on the re-appointment of the external auditors.

The Audit Committee met twice during the year and the attendance record is set out in point 6 of this CG Report.

Auditors' Remuneration

During the year ended 31 March 2008, the fees payable to the auditors in respect of audit and non-audit services provided by the auditor to the Group were as follows:

Nature of services	**Amount** *HKD'000*
Audit services	3,661
Non-audit services:	
– Interim results review	1,000
– Internal control review	881
– Others	3,350

4. DELEGATION BY THE BOARD

The day-to-day running of the Company is delegated to the management and divisional heads are responsible for different aspects of the Group's businesses.

The Company has maintained the Audit Committee and Remuneration Committee. Each of these committees has specific written terms of reference which deal clearly with their authority and duties. The chairmen of the committees will report the findings and recommendations to the Board after each meeting.

5. ACCESSIBLE AND TRANSPARENT COMMUNICATION WITH SHAREHOLDERS

Shareholders' Meetings

The general meeting provides a forum for the Board to communicate with the Shareholders.

Shareholders holding not less than one-tenth of the paid up capital of the Company may deposit a written requisition to the Board or the Company Secretary to require a special general meeting for transaction of any business specified in such requisition.

To facilitate enforcement of the Shareholders' rights, significant issues are dealt with under separate resolutions at the general meeting, including the election and re-election of individual Director.

Details of AGM and SGM held during the year are summarized as follows:

Meeting	Date	Venue	Resolutions
AGM	10 August 2007	Suite 1103, Central Plaza, 18 Harbour Road, Wancha, Hong Kong	1. To receive the audited financial statements for the year ended 31 March 2007; 2. To declare final dividend for the year ended 31 March 2007; 3. To re-elect Directors and to authorize the Board to fix their remuneration; 4. To re-appoint auditors; and 5. To grant general mandates to repurchase shares and to issue shares.
SGM	6 September 2007	Meeting Room, Regus Conference Centre, 35/F., Central Plaza, 18 Harbour Road, Wancha, Hong Kong	1. To acquire Win New Group Limited

The Chairman and representative from the Audit Committee were present and available to answer questions raised at the AGM and the SGM in which transactions were proposed for independent Shareholders' approval during the year.

The right to demand a poll was set out in the circulars to Shareholders dispatched during the year.

To facilitate communication further, Shareholders may send their enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Relevant contact information is set out on page 2 of this annual report and is also available on the Company's website www.huabao.com.hk.

6. ATTENDANCE RECORD

Attendance records of Board regular meetings and Board committees meetings held during the year are as follows:

	Board Regular Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Executive Directors			
CHU Lam Yiu *(Chairman)*	*4/6	n/a	n/a
CHEN Yong Chang (1)	5/5	n/a	n/a
POON Chiu Kwok	6/6	n/a	n/a
WANG Guang Yu	6/6	n/a	n/a
XIA Li Qun	6/6	n/a	1/1
XIONG Qing (2)	1/1	n/a	n/a
INEDs			
LEE Luk Shiu	6/6	2/2	n/a
MA Yun Yan	6/6	2/2	1/1
MAK Kin Kwong, Peter	6/6	2/2	1/1
Attendance rate	96%	100%	100%

Notes:

(1) Resigned on 11 February 2008

(2) Appointed on 11 February 2008

Remarks:

* Two of the Board Meetings are relating to transactions in which Ms. CHU has material interests, therefore she did not attend and abstained from voting at the meetings.

Investor Relations Report

The Company is committed to upholding an open and proactive investor relations strategy aimed at optimizing the knowledge and understanding of the investment community with respect to the Company's corporate mission and vision, development strategies, competitive position in the industry and operating and financial performance, so as to enable the investing public to make informed investment decisions. The Company fulfils the above through a designated Investor Relations Department.

The Investor Relations Department acts as an intermediary between the Company and the investing public. The Group abides by fair disclosure guidelines to ensure that communication with Shareholders, investors and media is conducted in a fair manner and that no material non-public information is made available to any individual on a selective basis.

In order to develop and maintain a continuing investors' relationship, the Company has established various dialogue with the Shareholders and investors as follows:

- **SHAREHOLDERS' MEETINGS**

  It is important for the Shareholders to have access to clear and meaningful information which allows them a constructive dialogue and increase of their engagement with the Company. Shareholders can raise any questions and comments on the performance, future directions of the Company and any resolutions to be considered at the AGM and SGM. The Chairman and representative from the Audit Committee were present and available to answer questions raised at the AGM and other SGM in which transactions were proposed for independent Shareholders' approval during the year.

- **PRESS AND ANALYSTS' CONFERENCES**

  Press and analysts' conferences were held after the SGM in August 2007 and after the interim results announcement, at which the Executive Directors availed themselves to answer questions regarding the Group's operational and financial performances as well as the very substantial acquisition approved by the Shareholders.

- **INTERNATIONAL ROADSHOWS AND INVESTMENT FORUMS**

  The Company treasures every opportunity to communicate and explain its strategies to investors and Shareholders through active participation at global investor roadshows and investors' conferences hosted by reputable investment banks, securities houses and research institutes.

Set out below are the details of 12 roadshows and investors' conferences in which the Group had actively participated up to the date of this report:

Date	Venue	Organizer	Event
2007			
July	Singapore	Nomura	Nomura Asia Equity Forum
August	Singapore	BNP Paribas	BNP Paribas Securities Asia Summer Series – China small-cap corporate day
	Tokyo, Japan	Nomura	Roadshow
	Hong Kong	Huabao International	Investor Presentation – regarding to major and connected transaction
September	Boston (USA), New York (USA) and London (England)	UBS	Roadshow
	Hong Kong	CLSA	14th CLSA investors' forum
	New York (USA)	JP Morgan	Asia Pacific & Emerging Markets Equities Conference 2007
October	Macau	Citigroup	Greater China Conference 2007
November	London (England) and New York (USA)	Macquarie	Emerging Leaders Conference
December	Hong Kong and Singapore	Deutsche Bank, Macquarie and CLSA	Post interim results roadshow
	Hong Kong, Singapore, Tokyo (Japan), London (England) and New York (USA)	Deutsche Bank	Post interim results international teleconference
2008			
January	Shanghai, the PRC	UBS	Greater China Forum 2008
	Beijing, the PRC	Deutsche Bank	Access China Conference 2008
	Las Vegas, USA	CLSA	Asia Investors' Forum
February	Tokyo, Japan	CLSA	Japan Forum 2008
March	Shenzhen, the PRC	CICC	CICC Corporate Day
April	Beijing, the PRC	JP Morgan	4th Annual China Conference
May	Singapore	Merrill Lynch	The Asia Rising Star Forum (亞洲崛起之星論壇)
	Shanghai, the PRC	CLSA	China Forum

• ONGOING COMMUNICATION WITH THE INVESTMENT COMMUNITY

Regular face-to-face meetings and an ongoing schedule of telephone conference calls with institutional investors and research analysts were held throughout the year. Questions and comments on the Company raised in the meetings were summarized and reported to the senior management team after the meetings. Constant gatherings with research analysts were organized which provided a different channel for the analysts to communicate with the members of the Board. All these serve the multi purposes of maintaining market surveillance, close contact with investors and gathering any constructive dialogue from the capital market.

• SITE VISITS

Site visits to the Company's R&D centre and plants have been arranged for investors and analysts during the year which provided them on one hand the opportunities to have better understanding on the Company's businesses, technology and daily operations, and independent market surveillance on the other.

• E-COMMUNICATION VIA COMPANY'S AND INVESTOR RELATIONS WEBSITE

The Company's website at www.huabao.com.hk contains important corporate information, biographical details of Directors, organization structure, press releases, interim and annual reports, announcements and circulars issued by the Company in order to enable the Company's Shareholders and members of the investor community to have timely access to updated information about the Group. The information is also available in the investor relations website at www.irasia.com/listco/hk/huabao/index.htm.

• OTHER COMMUNICATION CHANNELS

Shareholders and members of the investor community are welcome to raise enquiries through our Investor Relations Department at the Company's principal place of business in Hong Kong or via the "Mailbox for Investors" on the Company's website www.huabao.com.hk. Designated personnel are assigned for the task to ensure that all information disclosed is on a fair and non-sensitive basis and is in line with the Company's policy and the relevant regulatory requirements.

• ANALYSTS COVERAGE

Subject to the relevant regulatory requirements, the Company is committed to continuous communication with research institutes in a proactive manner for transparency sake. Up to March 2008, the Company has been covered by 11 established and reputable research institutes as follows:

- Citigroup Investment Research
- CLSA Research Limited
- DBS Vickers Securities
- Deutsche Bank
- First Shanghai Group
- HSBC
- ICEA Securities Asia Limited
- JP Morgan
- Macquarie Securities
- Nomura International (Hong Kong) Limited
- Piper Jaffray Asia Securities Limited

(shown in alphabetical order in English)

Directors' Report

The Board present their report together with the audited financial statements of the Group for the year ended 31 March 2008.

MERGER & ACQUISITION

In September 2007, the Company completed the acquisition of 100% equity interests of Win New Group, which mainly engages in the production and sales of tobacco and food flavours as well as fragrances in the Mainland China. The details of the acquisition were set out in the Company's announcement dated 30 July 2007 and the circular dated 20 August 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the Company's principal subsidiaries are set out in note 34 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business segment is set out in note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2008 are set out in the consolidated income statement on page 60 of the annual report.

The Board declared an interim dividend of HK2.3 cents (2007: HK1.8 cents) per share, amounting to a total of about HKD70,579,000, was paid on 29 February 2008. The Board proposed the declaration of a final dividend of HK6.0 cents (2007: HK3.8 cents) per share in cash for the year ended 31 March 2008, amounting to a total of about HKD184,147,000, is expected to be paid on 17 October 2008 to Shareholders whose names appear on the Register of Members of the Company as at 1 August 2008, subject to Shareholders' approval in the forthcoming annual general meeting. Together with the interim dividend, this will bring the total dividend distribution for the year to HK8.3 cents (2007: HK5.6 cents) per share.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 61 and in note 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2008, the distributable reserves of the Company amounted to HKD1,505,975,000 (2007: HKD319,924,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 15 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116.

SHARE OPTIONS

As per 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 31 March 2008, the share options granted by the Company pursuant to the Share Option Scheme which are valid and outstanding amounted to 115,730,000 shares, represents approximately 3.8% of the Shares issued. The following is a summary of the Share Option Scheme:

(a) Purpose of the Scheme

The Share Option Scheme aims at encouraging the participants to make contributions to and promote benefits of the Group and developing and maintaining business relationships with participants for the benefit of the Group.

(b) Participants of the Scheme

The Board has absolute discretion to grant share option to any participant.

(c) Maximum number of shares issuable under the Scheme

The total number of share options to be granted under the Share Option Scheme shall not exceed 10% of the issued ordinary share capital of the Company as at 22 September 2006. Upon approval by the Shareholders, the Company may renew the Scheme Mandate Limit, provided that each renewal shall not exceed 10% of the total number of issued Shares as at the date of approval by the Shareholders, and a circular regarding the proposed renewal of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules. The aggregate maximum number of Shares which may be issued upon exercise of share options granted under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time.

(d) Maximum entitlement of each participant

The maximum number of Shares (issued and to be issued) upon exercise of options (whether exercised, cancelled or outstanding) granted to any participants in any 12-month period under the Share Option Scheme and any other share option scheme of the Company shall not exceed 1% of the total number of Shares in issue from time to time. Any excess over 1% requires the formal approval by Shareholders through an ordinary resolution at a general meeting at which the relevant participant and his associates shall abstain from voting and the Company shall issue a circular pursuant to relevant provisions of Chapter 17 of the Listing Rules.

(e) Time for exercise of options

The grantee may subscribe for Shares during such period as may be determined by the Board (the said period shall not in whatever case be later than the last day of the 10-year period after the day on which the offer relating to the option is duly approved by the Board in accordance with the Share Option Scheme (subject to early termination)).

(f) Minimum period for which an option must be held before it can be exercised

Unless the Directors determine otherwise and state in the offer of the grant of option to the grantee, the Share Option Scheme does not provide for any minimum period for which share options must be held before it can be exercised.

(g) Acceptance of option offer and payment

The grantee may accept the offer of the share option within 21 days from the date of the offer letter issued by the Company. The grantee shall pay HKD1 as consideration for accepting the offer of the share option.

(h) Basis for determining the exercise price

The exercise price of share option granted pursuant to the Share Option Scheme shall be determined by the Board and shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of offer, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Shares.

(i) The life of the Scheme

The Share Option Scheme will remain in force for 10 years starting from 22 September 2006.

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

Grantee	Grant Date	Balance as at 1 April 2007	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 March 2008
Executive Directors:							
Mr. POON Chiu Kwok	25 October 2006	7,000,000	–	–	–	–	7,000,000
Mr. WANG Guang Yu	25 October 2006	5,250,000	–	–	–	–	5,250,000
Mr. XIA Li Qun	25 October 2006	5,250,000	–	–	–	–	5,250,000
Mr. XIONG Qing	17 October 2007	–	3,600,000	–	–	–	3,600,000
Independent Non-executive Directors:							
Mr. LEE Luk Shiu	25 October 2006	800,000	–	–	–	–	800,000
Ms. MA Yun Yan	25 October 2006	800,000	–	–	–	–	800,000
Mr. MAK Kin Kwong, Peter	25 October 2006	800,000	–	–	–	–	800,000
Other employees	10 October 2006	82,700,000	–	6,420,000	–	3,200,000	73,080,000
	25 October 2006	5,250,000	–	–	–	–	5,250,000
	17 October 2007	–	13,900,000	–	–	–	13,900,000
Total		107,850,000	17,500,000	6,420,000	–	3,200,000	115,730,000

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Ms. CHU Lam Yiu *(Chairman)*	
Mr. CHEN Yong Chang	(resigned on 11 February 2008)
Mr. LAU Chi Tak *(CEO)*	(appointed on 9 April 2008)
Mr. POON Chiu Kwok	
Mr. WANG Guang Yu	
Mr. XIA Li Qun	
Mr. XIONG Qing	(appointed on 11 February 2008)

Independent Non-executive Directors:

Mr. LEE Luk Shiu
Ms. MA Yun Yan
Mr. MAK Kin Kwong, Peter

In accordance with Bye-law 86(2) of the Company's bye-laws, Messrs. Lau Chi Tak and Xiong Qing shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-law 87(1) and (2) of the Company's bye-laws, Messrs. Poon Chiu Kwok, Lee Luk Shiu and Mak Kin Kwong, Peter shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in note 30 to the consolidated financial statements, no contracts of significance in relation to the Group's business to which the Company, its ultimate holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' BUSINESSES COMPETING WITH THOSE OF THE COMPANY

As at the date of this report, Ms. Chu has acquired controlling equity interests in an enterprise engaging in the supply of flavour and fragrance business in China. The enterprise has annual production capacity of 1,900 tons and is located in Guangdong Province. Pursuant to the non-competition undertaking under the agreement relating to the acquisition of Chemactive Investments dated 7 June 2006, Ms. Chu undertook to the Company that the Company shall have the right to acquire such equity interests at any time (at fair and reasonable price, terms and conditions) and pre-emptive right (on terms not less favourable than those offered to third parties by Ms. Chu), subject to the compliance of relevant requirements under the Listing Rules. In case the Group acquired such equity interest, the integration of the Group with such enterprise may bright synergy effect among the Group and such enterprise.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 33 to 36 of the annual report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 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 contained in 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	62.96%
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 Lam Yiu is the sole beneficial owner of the aforesaid 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 above.

Save as disclosed above, as at 31 March 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than disclosed in note 16 to the consolidated financial statements, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 March 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 Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2008, the percentage of turnover attributable to the Group's five largest customers accounted for approximately 59% and the largest customer contributed approximately 27% to the turnover of the Group, and the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 45% and the largest supplier contributed approximately 30% to the purchases of the Group.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

The Group and Yunnan Hongta Group Limited Company hold 60% and 40% equity of Yunnan Tianhong respectively. Yunnan Hongta Group Limited Company is wholly owned by Hongta and in accordance with Chapter 14A of the Listing Rules, Hongta and its associates are the connected parties of the Company. On 1 June 2006, the Group and Hongta entered into a framework agreement ("Framework Agreement") under which the Group shall continually sell tobacco flavour products to Hongta and its associates. The Framework Agreement is valid from 1 August 2006 to 31 March 2009, and all the transactions conducted between the Group and Hongta under the Framework Agreement constitute the continuing connected transactions of the Group. The Framework Agreement was approved by the Shareholders at the special general meeting held on 26 July 2006. The upper limits of annual amounts of continuing connected transactions under the Framework Agreement are set out as follows:

Period	**Upper Limit of Amount** *(RMB)*
For the 8 months ended 31 March 2007	168,000,000
For the year ended 31 March 2008	290,000,000
For the year ended 31 March 2009	350,000,000

In June 2006, the State Tobacco Monopoly Administrative Bureau approved the restructuring of Yunnan China Tobacco Industrial Company Limited, a state owned tobacco company, pursuant to which raw material procurement function of Yunnan China Tobacco Industrial Company Limited was centralized under Yunnan China Tobacco Materials (Group) Limited Liabilities Company ("Yunnan China Tobacco Materials"), a subsidiary of Yunnan China Tobacco Industrial Company Limited. As a result of the restructuring, the Group supplies tobacco flavour products to Yunnan China Tobacco Materials, through which supplies the Group's tobacco flavour products to Hongta. Accordingly, most of the continuing connected transactions between the Group and Hongta has been ceased since 1 January 2007. However, some of the associated companies with Yannan Hongta Group Limited Company procured raw material directly from the Group during the year due to business developments reason.

For the year ended 31 March 2008, the tobacco flavour products sold by the Group to the associates of Hongta amounted to approximately RMB46,629,000. The aforesaid continuing connected transactions have been reviewed by the INEDs of the Company. The INEDs confirm that the aforesaid connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms or on terms no less favourable to the Company than terms available to independent third parties; and

(iii) in accordance with the terms of the Framework Agreement, and are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Following Clause 14A.38 of the Listing Rules, the Board has appointed the auditors of the Company to make sample inspections on the aforesaid continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information", issued by HKICPA. The auditors have reported to the Board the findings and conclusions concerning the transactions as per the agreed-upon procedures.

The auditors of the Company have reviewed the aforesaid transactions and submitted to the Board a letter confirming that the continuous connected transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Company;

(iii) have been entered into in accordance with the terms of Framework Agreement; and

(iv) have not exceed the aforesaid annual limits.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

LEGAL PROCEEDINGS

As at 31 March 2008, the members of the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against any member of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report and within the knowledge of the Directors, the Company maintained a sufficient public float of the Company's securities required under the Listing Rules.

AUDITORS

The financial statements for the year ended 31 March 2008 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

Messrs. Deloitte Touche Tohmatsu, who were the auditors of the Company for the year ended 31 March 2005, resigned on 22 March 2006 and Messrs. PricewaterhouseCoopers were appointed as auditors of the Company to fill the casual vacancy pursuant to a resolution passed at the special general meeting held on 18 April 2006. The financial statements of the Company for the years ended 31 March 2006 and 2007 were audited by PricewaterhouseCoopers.

By Order of the Board

CHU Lam Yiu
Chairman

Hong Kong, 18 June 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HUABAO INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Huabao International Holdings Limited (the 'Company') and its subsidiaries (together, the 'Group') set out on pages 57 to 115, which comprise the consolidated and company balance sheets as at 31 March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR's RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 June 2008

Consolidated Balance Sheet

As at 31 March 2008
(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2008	2007 (Note 33)
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**198,878**	155,171
Leasehold land and land use rights	*7*	**24,887**	14,318
Intangible assets	*8*	**699,959**	11,992
Investment in an associate	*10*	**3,663**	3,975
Deferred income tax assets	*11*	**12,345**	26,022
		939,732	211,478
Current assets			
Inventories	*12*	**136,862**	61,871
Trade and other receivables	*13*	**429,192**	331,148
Cash and cash equivalents	*14*	**971,595**	858,494
		1,537,649	1,251,513
Total assets		**2,477,381**	1,462,991
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*15*	**306,911**	306,269
Reserves	*17*	**130,748**	(116,910)
Retained earnings			
– Proposed final dividend	*18,27*	**184,147**	116,397
– Others	*18*	**1,330,425**	774,233
		1,952,231	1,079,989
Minority interest		**69,746**	60,915
Total equity		**2,021,977**	1,140,904

Consolidated Balance Sheet

As at 31 March 2008

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2008	2007 (Note 33)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*11*	**30,701**	–
Current liabilities			
Trade and other payables	*19*	**419,587**	311,156
Current income tax liabilities		**5,116**	10,931
		424,703	322,087
Total liabilities		**455,404**	322,087
Total equity and liabilities		**2,477,381**	1,462,991
Net current assets		**1,112,946**	929,426
Total assets less current liabilities		**2,052,678**	1,140,904

The notes on pages 63 to 115 are an integral part of these consolidated financial statements.

On behalf of the Board

Ms. CHU Lam Yiu
Chairman

Mr. XIA Li Qun
Director

Balance Sheet

As at 31 March 2008
(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2008	2007 (Note 33)
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**1,245,083**	592,746
Current assets			
Trade and other receivables	13	**470**	465
Amounts due from subsidiaries	9	**720,386**	124,473
Cash and cash equivalents	14	**12,352**	60,740
		733,208	185,678
Total assets		**1,978,291**	778,424
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**306,911**	306,269
Reserves	17	**428,362**	377,119
Retained earnings			
– Proposed final dividend	18,27	**184,147**	116,397
– Others	18	**1,033,637**	(84,664)
Total equity		**1,953,057**	715,121
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	9	**24,824**	62,765
Trade and other payables	19	**410**	538
		25,234	63,303
Total liabilities		**25,234**	63,303
Total equity and liabilities		**1,978,291**	778,424

The notes on pages 63 to 115 are an integral part of this financial statement.

On behalf of the Board

Ms. CHU Lam Yiu
Chairman

Mr. XIA Li Qun
Director

Consolidated Income Statement

For the year ended 31 March 2008
(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 March 2008	2007 (Note 33)
Sales	*5*	**1,419,137**	1,013,229
Cost of goods sold	*21*	**(355,989)**	(309,083)
Gross profit		**1,063,148**	704,146
Other income – net	*20*	**40,548**	10,713
Selling and marketing expenses	*21*	**(58,348)**	(44,331)
Administrative expenses	*21*	**(155,447)**	(95,536)
Operating profit		**889,901**	574,992
Finance income		**14,411**	5,939
Finance costs		**–**	(2,441)
Finance income – net	*23*	**14,411**	3,498
Share of (loss)/profit of an associate	*10*	**(312)**	172
Profit before income tax		**904,000**	578,662
Income tax expense	*24*	**(34,384)**	(1,435)
Profit for the year		**869,616**	577,227
Attributable to:			
Equity holders of the Company		**862,145**	567,031
Minority interest		**7,471**	10,196
		869,616	577,227
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	*26(a)*	**28.13**	19.91
– Diluted	*26(b)*	**27.65**	18.66
Dividends	*27*	**254,726**	171,172

The notes on pages 63 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2008
(All amounts in HK dollar thousands unless otherwise stated)

	Notes	Attributable to equity holders of the Company					
		Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 April 2006		246,704	148,043	2,963	397,710	54,228	451,938
Exchange differences		–	33,568	–	33,568	2,430	35,998
Profit for the year		–	–	567,031	567,031	10,196	577,227
Total recognized income and expense for the year ended 31 March 2007		–	33,568	567,031	600,599	12,626	613,225
Conversion of original preference shares into ordinary shares		52,690	(7,943)	–	44,747	–	44,747
Exercise of warrants		4,900	–	–	4,900	–	4,900
Cost of issuance of shares		–	(2,102)	–	(2,102)	–	(2,102)
Dividends paid to minority shareholders		–	–	–	–	(5,540)	(5,540)
Appropriations from net profit	17	–	9,381	(9,381)	–	–	–
Purchase of additional interests in a subsidiary from a minority shareholder		–	(316)	–	(316)	(399)	(715)
Capital reorganization		–	(384,792)	384,792	–	–	–
Employee share option scheme							
– Value of employee services	22	–	28,199	–	28,199	–	28,199
– Exercise of share options	16	1,975	59,052	–	61,027	–	61,027
Interim dividend for the 6 months ended 30 September 2006	27	–	–	(54,775)	(54,775)	–	(54,775)
		59,565	(298,521)	320,636	81,680	(5,939)	75,741
Balance at 31 March 2007, as restated		**306,269**	**(116,910)**	**890,630**	**1,079,989**	**60,915**	**1,140,904**
Balance at 1 April 2007, as restated		**306,269**	**(116,910)**	**890,630**	**1,079,989**	**60,915**	**1,140,904**
Exchange differences		**–**	**140,198**	**–**	**140,198**	**7,482**	**147,680**
Profit for the year		**–**	**–**	**862,145**	**862,145**	**7,471**	**869,616**
Total recognized income and expense for the year ended 31 March 2008		**–**	**140,198**	**862,145**	**1,002,343**	**14,953**	**1,017,296**
Dividends paid to minority shareholders		**–**	**–**	**–**	**–**	**(4,816)**	**(4,816)**
Appropriations from net profit	17	**–**	**51,227**	**(51,227)**	**–**	**–**	**–**
Combination of Win New Group	2	**–**	**(4,833)**	**–**	**(4,833)**	**29,821**	**24,988**
Purchase of additional interests in a subsidiary from minority shareholders	31	**–**	**9,823**	**–**	**9,823**	**(31,127)**	**(21,304)**
Final dividend for the year ended 31 March 2007	27	**–**	**–**	**(116,397)**	**(116,397)**	**–**	**(116,397)**
Interim dividend for the 6 months ended 30 September 2007	27	**–**	**–**	**(70,579)**	**(70,579)**	**–**	**(70,579)**
Employee share option scheme							
– Value of employee services	22	**–**	**32,047**	**–**	**32,047**	**–**	**32,047**
– Exercise of share options	16	**642**	**19,196**	**–**	**19,838**	**–**	**19,838**
		642	**107,460**	**(238,203)**	**(130,101)**	**(6,122)**	**(136,223)**
Balance at 31 March 2008		**306,911**	**130,748**	**1,514,572**	**1,952,231**	**69,746**	**2,021,977**

The notes on pages 63 to 115 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2008
(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 March **2008**	2007 (Note 33)
Cash flows from operating activities			
Cash generated from operations	*28*	**899,382**	653,731
Income tax paid		**(27,418)**	(17,936)
Net cash generated from operating activities		**871,964**	635,795
Cash flows from investing activities			
Acquisition or establishment of subsidiaries		**(628,608)**	(1,000)
Purchase of additional interests in a subsidiary from a minority shareholder		**–**	(715)
Purchases of property, plant and equipment		**(30,489)**	(17,062)
Proceeds from disposal of property, plant and equipment	*28*	**300**	–
Payments for intangible assets		**(213)**	(84)
Interest received		**14,411**	3,498
Decrease in term deposits with original maturity over 3 months		**–**	29,042
Net cash (used in)/generated from investing activities		**(644,599)**	13,679
Cash flows from financing activities			
Dividends paid for shareholders		**(186,970)**	(54,775)
Dividend paid to minority interests		**(4,830)**	(5,540)
Cost of issuance of shares		**–**	(2,102)
Proceeds from issue of shares in connection with exercise of warrants		**–**	4,900
Proceeds from issue of shares in connection with exercise of share options		**19,838**	61,027
Net cash (used in) / generated from financing activities		**(171,962)**	3,510
Net increase in cash and cash equivalents		**55,403**	652,984
Cash and cash equivalents at beginning of the year		**858,494**	180,862
Effects of exchange rate changes on cash and cash equivalents		**57,698**	24,648
Cash and cash equivalents at end of the year	*14*	**971,595**	858,494

The notes on pages 63 to 115 are an integral part of these consolidated financial statements.

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 Company is an investment holding company. The Company and its subsidiaries (the 'Group') mainly engage in the production, distribution and sale of flavours and fragrances in 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 ('Mogul'), Resourceful Link International Limited ('Resourceful Link'), Power Nation International Limited ('Power Nation'), Jumbo Elite Limited ('Jumbo Elite') and Real Elite Investments Limited ('Real Elite'), which are solely beneficially owned by Ms. Chu Lam Yiu ('Ms. Chu'), who is the Company's ultimate controlling shareholder and Chairman of the Board of Directors.

Pursuant to an acquisition agreement dated 30 July 2007, the Company acquired Win New Group Limited ('Win New') and its subsidiaries ('Win New Group') from Ms. Chu (the 'Acquisition') at a consideration of HKD652,337,000 satisfied by cash payment. The Acquisition was a major acquisition pursuant to The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the 'Listing Rules'), details of which were set out in the circular dated 20 August 2007 issued by the Company. The Acquisition was completed on 19 September 2007.

Win New is a company incorporated in the British Virgin Islands ('BVI') with limited liability on 30 May 2007. Win New Group mainly engages in the production, distribution and sale of flavours and fragrances in the PRC.

These consolidated financial statements are presented in thousands of units of HK dollars ('HKD'000') unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the 'Board') on 18 June 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRS'). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Application of merger accounting

Since the Company and Win New 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 consolidated financial statements include 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 the Company and the entities comprising Win New Group. For companies acquired from third parties during the year, they would be included in the consolidated financial statements of the Group from the date of that acquisition.

The entities comprising Win New Group were effectively controlled by Ms. Chu and are listed as follows:

Entities	The first month under the control of Ms. Chu
Delight Zone International Limited	December 2006
Shanghai Yinghua Flavours & Fragrances Limited	February 2007
Shanghai Zhezhan Trading Limited	April 2007
Win New	May 2007
Joy Boom International Limited	May 2007
Fine High Holdings Limited	May 2007
Prudent Way Enterprises Limited	May 2007
Pacific Top Enterprises Limited	May 2007
Guangdong Zhaoqing Fragrances Limited	May 2007
Guangzhou Huasheng Qinghua Limited	May 2007
Shenzhen Dongjiang Chuangzhan Trading Limited	May 2007

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Application of merger accounting (Continued)

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognized as an expenses in the period in which it is incurred.

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

The consolidated balance sheet as at 31 March 2008:

	The Group (excluding Win New Group)	Win New Group	Adjustments *(Note)*	Consolidated
Investment in Win New Group	652,337	–	(652,337)	–
Other assets – net	1,299,063	722,914	–	2,021,977
Net assets	1,951,400	722,914		2,021,977
Share capital	306,911	–	–	306,911
Merger reserve	(592,734)	–	(4,833)	(597,567)
Retained earnings and other reserves	2,167,477	722,914	(647,504)	2,242,887
Minority interest	69,746	–	–	69,746
	1,951,400	722,914		2,021,977

Note: It represents an adjustment to eliminate the share capital and share premium of the combining entities against the investment cost. The difference of approximately HKD4,833,000 has been debited to the merger reserve in the consolidated financial statements.

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Application of merger accounting (Continued)

The consolidated balance sheet as at 31 March 2007:

	The Group (excluding Win New Group)	Win New Group	Adjustments	Consolidated
Investment in Win New Group	–	–	–	–
Other assets – net	1,140,924	(20)	–	1,140,904
Net assets	1,140,924	(20)		1,140,904
Share capital	306,269	–	–	306,269
Merger reserve	(592,734)	–	–	(592,734)
Retained earnings and other reserves	1,366,474	(20)	–	1,366,454
Minority interest	60,915	–	–	60,915
	1,140,924	(20)		1,140,904

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

Merger accounting as depicted above has been adopted by the Group as one of its principal accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standard, amendment and interpretations effective in the financial year ended 31 March 2008

The following new standard, amendment and interpretations to standards are mandatory for the financial year ended 31 March 2008:

- HKFRS 7, 'Financial instruments: Disclosures'. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the entity's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are incorporated throughout the financial statements;

- Amendment to HKAS 1, 'Presentation of Financial Statements – capital disclosures'. This amendment requires the entity to make disclosures that enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. These new disclosures are shown in Note 3;

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2'. This interpretation requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS. This interpretation does not have any significant impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment'. This interpretation prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any significant impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 11, 'Scope of HKFRS 2 – Group and Treasury Share Transaction'. This interpretation provides guidance on how to apply requirements of HKFRS 2 when involving the equity instruments of the parent or subsidiaries and when involving the purchase of the entity's own equity instrument from third parties. This interpretation does not have significant impact on the Group's consolidated financial statements.

The following interpretation to standard is mandatory for accounting periods beginning or after 1 June 2006 but not relevant to the Group's operations:

- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendment and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 April 2009;

- HKAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). This amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 April 2009 but it is currently not applicable to the Group as there are no borrowings regarding the Group qualifying assets;

- HKFRS 8, 'Operating Segments ' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail by management;

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). This amendment requires non-controlling interests (i.e. minority interest) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognized. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 April 2010;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

- HKFRS 3 (Revised), 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). This amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 April 2010; and

- HKFRS 2 Amendment, 'Share-based Payment Vesting Conditions and Cancellations' (effective from 1 January 2009). This amendment clarifies the definition of 'vesting conditions' and specifies the accounting treatment of 'cancellations' by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All 'non-vesting conditions' and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognized over the remainder of the vesting period is recognized immediately. The Group will apply HKFRS 2 Amendment from 1 April 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements.

(d) *Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements' (effective from 1 January 2008). This interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. This interpretation is not relevant to the Group's operations because none of the Group's companies provide for public sector services;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

- HK(IFRIC) – Int 13, 'Customer Loyalty Programmes' (effective from 1 July 2008). This interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes; and

- HK(IFRIC) – Int 14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective from 1 January 2008). This interpretation provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply this interpretation from the next financial year, but it is not expected to be relevant to the Group.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Apart from the application of merger accounting on those common control combinations, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7(a)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is reflected in equity. Gains or losses on disposals to minority interest are also recorded in equity. For disposals to minority interest, differences between any proceeds received and the relevant share of minority interest are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition (Note 2.7(a)).

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Hong Kong dollar ('HKD'), which is the Company's functional and presentation currency.

(b) Transactions and balances of individual companies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Construction in progress represents the direct costs of construction of property, plant and equipment incurred plus interest capitalized less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and available for their intended use.

All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	5-10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5-10 years
Leasehold improvements	2-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income – net, in the income statement.

2.6 Leasehold land and land use rights

Leasehold land and land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposals of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Customer relationships and non-competition agreement

Customer relationships and non-competition agreement acquired as part of a business combination are capitalized separately from goodwill and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful lives of 10 years.

(c) Trademarks

Acquired trademarks are shown at historical cost. They have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 to 20 years.

(d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 to 5 years.

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the year, the Group only had loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the losses or subsequent recoveries of amounts previously written off is recognized in the income statement within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is within the control of the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Employee benefits

(a) Pension obligations

The Group operates the Mandatory Provident Fund Scheme ('MPF Scheme') in Hong Kong which is generally funded through payments to insurance companies under defined contribution plan. It pays contributions to administered pension insurance plans on a mandatory, contractual or voluntary basis. Moreover, all the employees of the Group's entities incorporated in the PRC participate in employee social security plans, including pension, medical, housing and other welfare benefits, organized and administered by the local governments. The Hong Kong companies of the Group has no further payment obligations once these contributions have been paid. The contributions are recognized as employees benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Revenue recognition *(Continued)*

(a) Sales of goods

Sales of goods are recognized when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.18 Research and development costs

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) the management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually.

2.19 Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the final dividends are approved by the Company's shareholders and interim dividends are approved by the Board.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out under the policies approved by the Board. The Group identifies, evaluates and hedges financial risks in close co-operations with its operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing of excess liquidity.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk primarily with respect to Renminbi ('RMB'). The exchange rate of HKD against RMB is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group did not have significant exposure to foreign exchange risk as the entities of the Group mainly earn their profits in RMB and the value of RMB has been appreciating against HKD.

Should RMB be weakened/strengthened by 5% against HKD during the year ended 31 March 2008, with all other factors remaining unchanged, the profit for the year would be affected as follows:

	Change in profit after tax for the year – increase/(decrease)	
	2008	2007
Group		
– Strengthened by 5%	**48,478**	30,770
– Weakened by 5%	**(48,478)**	(30,770)
Company		
– Strengthened by 5%	**–**	–
– Weakened by 5%	**–**	–

(ii) Cash flow and fair value interest rate risk

The Group's interest bearing assets are mainly cash at banks and time deposits. Cash at banks earns interest income at floating rates stipulated by the banks from time to time. Short-term time deposits are maintained for various periods which can be drawn at short notice, depending on the cash requirements of the Group. They earn interest income at market time deposit rates. Fluctuation of market rates does not have significant impact to the operating cash flows.

(iii) Price risk

The Group is exposed to commodity price risk, especially for raw materials which are the major cost of the Group. It has not used any commodity futures to hedge its price risk exposure. However, the Group has maintained the procurement function on a group basis to control timing of purchase and bargaining on price to minimize purchase costs. Such centralization strengthens the Group's bargaining power with suppliers on purchase price, as well as enables stock up of goods when purchase price is foreseen to increase inevitably. During the year, if the purchase price of raw materials increased by 1%, the Group's profit before tax would be decreased by approximately HKD3,300,000.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, credit exposure to customers arising from outstanding receivables, and prepayments made to vendors and suppliers. The Group mainly maintains relationship with banks and financial institutions with reliable credibility. An analysis of the Group's cash and cash equivalents by counterparties is as follows:

	As at 31 March	
	2008	2007
Group		
State-owned commercials banks in the PRC	**311,869**	216,360
Commercial banks listed in the PRC, Hong Kong or other territories	**328,040**	509,234
Cash on hand or at other banks and financial institutions	**331,686**	132,900
	971,595	858,494
Company		
Commercial banks listed in Hong Kong or other territories	**12,352**	60,740

The Group currently sells substantially all its tobacco and food flavours and fragrances products in the PRC domestic market. Credit is granted for a period up to 6 months to the major customers. The credit period is determined according to an assessment made on the financial conditions and past payment history of these customers with the approval obtained from senior management. As at 31 March 2008, the 5 largest debtors accounted for 40% of total trade receivables balance of the Group.

The directors are of the view that the customers with outstanding balances as at 31 March 2008 are either existing customers with long cooperation history with the Group and/or reputable companies in the industry. The risk of credit default is considered to be low and accordingly, the provision for doubtful debts as at 31 March 2008 amounting to approximately HKD2,100,000 is considered adequate to cover any significant potential credit risk.

The Company also recorded some balances due from subsidiaries. The directors do not consider that there is significant credit risk arising from these balances in light of the past repayment history and operations of these subsidiaries.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group controls the level of inventories, closely monitors the turnover days of receivables, and does not have bank and other borrowings. Therefore, the Group does not have significant liquidity risk.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The operating cash inflows of the Group are sufficient for investing activities including acquisition of new businesses. The Group does not have bank or other borrowings and thus, the gearing ratio is zero.

3.3 Fair value estimation

The carrying value less impairment provisions of trade and other receivables and trade and other payables are a reasonable approximation of their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

Should the budgeted gross margins used in the value-in-use calculation for the tobacco and food CGU be 20% lower than management's estimates at 31 March 2008 respectively, the Group would have recognized an impairment of goodwill of HKD19,087,000 and need to reduce the carrying value of other intangible assets and property, plant and equipment by HKD37,323,000.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Estimated impairment of goodwill *(Continued)*

If the estimated pre-tax discount rate applied to the cash flows of the CGUs had been 3% higher than management's estimates, the Group would have recognized an impairment of goodwill of HKD16,046,000 and need to reduce the carrying value of other intangible assets and property, plant and equipment by HKD18,090,000.

(b) Recognition of share-based compensation expenses

During the year ended 31 March 2008, the Company granted certain share options to employees and a director. The directors have engaged an independent valuation firm and adopted the Black-Scholes Valuation Model (the 'BS Model') to determine the total fair value of the options granted, which is to be expensed over the vesting periods. Significant judgement to the inputs, such as risk free rate, expected life of share options granted, dividend yield and volatility, to the BS Model is made by the directors (Note 16).

The total fair value of options granted during the year ended 31 March 2008 determined using the BS Model was approximately HKD31,495,000, of which HKD11,509,000 was recorded as part of employee benefit expenses for the year ended 31 March 2008.

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

As at 31 March 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) Trading of fine chemicals products.

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

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

The segment information for the year ended 31 March 2008 is presented below.

	Year ended 31 March 2008				
	Tobacco flavours	Food flavours	Fine chemicals products	Unallocated	Total
Total turnover	1,239,958	175,536	8,153	15,697	1,439,344
Inter-segment sales	(75)	(4,435)	–	(15,697)	(20,207)
Net turnover	1,239,883	171,101	8,153	–	1,419,137
Operating profit/ Segment result	900,295	20,303	(161)	(30,536)	889,901
Finance income					14,411
Share of loss of an associate					(312)
Profit before income tax					904,000
Income tax expense					(34,384)
Profit for the year					869,616
Segment assets	2,150,908	260,632	3,965	61,876	2,477,381
Segment liabilities	387,999	59,873	1,467	6,065	455,404
Other segment items					
Capital expenditure *(Notes 6, 7 and 8)*	650,311	44,811	–	1,138	696,260
Depreciation *(Note 6)*	14,215	3,544	–	1,336	19,095
Amortization *(Notes 7 and 8)*	8,592	5,331	–	–	13,923
Impairment provision for trade receivables *(Note 13)*	–	1,217	–	–	1,217

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

The segment information for the year ended 31 March 2007 is presented below.

	Year ended 31 March 2007				
	Tobacco flavours	Food flavours	Fine chemicals products	Unallocated	Total
Total turnover	900,576	103,684	11,366	4,378	1,020,004
Inter-segment sales	(67)	(2,768)	–	(3,940)	(6,775)
Net turnover	900,509	100,916	11,366	438	1,013,229
Operating profit/ Segment result	600,544	13,957	(1,042)	(38,467)	574,992
Finance income					5,939
Finance cost					(2,441)
Finance income – net					3,498
Share of profit of an associate					172
Profit before income tax					578,662
Income tax expense					(1,435)
Profit for the year					577,227
Segment assets	1,235,714	154,795	5,318	67,164	1,462,991
Segment liabilities	291,236	27, 841	2,467	543	322,087
Other segment items					
Capital expenditure *(Notes 6 and 8)*	15,253	1,702	32	157	17,144
Depreciation *(Note 6)*	12,141	508	14	666	13,329
Amortization *(Notes 7 and 8)*	412	928	–	–	1,340
Reversal of impairment provision for trade receivables *(Note 13)*	(1,963)	–	–	–	(1,963)

5 SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, deferred income tax assets, trade and other receivables, inventories, operating cash and investments in an associate.

Segment liabilities comprise operating liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 6), land use rights (Note 7) and intangible assets (Note 8), including additions resulting from acquisitions through business combinations (Notes 6, 7 and 8).

(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, respectively. Accordingly, no additional information on geographical segment is presented.

(All amounts in HK dollar thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Note	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
At 1 April 2006								
Cost		96,590	15,315	20,037	29,122	2,178	39,757	202,999
Accumulated depreciation		(24,808)	(6,294)	(9,236)	(16,546)	(985)	–	(57,869)
Net book amount		71,782	9,021	10,801	12,576	1,193	39,757	145,130
Year ended 31 March 2007								
Opening net book amount		71,782	9,021	10,801	12,576	1,193	39,757	145,130
Additions		159	3,356	1,614	7,029	1,098	3,806	17,062
Transfers		24,241	18,146	69	1,335	128	(43,919)	–
Disposals		–	(32)	(33)	(33)	–	–	(98)
Depreciation	*21*	(4,864)	(1,645)	(2,454)	(4,023)	(343)	–	(13,329)
Exchange differences		3,624	898	447	661	75	701	6,406
Closing net book amount		94,942	29,744	10,444	17,545	2,151	345	155,171
At 31 March 2007								
Cost		125,819	37,976	22,298	38,663	3,519	345	228,620
Accumulated depreciation		(30,877)	(8,232)	(11,854)	(21,118)	(1,368)	–	(73,449)
Net book amount		94,942	29,744	10,444	17,545	2,151	345	155,171
Year ended 31 March 2008								
Opening net book amount		**94,942**	**29,744**	**10,444**	**17,545**	**2,151**	**345**	**155,171**
Additions		**36**	**3,980**	**2,123**	**8,093**	**1,524**	**14,733**	**30,489**
Transfers		**–**	**4,407**	**–**	**139**	**–**	**(4,546)**	**–**
Combination of Win New Group		**7,011**	**8,187**	**110**	**192**	**–**	**–**	**15,500**
Disposals		**–**	**(101)**	**(236)**	**(30)**	**–**	**–**	**(367)**
Depreciation	*21*	**(6,382)**	**(4,540)**	**(2,749)**	**(4,757)**	**(667)**	**–**	**(19,095)**
Exchange differences		**13,102**	**175**	**985**	**2,010**	**269**	**639**	**17,180**
Closing net book amount		**108,709**	**41,852**	**10,677**	**23,192**	**3,277**	**11,171**	**198,878**
At 31 March 2008								
Cost		**155,701**	**65,119**	**26,498**	**52,366**	**4,884**	**11,171**	**315,739**
Accumulated depreciation		**(46,992)**	**(23,267)**	**(15,821)**	**(29,174)**	**(1,607)**	**–**	**(116,861)**
Net book amount		**108,709**	**41,852**	**10,677**	**23,192**	**3,277**	**11,171**	**198,878**

(All amounts in HK dollar thousands unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation was expensed in the following categories:

	Year ended 31 March	
	2008	2007
Manufacturing overhead	**6,216**	2,779
Selling and marketing expenses	**793**	890
Administrative expenses	**12,086**	9,660
Total depreciation	**19,095**	13,329

7 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analyzed as follows:

	As at 31 March	
	2008	2007
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**24,887**	14,318

	Year ended 31 March	
	2008	2007
Beginning of the year	**14,318**	14,112
Combination of Win New Group	**9,145**	–
Amortization	**(771)**	(399)
Exchange differences	**2,195**	605
End of the year	**24,887**	14,318

(All amounts in HK dollar thousands unless otherwise stated)

8 INTANGIBLE ASSETS – GROUP

	Note	Goodwill	Trademarks	Customer relationships and non-competition agreement	Computer Software	Total
		(b)	*(c)*			
At 1 April 2006						
Cost		3,591	9,017	–	113	12,721
Accumulated amortization		–	(372)	–	(12)	(384)
Net book amount		3,591	8,645	–	101	12,337
Year ended 31 March 2007						
Opening net book amount		3,591	8,645	–	101	12,337
Additions		–	–	–	82	82
Amortization		–	(918)	–	(23)	(941)
Exchange differences		155	354	–	5	514
Closing net book amount		3,746	8,081	–	165	11,992
At 31 March 2007						
Cost		3,746	9,414	–	198	13,358
Accumulated amortization		–	(1,333)	–	(33)	(1,366)
Net book amount		3,746	8,081	–	165	11,992
Year ended 31 March 2008						
Opening net book amount		**3,746**	**8,081**	**–**	**165**	**11,992**
Additions		**–**	**–**	**–**	**213**	**213**
Combination of Win New Group	*(a)*	**514,472**	**6,192**	**120,249**	**–**	**640,913**
Amortization		**–**	**(1,268)**	**(11,827)**	**(57)**	**(13,152)**
Exchange differences		**47,966**	**1,285**	**10,653**	**89**	**59,993**
Closing net book amount		**566,184**	**14,290**	**119,075**	**410**	**699,959**
At 31 March 2008						
Cost		**566,184**	**17,097**	**131,605**	**523**	**715,409**
Accumulated amortization		**–**	**(2,807)**	**(12,530)**	**(113)**	**(15,450)**
Net book amount		**566,184**	**14,290**	**119,075**	**410**	**699,959**

Amortization is included in administrative expenses in the consolidated income statement.

(All amounts in HK dollar thousands unless otherwise stated)

8 INTANGIBLE ASSETS – GROUP *(Continued)*

(a) These intangible assets were originally presented in the consolidated financial statements of Win New Group as a result of various acquisitions before the combination of Win New Group with the Company.

(b) Goodwill is allocated to the Group's CGUs identified mainly according to the business segments.

The goodwill is allocated as follows:

	As at 31 March					
	2008			2007		
	Tobacco flavours	**Food flavours**	**Total**	Tobacco flavours	Food flavours	Total
Goodwill	**560,633**	**5,551**	**566,184**	3,746	–	3,746

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period (2007: five-year period). Cash flows are extrapolated using the estimated annual growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	As at 31 March			
	2008		2007	
	Tobacco flavours	**Food flavours**	Tobacco flavours	Food flavours
Gross margin	**75%**	**27%**	70%	Not applicable
Growth rate (first 4 years)	**10%**	**8%**	10%	Not applicable
Growth rate (last 6 years)	**5%**	**5%**	5%	Not applicable
Discount rate	**13.5%**	**13.5%**	10.84%	Not applicable

These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

After assessing the cash flow projections of the various CGUs, the directors considered that there was no impairment of the goodwill as at 31 March 2008 and 2007.

(c) Trademarks represent the Peacock and Xinghu trademarks.

(All amounts in HK dollar thousands unless otherwise stated)

9 INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	As at 31 March	
	2008	2007
Investments at cost – unlisted shares	**1,245,083**	592,746

(b) Balances with subsidiaries

	As at 31 March	
	2008	2007
Amounts due from subsidiaries		
Chemactive Investments Limited ('Chemactive Investments')	**545,547**	124,473
Huabao Investment Company Limited	**88,314**	–
Win New	**76,337**	–
Huabao Flavours & Fragrances (HK) Limited	**8,500**	–
Hero Ace Limited	**1,489**	–
Huabao Industrial & Trading Development (HK) Limited	**51**	–
Power Success International Development Limited	**36**	–
Central Link Inc. Limited	**36**	–
Wisdom Bright International Investment Limited	**36**	–
Rich Success Investment Development Limited	**30**	–
Sino Prospect Holdings Limited	**10**	–
	720,386	124,473

	As at 31 March	
	2008	2007
Amounts due to subsidiaries		
Smart Sino International Limited	**24,395**	44,014
Delight Zone International Limited	**288**	–
Sino Top Trading Limited	**101**	915
Symhope Investment Limited	**40**	–
Huabao Investment Company Limited	**–**	16,522
Hero Ace Limited	**–**	1,314
	24,824	62,765

The balances with subsidiaries are unsecured, interest-free and repayable on demand. Details of principal subsidiaries are set out in Note 34.

(All amounts in HK dollar thousands unless otherwise stated)

10 INVESTMENT IN AN ASSOCIATE – GROUP

	Year ended 31 March 2008	2007
Beginning of the year	**3,975**	3,924
Share of (loss)/profit of an associate	**(312)**	172
Exchange differences	**–**	(121)
End of the year	**3,663**	3,975

The Group's unlisted investment in an associate as at 31 March 2008 is as follows:

Name	Country of incorporation	Paid-up capital	Assets	Liabilities	Revenues	Net loss for the year	% Interests indirectly held	Principal activities
Weihai Huayuan Green Industry Company Limited ('Weihai Huayuan')	The PRC	USD 2,700,000	RMB 28,252,000	RMB 8,704,000	RMB 1,457,000	RMB 1,495,000	20%	Production and sale of flavours and fragrances

11 DEFERRED INCOME TAX ASSETS/LIABILITIES – GROUP

The movement in the deferred income tax is as follows:

	Note	**Deferred income tax assets** *Unrealized profits arising from intra-group sales*	**Deferred income tax liabilities** *Revaluation surplus of assets and recognition of intangible assets*
At 1 April 2006		1,735	–
Recognized in the income statement	*24*	23,607	–
Exchange differences		680	–
At 31 March 2007		**26,022**	**–**
Combination of Win New Group		**–**	**29,854**
Recognized in the income statement	*24*	**(15,305)**	**(1,844)**
Exchange differences		**1,628**	**2,691**
At 31 March 2008		**12,345**	**30,701**

(All amounts in HK dollar thousands unless otherwise stated)

11 DEFERRED INCOME TAX ASSETS/LIABILITIES – GROUP *(Continued)*

Deferred income tax assets are recognized for the unrealized intra-group profits arising from intra-group sales, calculated in respect of temporary differences under the liability method using the tax rate 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 dates.

Deferred income tax liabilities were originally presented in the consolidated financial statements of Win New Group arising from the revaluation surplus of property, plant and equipment, leasehold land and land use right, as well as recognition of intangible assets as a result of various acquisitions before the combination of Win New Group with the Company. As at 31 March 2008, deferred income tax liabilities of approximately HKD2,013,000 are expected to be settled within 12 months from the balance sheet date.

12 INVENTORIES – GROUP

	As at 31 March	
	2008	2007
At cost:		
Raw materials	**117,494**	49,202
Work in progress	**1,221**	181
Finished goods	**18,147**	12,488
	136,862	61,871

The cost of inventories recognized as expense and included in cost of goods sold for the year ended 31 March 2008 amounted to approximately HKD349,773,000 (2007: HKD302,950,000).

13 TRADE AND OTHER RECEIVABLES

		As at 31 March			
		Group		Company	
	Note	**2008**	2007	**2008**	2007
Trade receivables	*13(b)*	**377,554**	272,954	**–**	–
Less: Provision for impairment of receivables		**(2,100)**	(905)	**–**	–
Trade receivables – net		**375,454**	272,049	**–**	–
Bills receivables		**40,471**	47,452	**–**	–
Prepayments and other receivables		**2,832**	2,579	**470**	465
Advances to staff		**3,973**	1,731	**–**	–
Others		**6,462**	7,337	**–**	–
		429,192	331,148	**470**	465

(All amounts in HK dollar thousands unless otherwise stated)

13 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of the Group's and the Company's trade and other receivables approximate to their carrying 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 31 March	
	Group	
	2008	2007
0 – 90 days	**337,591**	244,312
91 – 180 days	**24,074**	23,379
181 – 360 days	**12,256**	3,773
Over 360 days	**3,633**	1,490
	377,554	272,954

As at 31 March 2008, trade receivables of HKD375,454,000 (2006: HKD 272,049,000) were fully performing.

After considering the credit period, trade receivables that are past due are assessed for impairment. As at 31 March 2008, trade receivables of HKD13,789,000 (2007: HKD4,358,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these past due trade receivables is as follows:

	As at 31 March	
	Group	
	2008	2007
Up to 180 days	**12,256**	3,773
Over 180 days	**3,633**	1,490
	15,889	5,263

As at 31 March 2008, trade receivables of HKD2,100,000 (2007: HKD905,000) were impaired and fully provided. The individually impaired receivables mainly relate to customers which had ceased cooperation with the Group and were not in a position for repayment. These receivables are all aged over one year.

(All amounts in HK dollar thousands unless otherwise stated)

13 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) *(Continued)*

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 March Group	
	2008	2007
United States Dollar ('USD')	**1,047**	1,589
RMB	**376,507**	271,365
	377,554	272,954

Movements of the provision for impairment of trade receivables were as follows:

	Year ended 31 March Group	
	2008	2007
Beginning of the year	**905**	4,174
Provision for/(Reversal of) impairment for trade receivables	**1,217**	(1,963)
Recoveries	**(173)**	(1,306)
Exchange differences	**151**	–
End of the year	**2,100**	905

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

14 CASH AND CASH EQUIVALENTS

		As at 31 March			
		Group		Company	
	Note	**2008**	2007	**2008**	2007
Cash at bank and in hand	*14(a)*	**971,595**	858,494	**12,352**	60,740

14 CASH AND CASH EQUIVALENTS *(Continued)*

(a) Cash at bank and in hand is denominated in the following currencies:

	As at 31 March			
	Group		Company	
	2008	2007	**2008**	2007
RMB	**923,380**	785,476	**–**	–
HKD	**42,684**	70,233	**12,352**	60,740
USD	**3,728**	2,475	**–**	–
Euro	**1,803**	310	**–**	–
	971,595	858,494	**12,352**	60,740

As at 31 March 2008, the Group's and the Company's maximum exposure to credit risk of cash and cash equivalents is their carrying value.

15 SHARE CAPITAL

		Group										
		Ordinary shares of HKD0.10 each		Convertible cumulative non-voting preference shares of HKD1.00 each		Convertible cumulative non-voting preference shares of HKD0.10 each		Original convertible cumulative non-voting preference shares of HKD0.10 each		New non-redeemable convertible preference shares of HKD0.10 each		Total
	Note	*Number of shares*	*HKD'000*	*Number of shares*	*HKD'000*	*Number of shares*	*HKD'000*	*Number of shares*	*HK'000*	*Number of shares*	*HKD'000*	*HKD'000*
Authorized:												
At 1 April 2006		2,000,000,000	200,000	50,000,000	50,000	350,000,000	35,000	526,900,000	52,690	–	–	337,690
Increase in authorized share capital		3,000,000,000	300,000	–	–	–	–	–	–	2,500,000,000	250,000	550,000
At 31 March 2007 and 31 March 2008		5,000,000,000	500,000	50,000,000	50,000	350,000,000	35,000	526,900,000	52,690	2,500,000,000	250,000	887,690
Issued and fully paid:												
At 1 April 2006		2,467,040,961	246,704	–	–	–	–	526,900,000	–	–	–	246,704
Conversion of original preference shares		526,900,000	52,690	–	–	–	–	(526,900,000)	–	–	–	52,690
Exercise of warrants		49,000,000	4,900	–	–	–	–	–	–	–	–	4,900
Exercise of share options	*16*	19,750,000	1,975	–	–	–	–	–	–	–	–	1,975
At 31 March 2007		3,062,690,961	306,269	–	–	–	–	–	–	–	–	306,269
At 1 April 2007		**3,062,690,961**	**306,269**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**306,269**
Exercise of share options	*16*	**6,420,000**	**642**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**642**
At 31 March 2008		**3,069,110,961**	**306,911**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**306,911**

15 SHARE CAPITAL *(Continued)*

		Company										
		Ordinary shares of HKD0.10 each		**Convertible cumulative non-voting preference shares of HKD1.00 each**		**Convertible cumulative non-voting preference shares of HKD0.10 each**		**Original convertible cumulative non-voting preference shares of HKD0.10 each**		**New non-redeemable convertible preference shares of HKD0.10 each**		**Total**
	Note	*Number of shares*	*HKD'000*	*Number of shares*	*HKD'000*	*Number of shares*	*HKD'000*	*Number of shares*	*HK'000*	*Number of shares*	*HKD'000*	*HKD'000*
Authorized:												
At 1 April 2006		2,000,000,000	200,000	50,000,000	50,000	350,000,000	35,000	526,900,000	52,690	–	–	337,690
Increase in authorized share capital		3,000,000,000	300,000	–	–	–	–	–	–	2,500,000,000	250,000	550,000
At 31 March 2007 and 31 March 2008		5,000,000,000	500,000	50,000,000	50,000	350,000,000	35,000	526,900,000	52,690	2,500,000,000	250,000	887,690
Issued and fully paid:												
At 1 April 2006		247,309,435	24,731	–	–	–	–	526,900,000	–	–	–	24,731
New preference shares issued in connection with the very substantial acquisition		–	–	–	–	–	–	–	–	2,219,731,526	221,973	221,973
Conversion of new preference shares		2,219,731,526	221,973	–	–	–	–	–	–	(2,219,731,526)	(221,973)	–
Conversion of original preference shares		526,900,000	52,690	–	–	–	–	(526,900,000)	–	–	–	52,690
Exercise of warrants		49,000,000	4,900	–	–	–	–	–	–	–	–	4,900
Exercise of share options	16	19,750,000	1,975	–	–	–	–	–	–	–	–	1,975
At 31 March 2007		3,062,690,961	306,269	–	–	–	–	–	–	–	–	306,269
At 1 April 2007		**3,062,690,961**	**306,269**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**306,269**
Exercise of share options	16	**6,420,000**	**642**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**642**
At 31 March 2008		**3,069,110,961**	**306,911**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**306,911**

16 SHARE OPTION SCHEME

At the special general meeting of shareholders held on 22 September 2006, the resolution of the adoption of the Share Option Scheme was approved. The Share Option Scheme is valid for a period of 10 years from the date of adoption and the number of shares that may be issued upon exercise of all the options to be granted under the scheme shall not exceed 10% of the issued ordinary shares as at the date of the shareholders' approval of the 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.

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

		Year ended 31 March			
		2008		2007	
	Note	**Weighted average exercise price in HKD per share**	**Number of share options *('000)***	Weighted average exercise price in HKD per share	Number of share options *('000)*
Beginning of the year		**3.09**	**107,850**	–	–
Granted		**6.65**	**17,500**	3.09	127,600
Exercised	*16(a)*	**3.09**	**(6,420)**	3.09	(19,750)
Forfeited		**3.09**	**(3,200)**	–	–
End of the year		**3.63**	**115,730**	3.09	107,850

(a) The weighted average share price immediately before the share option exercised dates was HKD 7.40 (2007: HKD 4.22) per share.

16 SHARE OPTION SCHEME *(Continued)*

Share options outstanding as at 31 March 2008 are analyzed as follows:

Grantee	Exercise price in HKD per share	Number of share options *('000)*	Expiry date
Directors	3.09	19,900	24 October 2016
	6.65	3,600	16 October 2017
Employees	3.09	73,080	9 October 2016
	3.09	5,250	24 October 2016
	6.65	13,900	16 October 2017
At 31 March 2008	3.63	115,730	

Out of the 115,730,000 (2007: 107,850,000) share options outstanding as at 31 March 2008, 34,430,000 (2007: 12,150,000) share options are currently exercisable.

The fair values of the share options granted to the employees and directors are determined using the BS Model (Note 4). The major assumptions are as follows:

	Options granted in year ended 31 March	
	2008	2007
Exercise price	**HKD6.65**	HKD3.09
Share price at date of grant	**HKD6.47**	HKD3.08 and HKD 3.30
Volatility	**44.317% – 50.763%**	51.86%
Dividend yield	**0.95%**	2% with 30% annual growth rate
Risk free interest rate	**3.75% – 3.995%**	3.68% – 3.895%
Expected lives from date of grant	**0.8 to 3.8 years**	0.5 to 3 years

(All amounts in HK dollar thousands unless otherwise stated)

17 RESERVES

		GROUP							
	Note	Contributed surplus	Merger reserve	Share premium	Capital reserve	Share-based com-pensation reserve	Exchange reserve	Other reserves	Total
At 1 April 2006		51,111	(592,734)	615,361	18,233	–	3,934	52,138	148,043
Conversion of original preference shares into ordinary shares		–	–	8,613	(16,556)	–	–	–	(7,943)
Appropriations from net profit	*17(a)*	–	–	–	–	–	–	9,381	9,381
Cost of issuance of shares		–	–	(2,102)	–	–	–	–	(2,102)
Purchase of additional interests in a subsidiary from a minority shareholder		–	–	–	–	–	–	(316)	(316)
Capital reorganization		237,080	–	(621,872)	–	–	–	–	(384,792)
Employee share option scheme									
– Value of employee services	*22*	–	–	–	–	28,199	–	–	28,199
– Exercise of share options	*16*	–	–	68,285	–	(9,233)	–	–	59,052
Exchange differences		–	–	–	–	–	33,568	–	33,568
At 31 March 2007		288,191	(592,734)	68,285	1,677	18,966	37,502	61,203	(116,910)
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	*2*	**–**	**(4,833)**	**–**	**–**	**–**	**–**	**–**	**(4,833)**
Appropriations from net profit	*17(a)*	**–**	**–**	**–**	**–**	**–**	**–**	**51,227**	**51,227**
Purchase of additional interests in a subsidiary from minority shareholders	*31*	**–**	**–**	**–**	**–**	**–**	**–**	**9,823**	**9,823**
Employee share option scheme									
– Value of employee services	*22*	**–**	**–**	**–**	**–**	**32,047**	**–**	**–**	**32,047**
– Exercise of share options	*16*	**–**	**–**	**22,196**	**–**	**(3,000)**	**–**	**–**	**19,196**
Exchange differences		**–**	**–**	**–**	**–**	**–**	**140,198**	**–**	**140,198**
At 31 March 2008		**288,191**	**(597,567)**	**90,481**	**1,677**	**48,013**	**177,700**	**122,253**	**130,748**

(All amounts in HK dollar thousands unless otherwise stated)

17 RESERVES *(Continued)*

		COMPANY				
	Note	Contributed surplus	Share premium	Capital reserve	Share-based compensation reserve	Total
At 1 April 2006		51,111	244,588	18,233	–	313,932
Effect of very substantial acquisition		–	370,773	–	–	370,773
Conversion of original preference shares into ordinary shares		–	8,613	(16,556)	–	(7,943)
Cost of issuance of shares		–	(2,102)	–	–	(2,102)
Capital reorganization		237,080	(621,872)	–	–	(384,792)
Employee share option scheme						
– Value of employee services	*22*	–	–	–	28,199	28,199
– Exercise of share options	*16*	–	68,285	–	(9,233)	59,052
At 31 March 2007		288,191	68,285	1,677	18,966	377,119
At 1 April 2007		**288,191**	**68,285**	**1,677**	**18,966**	**377,119**
Employee share option scheme						
– Value of employee services	*22*	**–**	**–**	**–**	**32,047**	**32,047**
– Exercise of share options	*16*	**–**	**22,196**	**–**	**(3,000)**	**19,196**
At 31 March 2008		**288,191**	**90,481**	**1,677**	**48,013**	**428,362**

(a) In accordance with relevant rules and regulations on foreign investment enterprises incorporated in the PRC, all subsidiaries of the Company established in the PRC shall make appropriations from their net profits to the reserve fund and the enterprise expansion fund, after offsetting accumulated losses from previous years, and before distributing profit to their owners. The appropriation to the reserve fund shall not be less than 10% of the net profit and will cease to appropriate when the accumulated appropriation reaches 50% of the registered capital of individual entity. The percentages to be appropriated to the enterprise expansion fund are determined by the Board of respective companies of the Group in the PRC.

Upon approval from the Board of respective subsidiaries, the reserve fund can be used to offset accumulated losses or to increase capital; and the enterprise expansion fund can be used to expand production or to increase capital.

(All amounts in HK dollar thousands unless otherwise stated)

18 RETAINED EARNINGS

	Year ended 31 March			
	Group		**Company**	
	2008	2007	**2008**	2007
Beginning of the year	**890,630**	2,963	**31,733**	(384,791)
Profit for the year	**862,145**	567,031	**1,373,027**	471,299
Appropriations from net profit	**(51,227)**	(9,381)	**–**	–
Capital reorganization	**–**	384,792	**–**	–
Final dividend for the year ended 31 March 2007	**(116,397)**	–	**(116,397)**	–
Interim dividend for the six months ended 30 September 2007	**(70,579)**	–	**(70,579)**	–
Interim dividend for the six months ended 30 September 2006	**–**	(54,775)	**–**	(54,775)
End of the year	**1,514,572**	890,630	**1,217,784**	31,733

The Company's profit for the year ended 31 March 2008 included approximately HKD 1,407,496,000 which was dividend income from subsidiaries and eliminated on consolidation.

19 TRADE AND OTHER PAYABLES

		As at 31 March			
		Group		**Company**	
	Note	**2008**	2007	**2008**	2007
Trade payables	*19(a)*	**162,295**	80,329	**–**	–
Due to related parties	*19(b), 30(c)*	**174,319**	174,441	**–**	–
Wages payable		**3,572**	2,834	**–**	–
Other taxes payable		**37,442**	37,052	**–**	–
Accrued expenses		**4,319**	3,142	**–**	–
Amounts due to the then minority shareholders	*19(c)*	**22,117**	–	**–**	–
Other payables		**15,523**	13,358	**410**	538
		419,587	311,156	**410**	538

The fair values of trade and other payables approximate their carrying values.

(All amounts in HK dollar thousands unless otherwise stated)

19 TRADE AND OTHER PAYABLES *(Continued)*

(a) The ageing analyses of the trade payables as at the balance sheet dates are as follows:

	As at 31 March	
	Group	
	2008	2007
0 – 90 days	**123,148**	77,660
91 – 180 days	**37,755**	1,876
181 – 360 days	**381**	793
Over 360 days	**1,011**	–
	162,295	80,329

(b) Due to related parties

Included in the amounts due to related parties are the dividends amounting to HKD94,022,000 (2007: HKD94,022,000) declared by Spanby Industrial Limited, Nocton International Limited and Future Dragon International Limited (which are the subsidiaries of Chemactive Investments, a subsidiary of the Company) to Ms. Chu prior to the incorporation of Chemactive Investments.

(c) Amounts due to the then minority shareholders

During the year, the Group acquired the remaining interests of Guangdong Zhaoqing Fragrances Limited ('Guangdong Zhaoqing'), a subsidiary of the Group, from the minority shareholders. This amount represented the outstanding amount of the acquisition consideration payable to the then minority shareholders of Guangdong Zhaoqing.

20 OTHER INCOME – NET

		Year ended 31 March	
	Note	**2008**	2007
Sales of raw materials		**32**	98
Government grants	*20(a)*	**7,170**	1,687
Waive of other payables		**5,787**	–
Exchange gain – net		**27,299**	6,683
Others		**260**	2,245
		40,548	10,713

(a) In accordance with the PRC tax laws for foreign investment enterprises, subject to the approval by relevant tax authorities, certain percentage of the enterprise income tax paid by a foreign invested enterprise will be refunded to its foreign investors if the latter use the dividends received from that foreign invested enterprise to re-invest in that enterprise or establish other foreign invested enterprises. The amounts mainly represented the income tax refund for re-investment in subsidiaries of the Group by way of capitalization of dividends.

(All amounts in HK dollar thousands unless otherwise stated)

21 EXPENSES BY NATURE

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

	Note	Year ended 31 March 2008	2007
Depreciation, excluding amounts included in research and development	6	**15,942**	9,889
Amortization	7,8	**13,923**	1,340
Changes in inventories of finished goods and work in progress		**(6,699)**	18,567
Raw materials and consumables used		**356,472**	284,383
Provision for/(Reversal of) impairment for trade receivables		**1,217**	(1,963)
Lease rentals		**4,965**	3,830
Auditors' remuneration		**5,542**	3,753
Travelling expenses		**15,764**	10,559
Entertainment expenses		**14,331**	9,744
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	22	**55,985**	28,471
Share option compensation expenses	22	**32,047**	28,199
Research and development			
– Employee benefit expenses	22	**18,416**	9,303
– Depreciation	6	**3,153**	3,440
– Others		**9,529**	8,069

22 EMPLOYMENT BENEFIT EXPENSES

	Note	Year ended 31 March 2008	2007
Wages and salaries		**58,216**	30,107
Pension costs – defined contribution plans	22(a)	**7,603**	4,130
Share options granted to directors and employees	21	**32,047**	28,199
Others		**8,582**	3,537
		106,448	65,973

(All amounts in HK dollar thousands unless otherwise stated)

22 EMPLOYMENT BENEFIT EXPENSES *(Continued)*

(a) Retirement scheme benefit

The Group operates a MPF Scheme for all the eligible employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HKD1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HKD1,000 (the 'mandatory contributions'). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

Moreover, the Group makes defined contribution to retirement schemes managed by the local governments in the PRC. It is the local governments' responsibility to pay the retirement pension to those staff who retired.

Furthermore, the Group makes defined contribution to retirement schemes managed by the insurance company in accordance with Germany's regulation and rules. It is the insurance company's responsibility to pay the retirement pension to those retired staff.

(b) Directors' emoluments

The remuneration of each director for the year ended 31 March 2008 is set out below.

Name of director	Fees	Salaries	Employer's contribution to pension scheme	Share options granted to directors	Total
Executive director:					
Ms. Chu Lam Yiu	–	–	–	–	–
Mr. Chen Yong Chang *(i)*	–	348	17	1,038	1,403
Mr. Poon Chiu Kwok	–	1,501	12	1,122	2,635
Mr. Wang Guang Yu	–	328	34	1,122	1,484
Mr. Xia Li Qun	–	403	20	1,122	1,545
Mr. Xiong Qing *(ii)*	–	220	2	709	931
Independent non-executive directors:					
Mr. Lee Luk Shiu	120	–	–	128	248
Ms. Ma Yun Yan	96	–	–	128	224
Mr. Mak Kin Kwong, Peter	120	–	–	128	248
					8,718

(All amounts in HK dollar thousands unless otherwise stated)

22 EMPLOYMENT BENEFIT EXPENSES *(Continued)*

(b) Directors' emoluments *(Continued)*

The remuneration of each director for the year ended 31 March 2007 is set out below.

Name of director	Fees	Salaries	Employer's contribution to pension scheme	Share options granted to directors	Total
Executive director:					
Ms. Chu Lam Yiu	–	–	–	–	–
Mr. Chen Yong Chang	–	95	4	1,637	1,736
Mr. Poon Chiu Kwok *(iii)*	120	352	7	1,637	2,116
Mr. Wang Guang Yu	–	123	10	1,637	1,770
Mr. Xia Li Qun *(iv)*	–	166	16	1,637	1,819
Independent non-executive directors:					
Mr. Lee Luk Shiu *(v)*	110	–	–	187	297
Ms. Ma Yun Yan	96	–	–	187	283
Mr. Mak Kin Kwong, Peter	120	–	–	187	307
					8,328

Notes:

(i) Resigned on 11 February 2008.

(ii) Appointed on 11 February 2008.

(iii) Re-designated from independent non-executive director to executive director on 1 May 2006.

(iv) Appointed on 22 September 2006.

(v) Appointed on 1 May 2006.

No directors waived any emoluments during the years ended 31 March 2008 and 2007.

During the years ended 31 March 2008 and 2007, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(All amounts in HK dollar thousands unless otherwise stated)

22 EMPLOYMENT BENEFIT EXPENSES *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 (2007: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining 3 (2007: 2) individuals during the year are as follows:

	Year ended 31 March	
	2008	2007
Basic salaries and allowances	**5,116**	2,432
Contributions to the retirement scheme	**126**	12
Share option granted	**2,553**	1,564
	7,795	4,008

The emoluments fell within the following band:

	Number of employees	
	2008	2007
Emolument bands		
HKD1,500,001– HKD2,000,000	**1**	1
HKD2,000,001– HKD2,500,000	**1**	1
HKD3,500,001– HKD4,000,000	**1**	–

23 FINANCE INCOME AND FINANCE COSTS

		Year ended 31 March	
	Note	**2008**	2007
Interest income on bank deposits		**14,411**	5,939
Interest expense on liability component of preference shares	*26(b)*	**–**	(2,441)
Finance income – net		**14,411**	3,498

24 INCOME TAX EXPENSE

The amount of taxation charged to the consolidated income statements represented:

		Year ended 31 March	
	Note	**2008**	2007
Current income tax			
– Hong Kong profits tax	*24(a)*	**–**	132
– PRC enterprise income tax	*24(b)*	**20,923**	24,910
Deferred income tax assets	*11*	**15,305**	(23,607)
Deferred income tax liabilities	*11*	**(1,844)**	–
		34,384	1,435

(a) No Hong Kong profit tax has been provided as the Group had no assessable profit for the year (2007: provided at 17.5%).

(All amounts in HK dollar thousands unless otherwise stated)

24 INCOME TAX EXPENSE *(Continued)*

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

The income tax rates enacted or substantively enacted to the major subsidiaries of the Group incorporated in the PRC were as follows:

	Note	**April to December 2006**	**January to December 2007**	**January to March 2008**
Huabao Food Flavours & Fragrances (Shanghai) Company Limited	*(i)*	11.5%	18%	25%
Shanghai H&K Flavours & Fragrances Company Limited	*(iii)*	0%	9%	12.5%
Huabao Xianghua Keji Fazhan (Shanghai) Company Limited	*(i)*	33%	33%	25%
Wuxi Fuhua Flavour & Fragrance Company Limited	*(iii)*	0%	7.5%	12.5%
Wuxi Jiahua Flavour & Fragrance Company Limited	*(iii)*	0%	7.5%	12.5%
Qingdao Huabao Flavors & Fragrances Company Limited	*(iii)*	0%	0%	0%
Yunnan Tianhong Flavor & Fragrance Company Limited	*(iv)*	10%	10%	15%
Hua Fang Tobacco Flavors Limited	*(ii)*	15%	15%	18%
Guangzhou Huasheng Qinghua Limited	*(i)*	Not applicable	0%	25%
Shanghai Zhezhan Trading Limited	*(i)*	Not applicable	9%	25%
Shenzhen Dongjiang Chuangzhan Trading Limited	*(i)*	Not applicable	24%	25%
Guangdong Zhaoqing Fragrances Limited	*(iii)*	Not applicable	0%	25%
Taicang Wenhua Enterprise Company Limited	*(iii)*	Not applicable	0%	0%
Huashun Flavour (Shanghai) Limited	*(iii)*	Not applicable	0%	0%
Wuxi Huaxin Flavour & Fragrance Company Limited	*(iii)*	Not applicable	0%	0%
Shanghai Yinghua Flavours & Fragrances Limited	*(iii)*	Not applicable	0%	0%
Guangzhou Huabao Flavour & Fragrances Company Limited	*(iii)*	Not applicable	Not applicable	0%
Wuxi Hua Hai Flavour Company Limited	*(iii)*	Not applicable	Not applicable	0%

The income tax rates are derived from various preferential tax policies.

(All amounts in HK dollar thousands unless otherwise stated)

24 INCOME TAX EXPENSE *(Continued)*

(b) *(Continued)*

(i) On 16 March 2007, the National People's Congress of the PRC approved Corporate Income Tax Law of the PRC (the 'CIT Law'), which came into effect on 1 January 2008. The CIT Law stipulates the applicable income tax rate at 25% for domestic enterprises in the PRC.

PRC companies established before 16 March 2007 are entitled to the transitional rules as stipulated by the State Council Circular 2007 No. 39 below:

(ii) From 1 January 2008, the existing tax rate of 15% applied to some enterprises shall be increased to 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

(iii) The 'two-year exemption and three-year half rate' preferential tax policy can be continued to enjoy. For enterprises that do not benefit from such preferential policies due to their non-profit making status, the period of time for which such policies apply shall be calculated commencing from 1 January 2008.

(iv) Encouraged enterprise of western regions can continue to enjoy tax rate of 15% until its original expiry (i.e. 2010).

The CIT Law also stipulates that the Corporate Income Tax shall be levied at the reduced rate of 15% for High/New Technology Enterprises that are specifically supported by the State. Some group companies have been in the process of applications for the High/New Technology Enterprises status. However, none of such applications has been completed by the approval date of these consolidated financial statements. Therefore, for prudence, none of the PRC Group companies has adopted this preferential tax rate in tax provision for the three months ended 31 March 2008.

(c) No provision for income tax in other jurisdictions has been made as the Group has no assessable profit in those jurisdictions during the year.

(d) The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rates applicable to respective companies of the Group as follows:

	Year ended 31 March	
	2008	2007
Profit before income tax	**904,000**	578,662
Add/(Less): Share of loss/(profit) of an associate	**312**	(172)
	904,312	578,490
Tax calculated at tax rates applicable to respective group companies	**239,581**	140,589
Effect of tax holiday	**(208,353)**	(142,222)
Tax impact of expenses not deductible for tax purposes	**2,630**	959
Utilization of previously unrecognized tax losses	**(1,700)**	–
Tax losses for which no deferred income tax assets were recognized	**2,226**	2,109
Income tax expense	**34,384**	1,435

Deferred taxation from the tax losses of certain subsidiaries of the Group are not recognized as the directors consider that there will be no sufficient future taxable profits of these subsidiaries to utilize the tax losses in the foreseeable future.

25 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 March 2008 is dealt with in the financial statements of the Company to the extent of approximately HKD1,373,027,000 (2007: HKD471,299,000).

26 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 year.

	Year ended 31 March	
	2008	2007
Profit attributable to equity holders of the Company	**862,145**	567,031
Weighted average number of ordinary shares in issue *('000)*	**3,064,711**	2,847,930
Basic earnings per share *(HK cents per share)*	**28.13**	19.91

(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 year ended 31 March 2008, the Company has one type of dilutive potential ordinary shares (i.e. share options).

For the 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 the share options.

		Year ended 31 March	
	Note	**2008**	2007
Profit attributable to equity holders of the Company		**862,145**	567,031
Interest expense on liability component of preference shares	*23*	**–**	2,441
Profit used to calculate diluted earnings per share		**862,145**	569,472
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*		**3,064,711**	2,847,930
Adjustments for:			
– conversion of original convertible preference shares *('000)*		**–**	179,002
– exercise of warrants *('000)*		**–**	15,911
– exercise of share options *('000)*		**53,340**	8,770
Weighted average number of ordinary shares for diluted earnings per share *('000)*		**3,118,051**	3,051,613
Diluted earnings per share *(HK cents per share)*		**27.65**	18.66

(All amounts in HK dollar thousands unless otherwise stated)

27 DIVIDENDS

	Year ended 31 March 2008	2007
Interim dividend paid of HK 2.3 cents (2007: HK 1.8 cents) per share	**70,579**	54,775
Proposed final dividend of HK 6.0 cents (2007: HK 3.8 cents) per share	**184,147**	116,397
	254,726	171,172

During the year ended 31 March 2008, an interim dividend of approximately HKD70,579,000 (HK 2.3 cents per share) (2007: HK 1.8 cents per share) has been paid by the Company. A final dividend of HK 6.0 cents per share (2007: HK 3.8 cents per share), HKD184,147,000 in aggregate, is proposed at the meeting of the Board held on 18 June 2008 which is subject to the shareholders' approval in the forthcoming annual general meeting. These consolidated financial statements do not reflect this dividend payable.

28 CASH GENERATED FROM OPERATIONS

	Note	Year ended 31 March 2008	2007
Profit before income tax		**904,000**	578,662
Adjustments for:			
– Depreciation	*6*	**19,095**	13,329
– Amortization	*7,8*	**13,923**	1,340
– Interest income	*23*	**(14,411)**	(5,939)
– Interest expense on the liability component of preference shares	*23*	**–**	2,441
– Share of loss/(profit) of an associate	*10*	**312**	(172)
– Provision for/(Reversal of) impairment for trade receivables		**1,217**	(1,963)
– Loss on disposal of property, plant and equipment		**67**	98
– Share option compensation expenses		**32,047**	28,199
– Exchange gain		**(27,299)**	(6,683)
– Waive of other payables		**(5,787)**	–
Changes in working capital:			
– Inventories		**(46,802)**	62,807
– Trade and other receivables		**26,032**	35,639
– Trade and other payables		**(3,012)**	(54,027)
Net cash generated from operations		**899,382**	653,731

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Note	Year ended 31 March 2008	2007
Net book amount	*6*	**367**	98
Loss on disposal of property, plant and equipment		**(67)**	(98)
Proceeds from disposal of property, plant and equipment		**300**	–

(All amounts in HK dollar thousands unless otherwise stated)

29 COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at 31 March 2008	2007
Property, plant and equipment:		
Contracted but not provided for	**13,550**	395
Authorized but not contracted for	**–**	–
	13,550	395

(b) Operating lease commitments

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

	As at 31 March 2008	2007
Land and buildings:		
Not later than 1 year	**4,980**	2,242
Later than 1 year and not later than 5 years	**5,580**	5,064
	10,560	7,306

30 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Ms. Chu	The ultimate controlling shareholder of the Company
Weihai Huayuan	An associate indirectly held by the Company

(b) Transactions with related parties

Except for the acquisition of Win New Group from Ms. Chu as mentioned in Note 1, the Group has entered into the following significant transactions with related parties:

	Year ended 31 March 2008	2007
Sales of goods, net of value-added tax, to:		
– Weihai Huayuan	**9,286**	9,823
Purchase of raw materials from:		
– Weihai Huayuan	**10,572**	9,546

(All amounts in HK dollar thousands unless otherwise stated)

30 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

	Note	As at 31 March 2008	2007
Balances due from related parties:			
Included in trade receivables			
– Weihai Huayuan		**9,233**	4,968
Balances due to related parties:			
Included in trade payables			
– Weihai Huayuan		**8,003**	7,872
Included in non-trade payables			
– Ms. Chu	*19*	**174,319**	174,441

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

31 TRANSACTION WITH MINOTIRY INTEREST

On 29 January 2008, Pacific Top Enterprises Limited, a subsidiary of the Group, entered into an agreement with the minority shareholders of Guangdong Zhaoqing to acquire the remaining 27.9% equity interests in Guangdong Zhaoqing, at a consideration of approximately RMB20 million (approximately HKD21,304,000). The transaction was completed in February 2008 and Guangdong Zhaoqing became a 100% owned subsidiary of the Group.

The share of carrying amount of net assets acquired was approximately HKD31,127,000, the excess of which over the consideration amounted to HKD9,823,000 and was credited to other reserves.

32 SUBSEQUENT EVENTS

Business combination

After the balance sheet date, the Group entered into an agreement with an independent third party to acquire equity interest in a business engaged in manufacturing and sale of fine flavours and fragrances products, at a total consideration of approximately RMB55 million (equivalent of approximately HKD62 million). The Group is in the process of assessing the fair value of acquired identified assets and liabilities.

33 COMPARATIVES

As depicted in Note 2.1(a), merger accounting was adopted for the common control combination in the current year. Therefore, the comparative figures of the Group were restated. Moreover, certain comparative figures have been reclassified to conform to the current year presentation.

(All amounts in HK dollar thousands unless otherwise stated)

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and operation	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Aromascape Development Centre GmbH	Germany	EUR25,000	–	100	Research and development of flavours & fragrances
Central Link Inc. Limited	Hong Kong	HKD1	–	100	Investment holding
Chemactive Investments	BVI	USD2	100	–	Investment holding
Delight Zone International Limited	Hong Kong	HKD1	–	100	Investment holding
Fine High Holdings Limited	BVI	USD1	–	100	Investment holding
Future Dragon International Limited	BVI	USD1	–	100	Investment holding
Hero Ace Limited	Hong Kong	HKD1	100	–	Provision of management services
Joy Boom International Limited	BVI	USD1	–	100	Investment holding
Hua Fang Tobacco Flavors Limited	PRC	USD4,000,000	–	51	Manufacturing & sale of tobacco flavours & fragrances
Huabao Xianghua Keji Fazhan (Shanghai) Company Limited	PRC	USD2,100,000	–	100	Research and development of flavours & fragrances
Huabao Food Flavours & Fragrances (Shanghai) Company Limited	PRC	USD10,000,000	–	100	Manufacturing & sale of tobacco flavours & fragrances
Huabao Flavours & Fragrances (HK) Ltd.	Hong Kong	HKD3,000,000	–	100	Research, development, manufacturing & sale of flavours & fragrances
Huabao Industrial & Trading Development (HK) Limited	Hong Kong	HKD10,000	–	100	Investment holding
Huabao Investment Company Limited	BVI	USD1	100	–	Investment holding
Nocton International Limited	BVI	USD1	–	100	Investment holding
Pacific Top Enterprises Limited	Hong Kong	HKD1	–	100	Investment holding
Qingdao Huabao Flavors & Fragrances Company Limited	PRC	HKD3,673,500	–	70	Manufacturing & sale of tobacco flavours & fragrances
Shanghai H&K Flavours & Fragrances Company Limited	PRC	RMB100,000,000	–	100	Manufacturing & sale of food flavours & fragrances
Guangzhou Huabao Flavour & Fragrances Cmpany Limited	PRC	RMB10,000,000	–	100	Research, development, manufacturing & sale of flavours & fragrances
Guangzhou Huasheng Qinhua Limited	PRC	RMB1,000,000	–	100	Manufacturing & sale of food flavours & fragrances
Guangdong Zhaoqing	PRC	RMB11,000,000	–	100	Manufacturing & sale of food flavours & fragrances

(All amounts in HK dollar thousands unless otherwise stated)

34 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operation	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Power Success International Development Limited	Hong Kong	HKD1	–	100	Investment holding
Rich Success Investment Development Limited	Hong Kong	HKD1	–	100	Investment holding
Shanghai Yinghua Flavours & Fragrances Limited	PRC	HKD1,000,000	–	100	Sale of tobacco flavours & fragrances
Shanghai Zhezhan Trading Limited	PRC	RMB20,000,000	–	100	Sale of tobacco flavours & fragrances
Shenzhen Dongjiang Chuangzhan Trading Limited	PRC	RMB500,000	–	100	Sale of tobacco flavours & fragrances
Smart Sino International Limited	Hong Kong	HKD10,000	–	100	Investment holding
Sino Prospect Holdings Limited	BVI	USD1	–	100	Investment holding
Sino Top Trading Limited	Hong Kong	HKD100	–	100	Trading of fine chemicals
Spanby Industrial Limited	BVI	USD1,195	–	100	Investment holding
Symhope Investment Limited	BVI	USD100	–	100	Investment holding
Tai Cang Wen Hua Enterprises Company Limited	PRC	USD1,200,000	–	100	Manufacturing & sale of tobacco flavours & fragrances
Win New	BVI	USD2	100	–	Investment holding
Wisdom Bright International Investment Limited	Hong Kong	HKD1	–	100	Investment holding
Wuxi Fuhua Flavour & Fragrance Company Limited	PRC	USD7,000,000	–	100	Manufacturing & sale of tobacco flavours & fragrances
Wuxi Hua Hai Flavour Company Limited	PRC	USD650,000	–	63.25	Manufacturing & sale of tobacco flavours & fragrances
Wuxi Hua Xin Flavour & Fragrance Company Limited	PRC	USD1,000,000	–	100	Production and sale of tobacco flavours & fragrances
Wuxi Jiahua Flavour & Fragrance Company Limited	PRC	RMB60,000,000	–	100	Production and sale of tobacco flavours & fragrances
Yunnan Tianhong Flavor & Fragrance Company Limited	PRC	USD2,250,000	–	60	Production and sale of tobacco flavours & fragrances
Huashun Flavour (Shanghai) Limited	PRC	USD1,000,000	–	100	Manufacture and sale of fine chemicals

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				
	2004	2005	2006	2007	**2008**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	***HKD'000***
Turnover	26,723	730,173	779,018	1,013,229	**1,419,137**
Gross profit	356	179,707	368,482	704,146	**1,063,148**
Profit/(Loss) before income tax	(7,502)	113,441	300,025	578,662	**904,000**
Income tax expenses	–	(11,060)	(9,968)	(1,435)	**(34,384)**
Profit/(Loss) for the year	(7,502)	102,381	290,057	577,227	**869,616**

ASSETS AND LIABILITIES

	As at 31 March				
	2004	2005	2006	2007	**2008**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	***HKD'000***
Total assets	16,531	769,983	875,748	1,462,991	**2,477,381**
Total liabilities	(12,625)	(344,138)	(423,810)	(322,087)	**(455,404)**
Shareholders' funds	3,906	425,845	451,938	1,140,904	**2,021,977**

Note: Accounting Guideline 5 'Merger Accounting for Common Control Combinations' issued by the HKICPA has been adopted to prepare these consolidated financial information since the financial year ended 31 March 2005. Please refer to Note 2.1(a) to the Consolidated Financial Statements for the application of merger accounting.

Glossary

FCCA	Fellow member of Association of Chartered Certified Accountants
AGM	Annual general meeting
Amber	Xiamen Amber Perfumery Co., Ltd
Aromascape R&D Centre	Aromascape Research & Development Centre
Board	Board of the Company
Bye-laws	Bye-laws 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 as set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
CG Report	Corporate Governance Report as set out on pages 37 to 44
Chemactive Investments	Chemactive Investments Limited
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
Group or Huabao Group	the Company and its subsidiaries
Guangdong Zhaoqing	Guangdong Zhaoqing Fragrances Limited
Guangzhou Huafang	Hua Fang Tobacco Flavors Ltd.
Guangzhou Huabao	Guangzhou Huabao Flavours & Fragrances Co Ltd.
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standard
FCPA	Fellow member of Hong Kong Institute of Certified Public Accountants
ACS	Member of Hong Kong Institute of Chartered Secretaries
HK(IFRIC)-Int	Hong Kong (IFRIC) Interpretations
HKSI	Hong Kong Securities Institute
Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
Hongta	Hongta Tobacco (Group) Ltd.
Huabao Keji	Huabao Xianghua Keji Fazhan (Shanghai) Co. Ltd.
Huabao Shanghai	Huabao Food Flavours & Fragrances (Shanghai) Co Ltd.
Huabao Kongque	Shanghai H&K Flavours & Fragrances Co Ltd.
Huashun Shanghai	Huashun Flavour (Shanghai) Limited
HKD	Hong Kong dollars
INED(s)	Independent Non-executive Director(s) of the Company
ACIS	Member of Institute of Chartered Secretaries and Administrators
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
M&A	Merger and acquisition
case	Every master case contains 50,000 cigarettes of cigarettes
mg	milligram
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
MOST	The Ministry of Science and Technology of the PRC

Glossary

NDRC	National Development and Reform Commission
PRC	The People's Republic of China
Qingdao Huabao	Qingdao Huabao Flavours & Fragrances Co Ltd.#
RMB	Renminbi
R&D	Research and development
Scheme Mandate Limit	The maximum number of Shares in respect of which share options may be granted under the Share Option Scheme and any other share option scheme(s) of the Company
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SGM	Special general meeting
Shanghai Yinghua	Shanghai Yinghua Flavours & Fragrances Ltd.
Shareholder(s)	Shareholder(s) of the Company
Share(s)	Ordinary share(s) of HKD0.10 each of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
Taicang Wenhua	Tai Cang Wen Hua Enterprises Co Ltd.
US	United State of America
USD	US dollars
Win New Group	Win New Group Limited and its subsidiaries
Wuxi Fuhua	Wuxi Fuhua Flavour & Fragrance Co Ltd.
Wuxi Huahai	Wuxi Hua Hai Flavour Co Ltd.
Wuxi Huaxin	Wuxi Hua Xin Flavour & Fragrance Co Ltd.
Wuxi Jiahua	Wuxi Jiahua Flavour & Fragrance Co Ltd.
Yunnan Tianhong	Yunnan Tianhong Flavour & Fragrance Co Ltd.

The English name of this company represents management's best efforts in translating the Chinese name as no English name has been registered.