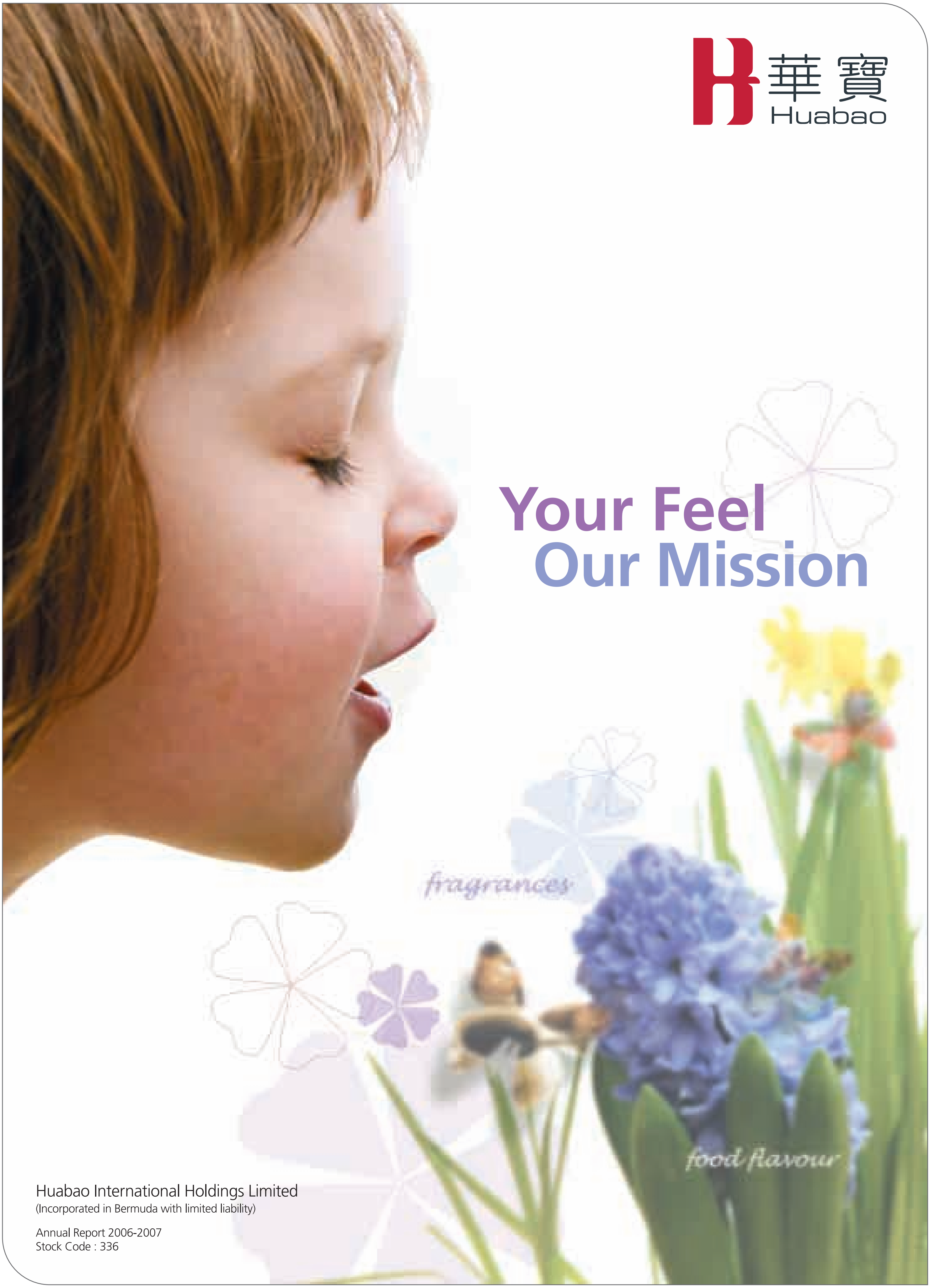
華寶 Huabao

Your Feel Our Mission



Huabao International Holdings Limited
(Incorporated in Bermuda with limited liability)

Annual Report 2006-2007
Stock Code : 336

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. CHU Lam Yiu *(Chairman)*
Mr. CHEN Yong Chang
Mr. POON Chiu Kwok
Mr. WANG Guang Yu
Mr. XIA Li Qun

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. MAK Kin Kwong, Peter *(Chairman)*
Mr. LEE Luk Shiu
Ms. MA Yun Yan

REMUNERATION COMMITTEE

Mr. MAK Kin Kwong, Peter *(Chairman)*
Mr. CHEN Yong Chang
Ms. MA Yun Yan

QUALIFIED ACCOUNTANT

Ms. CHOY Man Har

COMPANY SECRETARY

Mr. CHU Tak Shun

AUDITORS

PricewaterhouseCoopers

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

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

Financial Highlights

	Year 2007 *HKD'000*	Year 2006 *HKD'000*	Change in Percentage %
Sales	**1,013,229**	779,018	+30.1%
Gross profit	**704,146**	368,482	+91.1%
Gross profit margin	**69.5%**	47.3%	+46.9%
Operating profit	**575,012**	304,066	+89.1%
Selling and marketing expenses to sales	**4.4%**	4.1%	
Administration expenses to sales			
– before share options compensation expenses	**6.0%**	6.2%	
– after share options compensation expenses	**8.8%**	6.2%	
Effective tax rate			
– before deferred tax asset	**4.3%**	3.7%	
– after deferred tax asset	**0.2%**	3.3%	
Profit attributable to the equity holders of the Company			
– before share options compensation expenses	**595,250**	283,089	+110.3%
– after share options compensation expenses	**567,051**	283,089	+100.3%
Net margin attributable to equity holders of the Company			
– before share options compensation expenses	**58.7%**	36.3%	+61.7%
– after share options compensation expenses	**56.0%**	36.3%	+54.3%
Earnings per share (HK cents)			
– Basic	**19.91**	11.47	+73.6%
– Diluted	**18.66**	9.53	+95.8%
Cash and cash equivalents	**857,431**	180,862	+374.1%
Total equity	**1,140,924**	451,938	+152.5%
Dividend per share (HK cents)	**5.60**	Nil	
Dividend payout ratio	**30.2%**	Nil	
Gearing ratio	**Nil**	10.7%	
Current ratio (times)	**3.9**	1.9	
Liquidity ratio (times)	**3.7**	1.5	
Inventory turnover (days)	**110**	112	
Trade receivables turnover (days)	**121**	159	
Trade payables turnover (days)	**140**	165	

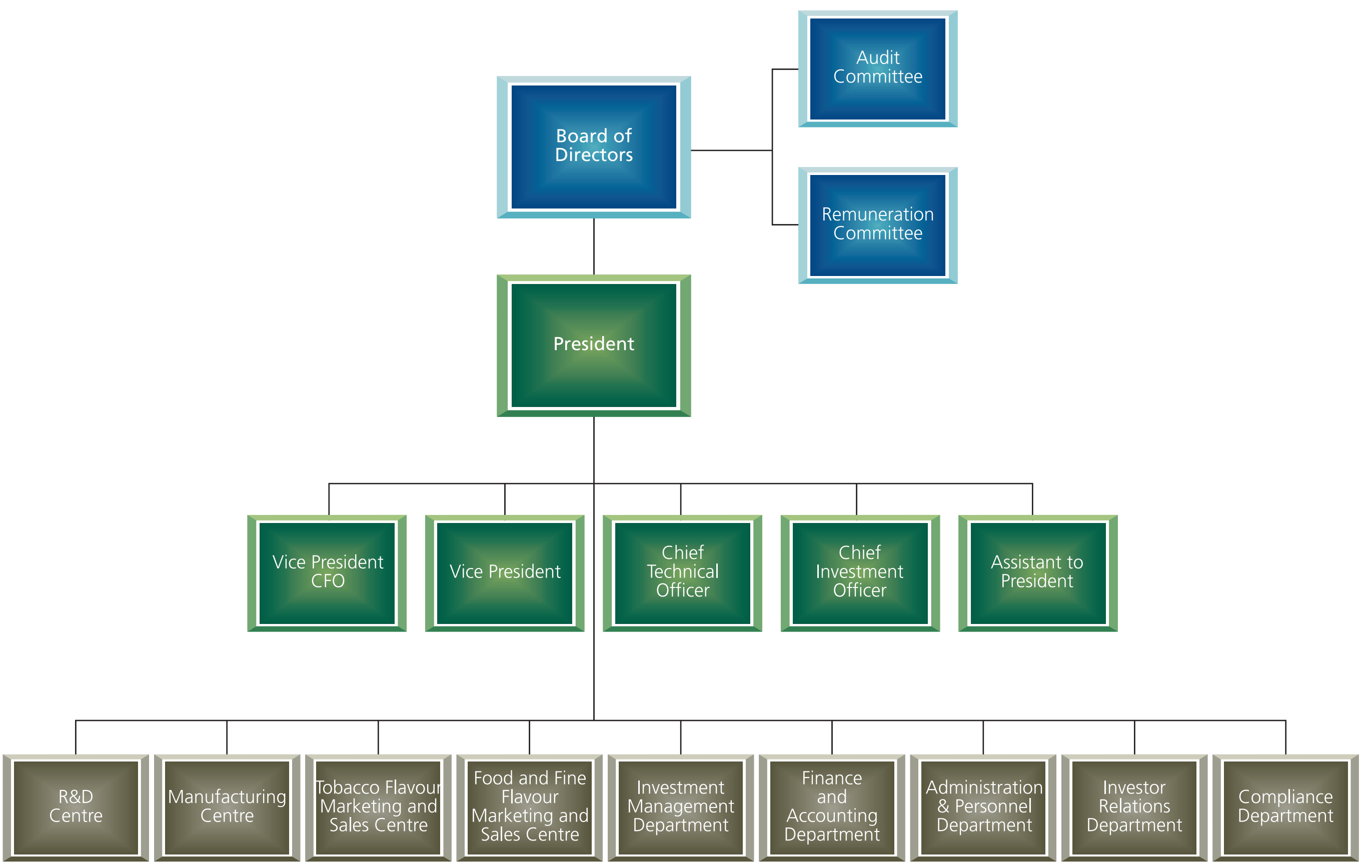
COMPANY PROFILE

Huabao Group is a market leader in China's flavour and fragrance industry. After 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. In June 2007, the Company was the largest publicly listed company in terms of market capitalization in Asia Pacific within the flavours and fragrances industry, with a total market capitalization of over US$2.5 billion.

The Group is primarily engaged in the research and development, production and sales of tobacco and food flavours and fragrances. The Group has established its manufacturing bases in Shanghai, Yunnan, Guangzhou, Wuxi and Qingdao, etc., and has established R&D centers 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 China Association of Fragrance Flavour and Cosmetic Industry, 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 caliber talents and outstanding quality of customer services in a promising high growth market, the Group is committed to continuously create value for the society and bring the best return to investors.

MANAGEMENT STRUCTURE



CORPORATE CULTURE

Vision

Striving to be No. 1

Core Value

Adhere to the "market driven and client first" philosophy and achieve mutual growth of both the Group and its staff

Spirit

Innovative, pragmatic, loyal and cooperative

Strategy

- Focus on core business with diversification
- Focus on tobacco flavours as core value while accelerate our food flavours and fine fragrances businesses
- Expand upstream to relevant flavours raw materials segment and strive to form an integrated value chain
- Expand through organic growth and merge & acquisition
- Leverage China's market to grow into a global leading player in flavours and fragrances industry

KEY EVENTS FOR THE YEAR

26 APR 2006

Huabao corporate technical center's innovative ability establishment project had successfully passed the appraisal of National Development and Reform Commission. The implementation of this project will accelerate and foster the core technology and essential technology of China's flavours and fragrances, which will enhance China's flavours and fragrances industry's international competitiveness.

6 JUN 2006

Shanghai Huabao Hedon tobacco flavour was entitled "Shanghai Famous Brand Product" in the event of "2006 Shanghai Famous Brand Product Recommendation Working Conference and 2005 Shanghai Famous Brand Product Award Presentation Ceremony".

1 AUG 2006

The Company completed the acquisition of Chemactive Investments after obtaining the approval in a special shareholders' meeting, and transformed to be the largest listed company in flavours and fragrances industry in China in terms of sales revenue, No. 1 in Asia Pacific in terms of market capitalization, and top ten worldwide in terms of market capitalization.

20 NOV 2006

The "State Tobacco Monopoly Administration Tobacco Flavouring Talent's training base nameplate unveiling ceremony and the First school opening of Tobacco Flavourist and Senior Tobacco Flavourist ceremony" was held at Guangzhou Huafang. Tobacco Flavouring Talent's training base, as the only training base for tobacco flavouring professionals in the tobacco industry, plays a decisive role in the tobacco industry.

1 JAN 2007

Aromascape Development Centre Gmbh, established in Germany by the Group, commenced its operation. The centre is located in Holzminden, Germany. The establishment of this centre will allow the research level of Huabao Group's products to be directly hooked up with international's advanced technology.

During the year 2006-07

Huabao Shanghai was entitled "National Hundred Brilliant Overseas Chinese Enterprises, 2003-2005".

Huabao Kongque fully utilizes the only State-recognized technical centre in China's flavours and fragrances industry owned by the Group, which is also the State-level postdoctoral technological workstation, and working together with many famous food products corporates in China, such as Danone, Mengniu, Yili and Bright etc, for product development and technology exchange to carry out resources sharing of scientific research. This activity is welcomed by many corporate in the food industry.

In 2006, Huabao corporate technical centre gained a large number of achievements in scientific research. It presented six excellent papers in the National Flavour and Fragrance Seminar, which won one first prize, one second prize and two third prizes. It applied for six patents, acquired six projects with financial support from the State and Shanghai Municipality.

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 2007.

2006 was a year with milestone development in the history of the Group, which realized historical transition and development. Through acquiring a leading flavours and fragrances company in China, the Group became the leader in the flavours and fragrances industry in China with a leap, in which the market capitalization of the company ranked No 1 in Asia Pacific and top 10 in the global in the industry we served. Meanwhile, the Group delivered promising results of operation, further enhancement in the level of the management and competitiveness of the Group, rapidly increased publicity and widely gained awareness from the international capital market.

PROMISING FINANCIAL RESULTS

The Group achieved a sales revenue of HKD1,013,229,000 for the year ended 31 March 2007, an increase of over 30%, achieving the expected growth target; realized a profit attributable to shareholders of HKD595,250,000 before accounting for the share options compensation expenses, a growth of 110.3%; and after accounting for the share options compensation expenses, the profit attributable to shareholders amounted to HKD567,051,000, an increase of 100.3%; basic earnings per share increased by 73.6% to HK19.91 cents, attaining excellent results of operations. Meanwhile, the Group's net cash generated from operating activities amounted to HKD658,380,000 and the financial position is very healthy. To remunerate all Shareholders, the Board proposed to declare a final dividend of HK3.80 cents per share.

BUSINESS REVIEW

The achievement of the aforesaid excellent operating results of the Group was benefited from the operation and development strategies that the Group has been carrying out for a long time. The Group insisted the development strategy of "Big Customers, Big Brands" for tobacco flavours for a long period. The Group will benefit from the consolidation process of the China tobacco industry in long term. Therefore, the sales revenue of tobacco flavours for the current year recorded a strong growth of 31.8%. In respect of food flavours, the Group realized a growth of 30.9% by secured existing distribution networks and at the same time, placed emphasis on direct sales customers in the year. The Group further enhanced the efforts in R&D while it set up a foreign R&D centre in Germany, introduced a number of foreign technicians among them were internationally well-known tobacco flavourist, which achieved to directly catch with international advanced level and further up-rose the research level of the Group. The Group gained a large number of research achievements in the current year, with more than two hundred new products being developed. Meanwhile, as the raw material structure of many of the continuous developing products were being optimized as well as the capacity of relevant production accessories increased, the gross margin rose from 47.3% of last year to 69.5%, which further improved the operating results.

STRONG MANAGEMENT TEAM

The promising operating result achieved by the Group was mainly relied on the strong management team. The common value of "Client first" that they bore and the spirit of Huabao – "Innovative, pragmatic, loyal and cooperative" was the most valuable wealth of the Group. The devotion to train and bring in excellent professionals and to create good growing environment for the staff is our unremitting mission. The Group has now set up a team of experienced professional managers and a crew of future-oriented employees, who will give Huabao greater momentum for development in the future.

OUTLOOK

The sustainable and high economic growth of China, together with relatively scattered state of the flavours and fragrances industry, provides a rare opportunity for Huabao. For 2007, we estimate that the consolidation of the tobacco industry in China will further accelerate, in which the consumer goods market will maintain prosperous growth. We will grasp these great market opportunities, insist on maintaing the tobacco flavours as the core business, accelerate the development pace of food flavours business and actively develop fine fragrances business. Meanwhile, the Group will actively look for opportunity to expand upstream and determine to form an integrated value chain. The Group will continue to adhere to the development path combining organic growth and external acquisition. We will maintain a close relationship with the flavours and fragrances industries in and out of China and actively looking for opportunities for acquisition. The Group will further and continue to up-rise the research level of products, to combine the local demand from China with the latest international technology and to try hard to tailor make high quality products for the customers. Meanwhile, the Group will continue to fully develop the relationship with customers in all directions and solidify the edge of market competence. We believe, Huabao will continue to have stable and rapid development in the coming year.

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 2007

BACKGROUND

On 1 August 2006, the Company completed the acquisition of 100% shares in Chemactive Investments, which is engaged in research & development, manufacturing and marketing of flavours and fragrances, from Ms. Chu Lam Yiu, controlling shareholder of the Company and the chairman of the Board. The consideration of the acquisition was HKD3,995,517,000. After the acquisition, the Company became the largest public listed flavour and fragrance company in China in terms of sales revenue and No. 1 in the Asia-Pacific Region in terms of market capitalization.

The Group is mainly engaged in the R&D, production and sales of tobacco and food flavours and fragrances. There are ten plants and one R&D centre in China, and one oversea R&D centre in Holzminden, Germany.

Existing Manufacturing Bases and R&D Centres

Annual Output of Flavours And Fragrances of Subsidaries (As at 31 March 2007)	
Huabao Shanghai	**3,000 tons**
Huabao Kongque	**4,500 tons**
Yunnan Tianhong	**2,500 tons**
Guangzhou Huafang	**1,500 tons**
Wuxi Fuhua	**1,500 tons**
Wuxi Jiahua	**1,200 tons**
Wuxi Huaxin	**600 tons**
Taicang Wenhua	**800 tons**
Huashun Shanghai	**1,300 tons**
Qingdao Huabao	**1,000 tons**
Total capacity:	**17,900 tons**

REVIEW OF THE TOBACCO FLAVOURS BUSINESS

1. Review of Results

The sales of tobacco flavours reached HKD900,509,000 for the year ended 31 March 2007, representing an increase of 31.8% as compared with the previous year, exceeding the target set by the management. The increase was mainly due to the accelerated consolidation of the tobacco industry and the Group's continuance of the "Big Customers, Big Brands" strategy in development. China's top ten tobacco companies all became customers of the Group in the year. Eight of the top ten cigarette brands chose the Group as their core supplier of tobacco flavours. The Group is also the core supplier of tobacco flavours in the seven out of the eight most influential cigarette brands.

Output Rankings of Cigarette Brands in China in January - March 2007

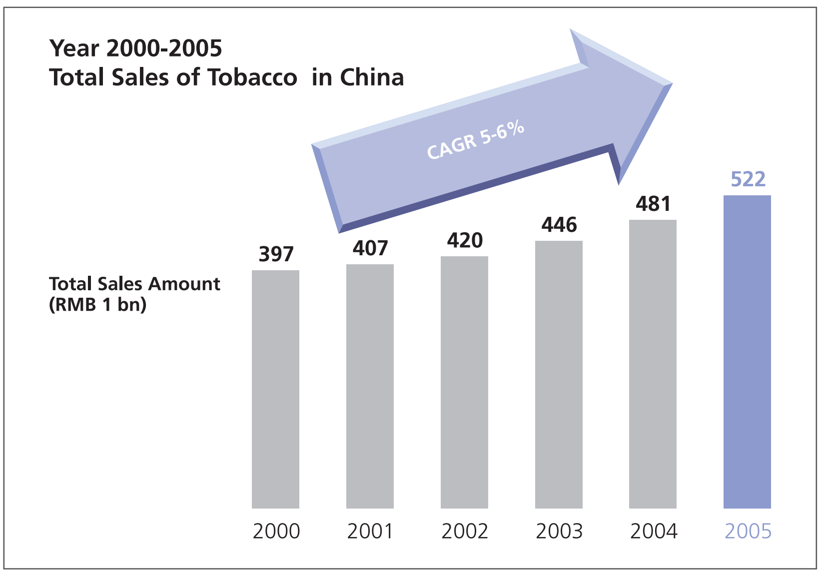
SN	Brand	Is it a current customer	Is Huabao a Core supplier
1	Hongmei	✓	✓
2	Baisha	✓	✓
3	Hongjinlong	✓	
4	Huangguoshu	✓	✓
5	Honghe	✓	✓
6	Hatamen	✓	✓
7	Hongqiqu	✓	✓
8	The Scarlet Camellia	✓	
9	Shuangxi	✓	✓
10	Hongtashan	✓	✓

Data source: "Tobacco Industry Statistics in March 2007" of Economic Information Centre of State Tobacco Monopoly Administration

Consolidation of the tobacco industry will benefit the leading tobacco companies and top brands. Currently, the Group has the best customer resources of the tobacco industry, which will keep the Group best positioned and enable the Group to continuously benefit from the consolidation. Eight of the top ten customers of the Group are among the top ten tobacco companies and contributed more than 80% of the sales revenue of tobacco flavours.

The gross profit margin also increased considerably to 73.3% from 49.0% of the previous year, representing an increase of 49.6%. Such increase was mainly due to the reasons that raw material structure of many of the continuous developing products were being optimized as well as the capacity of relevant production accessories increased and thus cost of goods sold further decreased.

2. Recent development in tobacco industry



Data source: Euromonitor International

In recent years, China's tobacco industry has been growing steadily, and the compound annual growth rate ("CAGR") of the total sales amount remains at 5-6%. The tobacco industry plays a significant role in China's national economy, contributing approximately RMB290 billion tax revenues in 2006, which accounted for about 8% of the state's fiscal revenue. Two major features of the tobacco industry have embodied in recent years:

(1) Accelerated consolidation of the tobacco industry

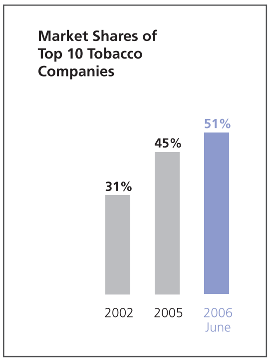
(2) Continued reduction of tar content in cigarettes

Accelerated consolidation in the tobacco industry

In 2006, in line with the strategy of the State Tobacco Monopoly Administration of "Foster more than ten key companies and more than ten top brands", the provincial China Tobacco Industrial Corporation completed the consolidation process for tobacco companies in most provinces. Major intra-province re-organizations occurred in 2006 included establishment of provincial united Tobacco Industrial Corporations in Zhejiang, Anhui, Shandong and Hunan. At the end of June 2006, 11 tobacco companies recorded an annual output over 1.5 million cases, and 5 of them recorded an annual output over 2 million cases.

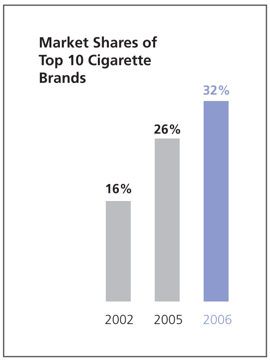
Statistics of State Tobacco Monopoly Administration show as follows:

– The market share of China's top ten tobacco companies increased from approximately 45% in 2005 to approximately 51% at the end of June 2006.



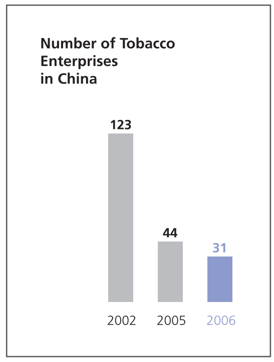
Data source: State Tobacco Monopoly Administration

– The market share of the top ten cigarette brands in sales volume increased from approximately 26% in 2005 to approximately 32% in 2006.



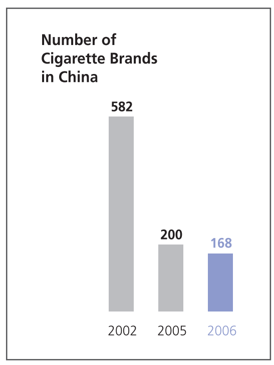
Data source: State Tobacco Monopoly Administration

– The number of tobacco companies decreased from 44 at the end of 2005 to 31 at the end of 2006.



Data source: State Tobacco Monopoly Administration

– The number of cigarette brands under production decreased from 200 in 2005 to 168 at the end of 2006.



Data source: State Tobacco Monopoly Administration

The above statistics indicate that the "Double Ten Strategy" of State Tobacco Monopoly Administration is being implemented progressively, and China's tobacco industry will enter a period of accelerated consolidation, giving rise to greater concentration in the industry.

Continued reduction of tar content in cigarettes

An important tendency of the healthy development of the tobacco industry is the gradual reduction of tar content. The tar content per cigarette has decreased from 30mg in 1980s to the average of 13.2mg in 2006. In addition, as from 2004, cigarettes with tar content exceeding 15mg/cigarette are prohibited from entering the market.

Tar content can be reduced in many ways, physical and chemical, including increasing the quantity of expanded stem and reconstituted tobacco leaf in cigarette to reduce the tar content in cigarettes. However, 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 comfortable. Therefore, researchers of tobacco companies are making efforts to maintain the original quality, aroma and taste of cigarettes, which mainly include increasing the content of tobacco flavours, adding flavours to reconstituted tobacco leaf and expanded stem. Such efforts provide new opportunities for the growth of flavours and fragrances companies.

3. Development strategy of tobacco flavours

– Continue adhering to the "Big Customers, Big Brands" development strategy, and capitalize on industry consolidation to seize greater market share.

– Develop products better oriented to the future of China's markets by leveraging the technological strengths and predicting the development tendencies of the tobacco industry in China.

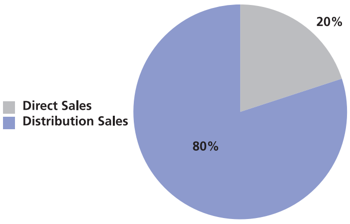
– Step up technological exchange and cooperation with the leading companies in the tobacco industry.

– Consolidate flavours companies via mergers and acquisitions so as to maintain the Group's leadership in the sector.

REVIEW OF THE FOOD FLAVOUR BUSINESS

1. Review of Results

For the year ended 31 March 2007, the Group recorded a revenue from sales of food flavours of HKD100,916,000, representing an increase of 30.9% over the previous year. The Group became one of the largest food flavours manufacturers in China. The increase in sales of food flavours was mainly attributable to the increased percentage of new products and direct sales to customers. The Group entered the food flavours segment in 2004 and it is encouraging to achieve such exciting results within two years.



Sales channels of the Group's food flavours for the year

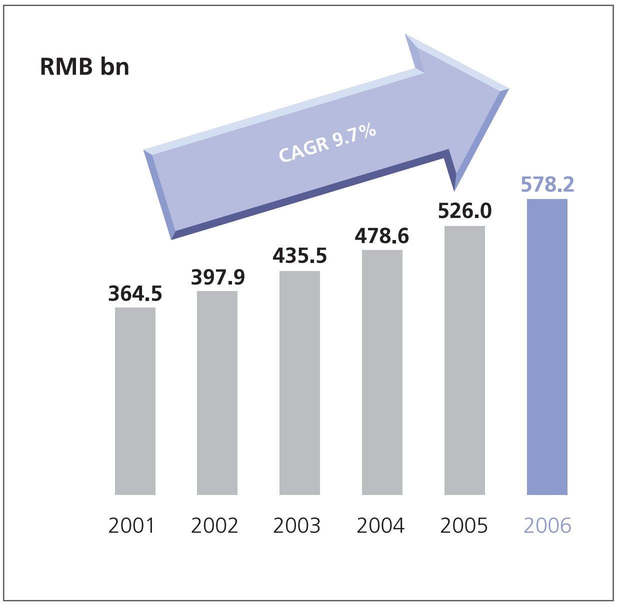
As to the development of the sales channels of food flavours, the Group stepped up fostering quality customers of food flavours, and among the percentage of direct sales customers in the segment increased from 12% of the previous year to 20% this year. We placed emphasis on developing end customers and secured over ten new customers. Our key high-end customers include Danone, Taitaile, Yurun, VV Company, Huatai, Bright, Master Kong, Sanlu, and Sanyuan, etc.

As to the product structure, food flavours produced by the Group in the year were mainly sweet products, including aqueous flavours, oil-soluble flavours, aqueous and oil-soluble flavour, flavour emulsions and powdered flavours. The Group is also expanding its market presence by developing and launching new products. In 2006, Huabao Kongque launched a total of 110 new products, including 86 sweet flavours and 24 savory flavours.

The gross profit margin reached 39.9% for the year ended 31 March 2007 from 39.1% of last year, representing a slight increase of 2.0% and the increase was mainly attributable to the increased percentage of direct sales customers and the launching of new products.

2. Recent development in the food industry

The growing economy in China improves the living standard of the people, thereby contributing to the growth of the consumer sector. According to Euromonitor International, the sales of packaged food in China has increased from RMB364.5 billion in 2001 to RMB578.2 billion in 2006, representing a compound annual growth rate of approximately 9.7%. The following histogram shows the total annual sales of packaged food in China in the aforesaid period:



Data source: Euromonitor International

Development of food flavours relates closely to the development of the consumer market, and the rapid growth of the consumer goods sector in China is promoting the growth of the flavours and fragrances industry. However, China's food industry is highly fragmented, recording over 10,000 food and beverage enterprises in China by the end of 2006. We expect the future food industry will have the following features:

– Sustained rapid growth

- Significant growth potentials of enjoyment-oriented food, which demands higher requirement for food technologies

- Increasing concern about food safety

- Rising industry threshold due to technological and safety issues, leading to gradual increase of market concentration

3. Development strategy of food flavours

- Adhere to the two-thronged approach of distribution and direct sales, further consolidate and improve the distribution network, capitalize on the market recognition of "Kongque" brand, step up product promotion, and move the service network closer to the terminal.

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

- Bring product research and development in line with international technologies. Introduce world caliber researchers and developers, give full play to the knowledge of China's native technical staff about the tastes of Chinese consumers and the China market, and integrate with international technologies.

- 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.

- Be attentive to industry development, keep close eye on the flavour and fragrance industry, and duly acquire and merge enterprises whose products and market are complementary with the Group, thereby achieving rapid growth.



REVIEW OF R&D

R&D capability is one of the core competences of a flavour and fragrance company. The Group has the only State-recognised technical centre in China's flavour and fragrance industry, which was jointly granted in 2003 by National Development and Reform Commission, Ministry of Finance, General Administration of Customs and State Administration of Taxation, and represents the leading R&D standards in flavour and fragrance industry in China. The centre is also designated by the Ministry of Personnel as a postdoctoral workstation and undertakes various important research projects every year, enjoying high recognition in the industry. In January 2007, the Group's overseas R&D centre in Holzminden, Germany began operation after 8 months of preparation. This R&D centre, featuring total international management, currently has 4 overseas experts. We are honored to have Mr. Alan Davies serving as general manager of the Germany R&D centre and chief tobacco flavourist of the Group. Mr. Davies is a world renowned tobacco flavourist with over 35 years' experience in tobacco flavours and also very familiar with the market in China. The establishment of the German R&D centre further upgrades the Group's R&D capability and indicates that our R&D capability has attained world heights.

Be people-oriented and internationalized team

As a local R&D leader, the Group keeps introducing world-caliber talents and stepping up investment in R&D. Currently, the Group own the following experts and professionals.

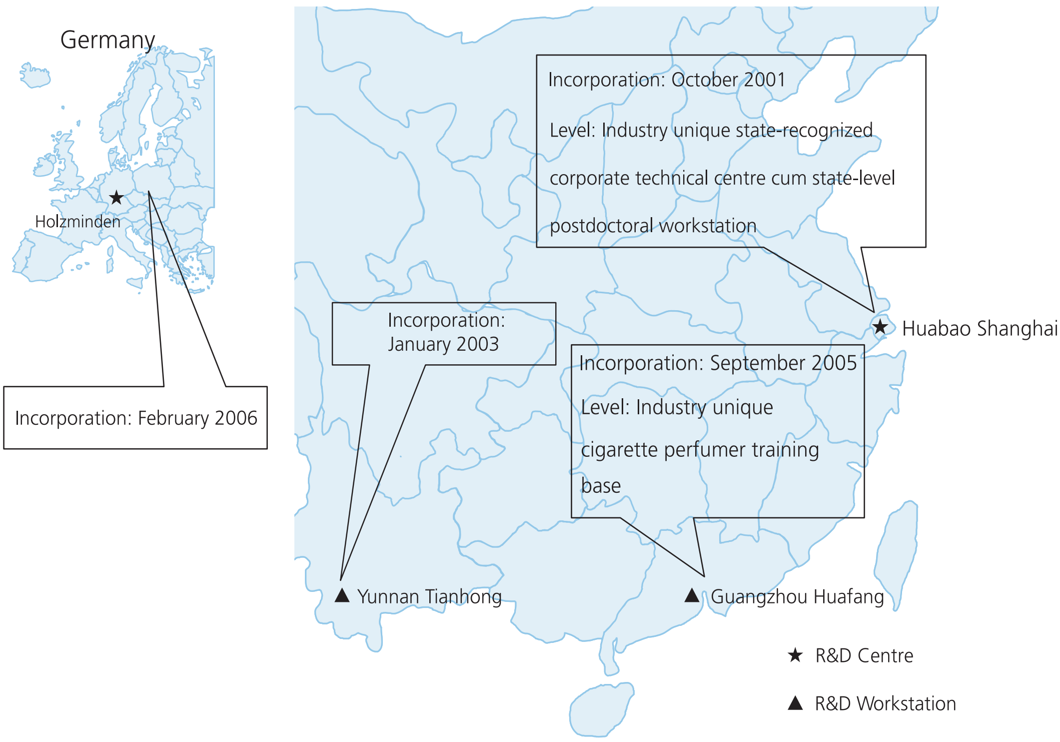
Foreign experts	5
Senior experts	15
Tobacco flavour experts	31
Food flavour experts	58
Fine fragrance experts	6
Fragrance developers	11
Analysis, test and quality control professionals	21
Total	147

Fostering talents

Huabao regularly organizes external trainings and internal trainings for its research staff in line with their work and specialties. For the training on sensory evaluation and consumer test, the Company invited Professor Michael O'Mahony, a world renowned sensory evaluation expert, who has conducted training on sensory evaluation and consumer test for the principal flavourist and quality controllers of the Group. The Group also regularly sends out instrument analysts to receive training on separation, purification and texture determination of flavours and fragrances, in order to enhance their proficiency in conducting test and analysis. In respect of the key and cutting-edge technologies relating to flavours and fragrances, the Group invited a Southern Yangtze University professor to provide employees with trainings on flavour and fragrance related microcapsule technology, emulsion stability technology, slow/controlled release technology and Maillard reaction technology. The Group also organizes internal trainings and technical exchanges for the R&D staff on a monthly basis. The above trainings have improved the business proficiency of the R&D staff, broadened their visions, intensified their team spirit and sense of achievement, and enhanced Huabao's core competence.

Location of R&D institutes

The Group has the only State-recognized technical centre in China's flavours and fragrances industry (the "Centre") cum state-level postdoctoral workstation, the Yunnan Tianhong R&D Institute and Guangzhou Huafang R&D Institute, and the German R&D Centre which was established in January 2007.

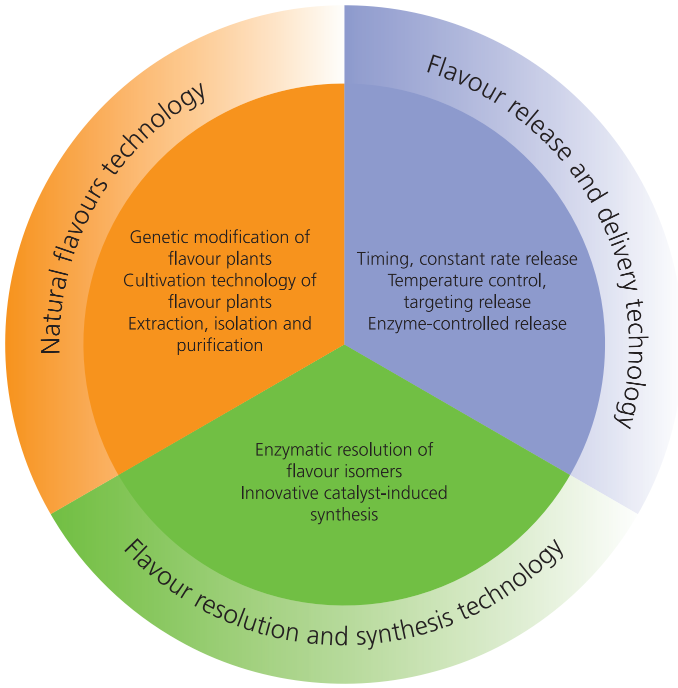


Numerous achievements

During the year, the researchers of the Group's technical centre focused on some core and key technologies in the fine chemicals and flavour and fragrance sector, and achieved some findings on the technological frontiers of the world.

At the National Flavour and Fragrance Seminar, the Centre presented six excellent papers, which won one first prize, one second prize and two third prizes. The Centre applied for six patents, acquired six projects with financial support from the State and Shanghai Municipality, and it is applying for two projects of State 863 Program, and is cooperating with higher education institutions on seven projects.

Main research fields and key technologies



For the year ended 31 March 2007, the Group developed new product as follows:

High-grade new flavours and fragrances	**253**
Tobacco flavours	55
Food flavours	110
Fragrances	28
Natural flavouring	11
Bioflavour	7
Synthetic aromatics	19
Reaction flavours	23

PROSPECTS

Sustained rapid growth of China's economy

China effectuated rapid growth in its economy in 2006 and overtook UK in GDP as the world's No. 4 economic entity. China's GDP amounted to RMB20,940.7 billion in 2006, representing an increase of 10.7% as compared with the previous year. The rapid growth of China's economy will further stimulate domestic demand, and the consumer goods market in China will promise sustained growth.

Consolidation opportunity of the flavours and fragrances industry in China

China's flavours and fragrances industry is still in a comparatively disperse situation, and about 20 out of the 600 enterprises in the industry record annual sales exceeding RMB100 million. The highly scattered industry is ready for consolidation.

The sustained rapid growth in China's consumer goods market will promote the stable growth of market demand for flavour and fragrance products

The total sales of the flavours and fragrances industry in China reached approximately RMB13.4 billion in 2006.

Development Strategy

Our future development strategy is to capitalise on the rapid growth of China's economy, adhere to the strategy of focus on core business with diversification, and score rapid growth through organic growth and external acquisitions, so as to realise rapid growth:

– Continue maintaining tobacco flavours as the core business

– Expand development of food flavours

– Actively develop fine fragrances

– Expand upstream to the flavours raw materials segment, strive to form an integrated value chain, and develop the Group into a world leading flavours and fragrances company

Growth of the existing businesses

– Tobacco flavours: Leverage the strengths in products and technologies, step up further cooperation relationship with leaders in tobacco industry, and further expand market share to leading tobacco companies leaders and famous and quality brands.

– Food flavours: Give full play to technological strengths to develop new products, and expand direct sales.

Seeking merger and acquisition opportunities aggressively

– Tobacco flavours: Further strengthen the strategic position in the industry through merger and acquisition

– Food flavours: Further enhance industry leadership through merger and acquisition

– Fine fragrances: Set up a development platform through merger and acquisition

Bring technologies and management up to the world level and enhance our core competitiveness

People and technology are the core competitive edges of the Group. The Group will focus on creating a good environment to attract international professionals to join us. Meanwhile, the Group will also continue to make effort to improve technical capability and to turn it into first class worldwide.

OTHER INFORMATION

Human resources

During the year, we sped up introducing talents in alignment with out business needs. The sound development of the Group attracts professionals from around the world. The Board placed great emphasis on the career development of newcomers, and provides them ample space for growth. Meanwhile, we provide them with competitive remuneration as compared with the existing market conditions.

As at 31 March 2007, we employed a total of 656 employees in Mainland, Hong Kong and Germany, and the labor cost of the year amounted to HKD65,973,000, representing an increase of HKD39,727,000 over the previous year, mainly because the granting of share options during the year amounted to HKD28,199,000.

To bring the Group to world heights in both technology and management, the Group makes great efforts to introduce and foster employees and give play to their initiatives. To that end, the Group provides its employees with competitive remunerations, pensions and other welfares, and grants awards to the employees based on their performance. The Group is also executing a share option scheme to reward employees (including directors) who have made significant contributions to the business development of the Group. The Group granted the share options on 10 October and 25 October 2006, granting a total of 127,600,000 share options to 62 persons, including directors, senior executives, technicians and business executives. The Group endeavours to provide its employees with a good work and policy environment for their better growth and development, guide them towards common values, encourage innovation and cooperation among them, and provide them with diversified trainings to improve 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 2007

Turnover

The Group recorded a turnover of HKD1,013,229,000 for the year ended 31 March 2007, representing an increase of 30.1% as compared with HKD779,018,000 of last year. The rapid growth of turnover was mainly due to substantial increase in the sales of tobacco and food flavours. For the year ended 31 March 2007, the turnover of tobacco flavours of the Group increased by 31.8% to HKD900,509,000, while that of food flavours increased by 30.9% to HKD100,916,000.

Cost of Sales

Cost of sales of the Group amounted to HKD309,083,000 for the year ended 31 March 2007, representing a decrease of 24.7% as compared with HKD410,536,000 for the corresponding period last year. The decrease in cost of sales was mainly due to the reasons that raw material structure of many of the continuous developing products were being optimized as well as the capacity of relevant production accessories increased and thus cost of goods sold further decreased. Specifically, the cost of sales of tobacco flavours decreased from HKD348,580,000 to HKD240,202,000, while that of food flavours increased from HKD46,903,000 to HKD60,697,000.

Gross profit and gross profit margin

Gross profit of the Group increased to HKD704,146,000 for the year ended 31 March 2007 from HKD368,482,000 for the year ended 31 March 2006, representing a growth of 91.1%, while the gross profit margin of the Group increased to 69.5% for this financial year from 47.3% for last financial year. The remarkable increase in gross profit margin was attributable to the substantial decrease in cost of sales as compared with last year and changes in the cost structure of raw materials. Specifically, the gross profit margin of the tobacco flavours increased from 49.0% to 73.3%, while that of the food flavours increased from 39.1% to 39.9%.

Other income

Other income of the Group was HKD4,030,000 for the year ended 31 March 2007, representing a decrease of 75% as compared with HKD16,116,000 for the year ended 31 March 2006. The decrease in other income was mainly due to the decrease of income tax refund.

Selling and marketing expenses

Selling and marketing expenses of the Group comprised mainly travelling expenses, transportation cost, salaries and office expenses. The selling and marketing expenses of the Group amounted to HKD44,331,000 for the year ended 31 March 2007, representing an increase of 38.8% as compared with HKD31,929,000 for the previous year. Selling and marketing expenses represented 4.4% and 4.1% of the total sales during the period under review respectively. Such increase was a result of the Group's strengthened efforts in direct sales of food flavours and marketing promotion in tobacco flavours.

Administrative expenses

The administrative expenses of the Group was HKD88,833,000 for the year ended 31 March 2007, representing an increase of 82.8% as compared with HKD48,603,000 for the previous year. Administrative expenses accounted for 8.8% and 6.2% of the total sales during the period under review respectively. The administrative expenses mainly include salaries, R&D expenses, intermediary advisory fee, depreciation expenses, office administrative expenses and public utilities expenses, etc. The increase in administrative expenses was mainly due to share options compensation expenses of the share options granted to directors and employees and increase in R&D expenses. Excluding the amount of share options compensation expenses of HKD28,199,000 for the year, administrative expenses would be 6.0% and 6.2% of total sales respectively during the period under review.

Operating profit

The operating profit of the Group was HKD575,012,000 for the year ended 31 March 2007, representing an increase of 89.1% as compared with HKD304,066,000 for the previous year. The operating margin of the Group increased from 39.0% for the previous year to 56.8% for the current year. The increase in operating profit was mainly due to the increase in sales income and increase in gross profit margin.

Income tax expenses

Income tax expenses of the Group was HKD1,435,000 for the year ended 31 March 2007, representing a decrease of 85.6% as compared with HKD9,968,000 for the previous year. The decrease in income tax expenses was mainly due to the significant increase of deferred income tax assets resulted from the recognition of unrealised profit arising from intra-Group sale. Barring the effect of such factor, the accrued income tax expense of the Group was HKD25,042,000 and the effective income tax rate was 4.3%.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD567,051,000 for the year ended 31 March 2007, representing an increase of 100.3% as compared with HKD283,089,000 for the year ended 31 March 2006. The net margin attributable to the equity holders of the Company increased from 36.3% for the previous year to 56.0% for the current year. Excluding share options compensation expenses included in administrative expenses, the net margin attributable to the equity holders of the Company would be 58.7%.

Current assets and financial resources

As at 31 March 2007, the net current assets of the Group was HKD929,446,000 (2006: HKD323,250,000). The Group generates its working capital mainly through its operating activities and maintains a healthy financial position. As at 31 March 2007, the Group had cash and cash equivalents of HKD857,431,000 (2006: HKD180,862,000), over 90% of which was denominated in RMB.

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

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 2007, the Group's average debtors' turnover period was 109 days, representing a decrease of 33 days as compared with 142 days for the last financial year ended 31 March 2006. The debtors' turnover period decreased as a result of enhancing credit management and control measures taken by the Group.

Creditors' turnover period

The calculation of creditors' turnover period is based on the average amount of trade payables as at the beginning and end of the relevant financial period divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period. Credit terms granted by suppliers to the Group ranged from 0 to 180 days. For the year ended 31 March 2007, the Group's average creditors' turnover period was 140 days, representing a decrease of 25 days as compared with 165 days for the last financial year ended 31 March 2006.

Inventory and inventory turnover period

As at 31 March 2007, the Group's inventory balance amounted to HKD61,871,000 (2006: HKD124,678,000). For the year ended 31 March 2007, inventory turnover period, calculated based on the average amount of inventories as at the beginning and end of the relevant financial year divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period, was 110 days. The inventory turnover period remained stable during the year.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in the Mainland 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 2007.

EXECUTIVE DIRECTORS

Ms. CHU Lam Yiu, aged 37, has been serving as the Chairman and President of the Company since March 2004. Ms. Chu is currently the Deputy Director of the China Association of Fragrance Flavor and Cosmetic Industry, 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. CHEN Yong Chang, aged 57, has been serving as an Executive Director of the Company since March 2004. He holds a Master's Degree in Economics. Mr. Chen has experience in the research, investment banking and international affairs of an established financial institution in China for years. He has ample experience in business strategy formulation and business management including the development of business co-operations with international investment institutions and professional institutions.

Mr. POON Chiu Kwok, aged 45, served the Board since March 2004 and is currently an Executive Director of the Company. Mr. Poon has been in the financial and securities sector for about 20 years. He has broad experience in listed companies corporate governance, commercial and investment banking. He has lead-managed a number of major listings and has played a substantial advisory role in various Stock Exchange listed company transactions. Mr. Poon holds a Master's Degree in International Accounting, a Bachelor's Degree in Business Studies and a Bachelor's Degree in Laws. He is a member of HKSI, associate members of the ICSA and HKICS. Mr. Poon is a member of Professional Education Committee of HKSI. He is also an independent non-executive director of two other companies listed on the Main Board of the Stock Exchange including Tsingtao Brewery Company Limited.

Mr. WANG Guang Yu, aged 43, 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. Mr. Wang previously worked in management positions of large-scale chemical company in China and is currently the Deputy Director of China Association of Fragrance Flavor and Cosmetic Industry. Mr. Wang has nearly 15 years of R&D and management experiences in the chemical industry.

Mr. XIA Li Qun, aged 41, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Luk Shiu, aged 49, 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 46, 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 Managing Partner of Shu Jin Law Firm as well as the Head of the Capital Market Department of the same 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 45, has served as a member of the board of directors of the Company since March 2004. Mr. Mak is the managing director of Venfund Investment, a boutique investment bank, which he co-founded in late 2001. Prior to that, he was a partner of Arthur Andersen Worldwide and the managing partner of Arthur Andersen Southern China. Mr. Mak serves as an independent non-executive director and audit committee chairman of the following listed public companies: Trina Solar Limited, China Grentech Corporation Limited and Dragon Pharmaceutical Inc., all listed in the U.S.; Shenzhen Victor Onward Textile Industrial Co. Ltd. and Gemdale Industries Inc., both listed in China. Mr. Mak is also the non-executive director of Bright World Precision Machinery Limited, a company listed in Singapore.

Mr. Mak is a graduate of the Hong Kong Polytechnic University and a fellow member of ACCA and HKICPA.

SENIOR MANAGEMENT

Mr. ZHANG Yong, aged 46, 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 59, 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 flavour and fragrance 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 49, 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 44, 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 merger and acquisition.

Mr. LI Xiu Quan, aged 43, is Assistant to President and General Manager of Investment Management Department, responsible for investments. He holds a Bachelor's Degree in Economics and is a qualified 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.

Mr. CHOY Man Fai, aged 43, is General Manager of Tobacco Flavours Marketing Centre, responsible for marketing and sales of tobacco flavours. He holds a diploma of Applied Chemical Technology of Hong Kong Polytechnic University. Mr. Choy served as marketing manager in a number of world renowned flavour and fragrance companies. Mr. Choy has over 20 years' experience in flavour and fragrance marketing and management.

Ms. YUAN Xiao Qin, aged 39, is General Manager of Food and Fine Fragrances Marketing Centre, responsible for marketing and sales of food flavours. He holds an MBA degree and has a qualification of engineer. Ms. Yuan served as senior executive in a Mainland state-owned giant enterprise and a Hong Kong listed company. She is currently Deputy Director of China Association of Bakery and Confectionary Industry. Ms. Yuan has over 15 years' experience in corporate governance and marketing management.

Mr. XIONG Qing, aged 30, joined the Group as Assistant to the President in May 2007. Prior to join the Group, he served as Vice President of China Investment Banking of Deutsche Bank. Mr. Xiong has engaged in investment banking for 8 years and 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. He is now studying for EMBA degree at INSEAD in France.

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 recommended in 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 and A.4.1, in respect of the terms of non-executive directors. Further explanations are set out below.

1. DIRECTORS

The Board

The primary objective of the Board is to enhance and protect long-term values of the Shareholders as a whole. 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.

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

In considering any matter by the Board in which a substantial shareholder or a director has material conflict of interest, relevant Directors would declare their material interests in the resolutions and abstain from voting on relevant resolutions.

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 officers of the Company.

Board Composition

The Board currently comprises five Executive Directors and three INEDs. Over one-third of the Board was represented by INEDs throughout the year.

Together the Board has a diverse wealth of skills, expertise, experience and qualifications in the aspect of economic and business management, accounting and finance, securities and investment banking, legal and regulatory experience both in Hong Kong and China. More than one of the INEDs possess recognized professional qualification in accounting or related 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 advices for the development of the Group's businesses.

Biographies of the Directors are set out on pages 26 and 27 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 independent pursuant to the Listing Rules.

Chairman and Chief Executive Officer

Ms. Chu Lam Yiu, the controlling shareholder and the Chairman of the Company is in charge of the strategic planning and management of the Company. Each Executive Director is delegated individual responsibilities to oversee and monitor different functions of the Group.

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. The Board comprises INEDs who bring strong independent judgment, knowledge and experience to the Board's deliberations. 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.

With the supports of the Chief Financial Officer, the Qualified Accountant and the Company Secretary, all Directors are properly briefed on issues arising at board meetings and receive adequate and timely information for making decisions.

After due consideration, the Board has not adopted the recommendation of the CG Code to have separate chairman and chief executive officer. The Board considers that existing structure would enable the Company to make and implement decisions promptly and efficiently, and believes that the balance of power and authority can be ensured as over one-third of the Board is represented by INEDs throughout the whole year.

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;
- 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 Board committees whenever invited.

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. Chen Yong Chang.

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 twice 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 21(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 43 and 44 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 Independent Auditor's Report to the Shareholders is set out on pages 50 and 51 of this annual report.

Internal Controls

The Board has conducted a review of the effectiveness of the system of internal control of the Group which cover all material controls, including financial, operational and compliance controls and risk management functions.

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 legal advisor and Deutsche Bank, which was the financial advisor of the Company, for senior management and relevant staff from each of the Group's divisions and departments after the completion of the very substantial acquisition during the year.

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 profession, legal profession 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 2007, 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	2,593
Non-audit services:	
– Interim results review	493
– Others	667

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
SGM	18 April 2006	Suite 1103, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	1. To appoint PricewaterhouseCoopers as auditors of the Company and to authorize the Board to fix their fees.
AGM	26 July 2006	Tianshan Room, Level 5, Island Shangri-La Hotel, Pacific Place II, Supreme Court Road, Central, Hong Kong	1. To receive the audited financial statements for the year ended 31 March 2006; 2. To grant general mandates to repurchase shares and to issue shares; 3. To re-elect Directors and to authorize the Board to fix their remuneration; and 4. To re-appoint auditors.
SGM	26 July 2006	Tianshan Room, Level 5, Island Shangri-La Hotel, Pacific Place II, Supreme Court Road, Central, Hong Kong	1. To increase authorised share capital; 2. To acquire Chemactive Investments Limited; 3. To approve, ratify and confirm the framework agreement with Hongta Tobacco (Group) Limited Liability Company; 4. To cancel share premium; and 5. To amend Bye-laws in respect of new preference shares.
SGM	22 September 2006	Suite 1103, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	1. To appoint Mr. Xia Liqun as the Director and to authorize the Board to fix his remuneration; and 2. To revoke the Company's share option scheme adopted on 19 March 2004 and to adopt a new Share Option Scheme.

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.

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 Director			
Ms. CHU Lam Yiu *(Chairman)*	5/5	n/a	n/a
Mr. CHEN Yong Chang	5/5	n/a	2/2
Mr. POON Chiu Kwok	5/5	n/a	n/a
Mr. WANG Guang Yu	4/5	n/a	n/a
Mr. XIA Li Qun[(1)]	2/2	n/a	n/a
INED			
Mr. LEE Luk Shiu	5/5	2/2	n/a
Ms. MA Yun Yan	4/5	2/2	2/2
Mr. MAK Kin Kwong, Peter	5/5	2/2	2/2
Attendance rate	95%	100%	100%

Note:

(1) Appointed on 1 September 2006

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 fulfills 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 July 2006 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 22 roadshows and investors' conferences in which the Group had participated up to the date of this report:

Date	Venue	Organizer	Event
July to August 2006	Hong Kong, Singapore, London (UK), New York (US)	Deutsche Bank	Roadshow
November 2006	London (UK)	CLSA	China Access Day
December 2006	Hong Kong, Singapore, London (UK), New York (US)	Deutsche Bank, DBS Vickers	Post interim results roadshow
	Hong Kong	CLSA	Post interim results roadshow
	Hainan (PRC)	JP Morgan	JP Morgan's China Corporate Access Days
January 2007	Hong Kong	CLSA	Consumer Access Day
	Tokyo (Japan)	HSBC	Roadshow
	Hong Kong	CCG Elite	Chinese Equities Discovery Tour
	Beijing (PRC)	Deutsche Bank	Access China Conference 2007
	Shanghai (PRC)	UBS	UBS Greater China Conference 2007
March 2007	Hong Kong	DBS Vickers	Roadshow
	Hong Kong	JP Morgan	HK/China Small Cap Corporate Access Day
	Singapore	Macquarie	Roadshow
	Zhuhai (PRC)	CLSA	CLSA China On The Road
	Hong Kong	Credit Suisse	Credit Suisse Asian Investment Conference Small Cap Day
	Hong Kong	Goldbond	Roadshow
April 2007	Tokyo (Japan)	Nomura	Nomura Asia Day
	Frankfurt, Stockholm, Copenhagen, Rotterdam, The Hague, Amsterdam (Europe)	HSBC	Roadshow
	London (UK)	DBS Vickers	Roadshow
	Beijing (PRC)	JP Morgan	JP Morgan's China Conference 2007
May 2007	Singapore	Merrill Lynch	Pan Asia Rising Star Conference
	Shanghai (PRC)	CLSA	12th Annual 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 WEBSITE

The Company's website at www.huabao.com.hk contains important corporate information, biographical details of Directors, organization structure, interim and annual reports, announcements and circulars issued by the Company in order to enable the Company's Shareholders and investor community to have timely access to updated information about the Group.

• 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.hbglobal.com. 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. Since the completion of the very substantial acquisition of flavors and fragrances business in August 2006, the Company has been covered by 14 established and reputable research institutes as follows:

- Citigroup Investment Research
- CLSA Research Limited
- DBS Vickers Securities
- Deutsche Bank
- First Shanghai Group
- Goldbond Securities Limited
- HSBC

- ICEA Securities Asia Limited
- JP Morgan
- Liber Research
- Macquarie Securities
- Nomura International (Hong Kong) Limited
- South China Research
- UOB Kay Hian

(shown in alphabetical order)

The Board present their report together with the audited financial statements for the year ended 31 March 2007.

GROUP REORGANIZATION

On 1 August 2006, the Company completed the acquisition of 100% equity interests of Chemactive Investments, which engages in R&D, manufacture and sale of flavours and fragrances. The details of the acquisition were set out in the Company's announcement dated 7 June 2006 and the circular dated 28 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the Company's subsidiaries are set out in note 31 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 2007 are set out in the consolidated income statement on page 55 of the annual report.

The Board declared an interim dividend of HK1.8 cents per share, which was paid on 1 February 2007. The Board proposed the declaration of a final dividend of HK3.8 cents per share in cash (2006: nil) for the year ended 31 March 2007, which is expected to be paid on 5 October 2007 to Shareholders whose names appear on the Register of Members of the Company as at 21 September 2007, 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 HK5.6 cents per share (2006: nil).

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 56 and in note 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2007, the distributable reserves of the Company amounted to 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 notes 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 105 of the annual report, which does not constitutes as part of the audited financial statements.

SHARE OPTIONS

As per a resolution passed on the special general meeting of Shareholders held on 22 September 2006, the Company revoked the share option scheme adopted on 19 March 2004 ("Previous Share Option Scheme") and adopted the new share option scheme ("New Share Option Scheme"). The following is a summary of the New Share Option Scheme:

(a) Purpose of the Scheme

The New 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 New 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 New 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.

As at 31 March 2007, the options granted by the Company under the New Share Option Scheme but not yet exercised amounted to 107,850,000 shares, represents approximately 3.52% of the Shares issued.

(d) Maximum entitlement of each participant

The maximum number of Shares (issued and to be issued) upon exercise of options (whether exercised, canceled or outstanding) granted to any participants in any 12-month period under the New 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 New 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 New 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 under the New 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 New Share Option Scheme will remain in force for 10 years starting from 22 September 2006.

The Company did not grant any share option to any person from the date of adoption of the Previous Share Option Scheme. The details of share options granted, exercised, lapsed and canceled during the year under the New Share Option Scheme are set out as follows:

Grantee	Grant Date	Granted during the year	Exercised during the year	Canceled during the year	Lapsed during the year	Balance as at 31 March 2007
Executive Directors:						
Mr. CHEN Yong Chang	25 October 2006	7,000,000	1,750,000	–	–	5,250,000
Mr. POON Chiu Kwok	25 October 2006	7,000,000	–	–	–	7,000,000
Mr. WANG Guang Yu	25 October 2006	7,000,000	1,750,000	–	–	5,250,000
Mr. XIA Li Qun	25 October 2006	7,000,000	1,750,000	–	–	5,250,000
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	97,200,000	14,500,000	–	–	82,700,000
Total		127,600,000	19,750,000	–	–	107,850,000

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
Mr. POON Chiu Kwok (redesignated from INED to executive director on 1 May 2006)
Mr. WANG Guang Yu
Mr. XIA Li Qun (appointed on 1 September 2006)

Independent Non-executive Directors:

Mr. LEE Luk Shiu (appointed on 1 May 2006)
Ms. MA Yun Yan
Mr. MAK Kin Kwong, Peter

In accordance with Bye-law 87(1) of the Company's bye-laws, Ms. Chu Lam Yiu, Mr. Wang Guang Yu and Ms. Ma Yun Yan 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 29 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

On the date of this report , Ms. Chu Lam Yiu ("Ms. Chu") has acquired controlling equity interests in certain enterprises engaging in the supply of flavour and fragrance business in China. The enterprises have an aggregate annual turnover of approximately RMB0.17 billion and are located in Shanghai and 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 enterprises may bright synergy effect among the Group and such enterprises.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2007, 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*	2,001,599,415	65.35%
Chen Yong Chang	Beneficial owner	1,750,000	0.06%
Wang Guang Yu	Beneficial owner	1,750,000	0.06%
Xia Li Qun	Beneficial owner	1,750,000	0.06%

* 2,001,599,415 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 2007, 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 2007, other than the interests disclosed in the section "Directors' interests in shares, underlying shares and debentures", the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following persons held interests or short positions in 5% or more issued Shares of the Company:

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

Name of Shareholder	Capacity	Number of issued ordinary share held	Percentage of the issued ordinary share capital of the Company
Legg Mason Inc	Institution Investor	182,460,000	5.96%

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2007, the percentage of turnover attributable to the Group's five largest customers accounted for approximately 66% and the largest customer contributed approximately 36% to the turnover of the Group, and the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 64% and the largest supplier contributed approximately 48% 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, continuing connected transactions between the Group and Hongta are ceased since 1 January 2007.

For the period from 1 August 2006 to 31 March 2007, the tobacco flavour products sold by the Group to Hongta and its associates amounted to approximately RMB131,204,000. 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 2007, 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

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 have been audited by PricewaterhouseCoopers. A resolution will be submitted to the annual general meeting to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company.

By Order of the Board

Chu Lam Yiu
Chairman

Hong Kong, 18 June 2007

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 52 to 104, which comprise the consolidated and Company balance sheets as at 31 March 2007, 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 2007 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 2007

Consolidated Balance Sheet (All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2007	2006 (Note 2.1)
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**155,171**	145,130
Leasehold land and land use rights	*7*	**14,318**	14,112
Intangible assets	*8*	**11,992**	12,337
Investments in an associate	*10*	**3,975**	3,924
Deferred income tax assets	*11*	**26,022**	1,735
		211,478	177,238
Current assets			
Inventories	*12*	**61,871**	124,678
Trade and other receivables	*13*	**330,252**	363,928
Term deposits with original maturity over 3 months		**–**	29,042
Cash and cash equivalents	*14*	**857,431**	180,862
		1,249,554	698,510
Total assets		**1,461,032**	875,748
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*15*	**306,269**	246,704
Reserves	*17*	**(116,910)**	148,043
Retained earnings			
– Proposed final dividend	*25*	**116,382**	–
– Others		**774,268**	2,963
		1,080,009	397,710
Minority interest		**60,915**	54,228
Total equity		**1,140,924**	451,938

Consolidated Balance Sheet (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2007	2006 (Note 2.1)
LIABILITIES			
Non-current liabilities			
Liability component of preference shares		**–**	48,550
Current liabilities			
Trade and other payables	*18*	**309,177**	372,115
Current income tax liabilities		**10,931**	3,145
		320,108	375,260
Total liabilities		**320,108**	423,810
Total equity and liabilities		**1,461,032**	875,748
Net current assets		**929,446**	323,250
Total assets less current liabilities		**1,140,924**	500,488

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Ms. CHU Lam Yiu
Chairman

Mr. XIA Li Qun
Director

Balance Sheet (All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2007	2006
ASSETS			
Non-current assets			
Investments in subsidiaries	*9*	**592,746**	–
Current assets			
Trade and other receivables	*13*	**465**	170
Amounts due from subsidiaries	*9*	**124,473**	3,251
Cash and cash equivalents	*14*	**60,740**	7
		185,678	3,428
Total assets		**778,424**	3,428
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*15*	**306,269**	24,731
Reserves	*17*	**377,119**	313,932
Retained earnings/(Accumulated losses)			
– Proposed final dividend	*25*	**116,382**	–
– Others		**(84,649)**	(384,791)
Total equity		**715,121**	(46,128)
LIABILITIES			
Non-current liabilities			
Liability component of preference shares		**–**	48,550
Current liabilities			
Amounts due to subsidiaries	*9*	**62,765**	663
Trade and other payables	*18*	**538**	343
		63,303	1,006
Total liabilities		**63,303**	49,556
Total equity and liabilities		**778,424**	3,428

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Ms. CHU Lam Yiu
Chairman

Mr. XIA Li Qun
Director

Consolidated Income Statement (All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 March 2007	2006 (Note 2.1)
Sales	5	**1,013,229**	779,018
Cost of goods sold	20	**(309,083)**	(410,536)
Gross profit		**704,146**	368,482
Other income	19	**4,030**	16,116
Selling and marketing expenses	20	**(44,331)**	(31,929)
Administrative expenses	20	**(88,833)**	(48,603)
Operating profit		**575,012**	304,066
Finance income		**5,939**	2,741
Finance costs		**(2,441)**	(6,467)
Finance income/(costs) - net	22	**3,498**	(3,726)
Share of profit/(loss) of an associate	10	**172**	(315)
Profit before income tax		**578,682**	300,025
Income tax expense	23	**(1,435)**	(9,968)
Profit for the year		**577,247**	290,057
Attributable to:			
Equity holders of the Company		**567,051**	283,089
Minority interest		**10,196**	6,968
		577,247	290,057
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	24(a)	**19.91**	11.47
– Diluted	24(b)	**18.66**	9.53
Dividends	25	**171,157**	Nil

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity (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 2005		246,704	133,356	1,709	381,769	39,665	421,434
Exchange differences		–	3,668	–	3,668	1,070	4,738
Profit for the year		–	–	283,089	283,089	6,968	290,057
Total recognized income and expense for year ended 31 March 2006		246,704	137,024	284,798	668,526	47,703	716,229
Acquisition of a subsidiary		–	–	–	–	22,308	22,308
Appropriations from net profit	*17*	–	9,576	(9,576)	–	–	–
Dividend declared		–	–	(272,259)	(272,259)	–	(272,259)
Purchase of additional interests in a subsidiary from a minority shareholder		–	1,443	–	1,443	(15,783)	(14,340)
		–	11,019	(281,835)	(270,816)	6,525	(264,291)
Balance at 31 March 2006		246,704	148,043	2,963	397,710	54,228	451,938
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		**–**	**–**	**567,051**	**567,051**	**10,196**	**577,247**
Total recognized income and expense for year ended 31 March 2007		**246,704**	**181,611**	**570,014**	**998,329**	**66,854**	**1,065,183**
Conversion of original preference shares into ordinary shares	*15(c), 17(b)*	**52,690**	**(7,943)**	**–**	**44,747**	**–**	**44,747**
Exercise of warrants	*15(d)*	**4,900**	**–**	**–**	**4,900**	**–**	**4,900**
Cost of issuance of shares	*17*	**–**	**(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	*28*	**–**	**(316)**	**–**	**(316)**	**(399)**	**(715)**
Capital reorganization	*17(c)*	**–**	**(384,792)**	**384,792**	**–**	**–**	**–**
Employee share option scheme							
– Value of employee services	*17*	**–**	**28,199**	**–**	**28,199**	**–**	**28,199**
– Exercise of share options	*15, 17*	**1,975**	**59,052**	**–**	**61,027**	**–**	**61,027**
Interim dividend for the 6 months ended 30 September 2006	*25*	**–**	**–**	**(54,775)**	**(54,775)**	**–**	**(54,775)**
		59,565	**(298,521)**	**320,636**	**81,680**	**(5,939)**	**75,741**
Balance at 31 March 2007		**306,269**	**(116,910)**	**890,650**	**1,080,009**	**60,915**	**1,140,924**

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement (All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 March 2007	2006 (Note 2.1)
Cash flows from operating activities			
Cash generated from operations	*26*	**676,316**	333,950
Income tax paid		**(17,936)**	(14,248)
Net cash generated from operating activities		**658,380**	319,702
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**–**	(15,513)
Purchase of additional interests in a subsidiary from a minority shareholder	*28*	**(715)**	(14,340)
Purchases of property, plant and equipment		**(17,062)**	(49,724)
Purchases of land use rights		**–**	(1,764)
Payments for intangible assets		**(84)**	(9,022)
Interest received		**3,498**	2,739
Decrease/(increase) in term deposits with original maturity over 3 months		**29,042**	(28,681)
Net cash generated from/(used in) investing activities		**14,679**	(116,305)
Cash flows from financing activities			
Dividends paid for shareholders		**(54,775)**	(186,081)
Dividend paid to minority interests		**(5,540)**	–
Cost of issuance of shares	*17*	**(2,102)**	–
Proceeds from exercise of warrants	*15*	**4,900**	–
Proceeds from exercise of share options		**61,027**	–
Net cash generated from/(used in) financing activities		**3,510**	(186,081)
Net increase in cash and cash equivalents		**676,569**	17,316
Cash and cash equivalents at beginning of the year		**180,862**	163,546
Cash and cash equivalents at end of the year	*14*	**857,431**	180,862

The accompanying notes are an integral part of these 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 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, who is the Company's ultimate controlling shareholder and Chairman of the board of directors.

Pursuant to an acquisition agreement dated 7 June 2006, the Company issued and allotted 2,219,731,526 new non-redeemable convertible preference shares at HKD1.80 per share as consideration to acquire Chemactive Investments Limited ("Chemactive Investments") and its subsidiaries ("Chemactive Group") (Note 15) ("Acquisition"). The Acquisition was a very substantial acquisition pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), details of which were set out in the circular dated 28 June 2006 issued by the Company. The Acquisition was completed on 1 August 2006.

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

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

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 on 18 June 2007.

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 judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Application of merger accounting

Since the Company and Chemactive Investments were both controlled by Ms. Chu Lam Yiu before and after the completion of the Acquisition as mentioned in Note 1, the Acquisition was accounted for as a combination of entities under common control. The Company adopted the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to prepare the consolidated financial statements, assuming that the current group structure had been in existence since Ms. Chu Lam Yiu controlled the Company and Chemactive Investments.

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.

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 expense in the period in which it is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Application of merger accounting (continued)

The adjustment of HKD592,734,000 to eliminate the share capital of the combining entities against the investment cost, has been made and debited to the merger reserve in the consolidated financial statements (Note 17).

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

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

(b) Standards and interpretation 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 May 2006 or later periods but have not been early adopted by the Group:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, will be effective for accounting periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32 "Financial Instruments: Disclosure and Presentation". It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of these new and revised standards and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by these new and required standards;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for accounting periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 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 2. The Group will apply HK(IFRIC)-Int 8 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) *Standards and interpretation to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for accounting periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 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. The Group will apply HK(IFRIC)-Int 10 from 1 April 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements; and

- HKFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009). HKFRS 8 replaces HKAS 14, Segment Reporting, and requires the identification and measurement of operating segments based on the internal reports that are regularly reviewed by the entity's chief operating decision maker for the purpose of allocating resources to the segment and assessing its performance. The Group is considering whether to early adopt HKFRS 8 in the next fiscal year.

(c) *Interpretation to existing standard that is not yet effective and not relevant for the Group's operations*

The following interpretation to existing standard has been published that is mandatory for the Group's accounting periods beginning on or after 1 March 2007 but is not relevant for the Group's operations:

- HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 provides guidance on share-based payment arrangements involving the entity's buying equity instruments from another party to satisfy its obligations to the employees, the provision by the entity's shareholders of equity instruments needed, and equity instruments of other entities within the same group. HK(IFRIC)-Int 11 is not relevant to the Group's operations as it does not foresee to undertake these arrangements in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment – Employee Benefits;
- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4 – Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- HK(IFRIC)-Int 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment; and
- HK(IFRIC)-Int 7 – Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) 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.

(c) 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 deducted from 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 currency 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment

Construction in progress represents the direct costs of construction incurred plus interest recognized up to the date of completion of the construction of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for 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. 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 cost 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 proceeds with carrying amount and are recognized within other income in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

2.7 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 and 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 annually 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 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) 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.

(c) Trademarks

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 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 that are subject to amortization 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). 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 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.

2.10 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 loss 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. Subsequent recoveries of amounts previously written off are recognized in other income in the income statement.

2.11 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.

2.12 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.

2.13 Trade payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Deferred income tax

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.

2.15 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 Mainland China of the PRC (the "Mainland China") participate in employee social security plans, covering pension, medical, housing and other welfare benefits, organized and administered by the local government. 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 assets to the extent that a cash refund or a reduction in the future payments is available.

(b) *Share-based compensation*

The Company 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Research and development costs

Research expenditures are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognized as an intangible asset where the technical feasibility and intention of completing the product under development have been demonstrated and the resources are available to do so, costs can be measured reliably and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognized as an asset and amortized on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognized. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

2.17 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sales 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 or each arrangement.

(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, the amount of revenue can be measured reliably and collectibility of the related receivables is reasonably assumed.

(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. Interest income on impaired receivables is recognized using the original effective interest rate.

2.18 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)*

2.19 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 statements over the period necessary to match them with the costs 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.

2.20 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 dividends are approved by the Company's shareholders.

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 and price risk), credit risk, liquidity risk and cash flow interest rate 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.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and the Mainland China and is exposed to 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 earned their profits in RMB and the value of RMB has been appreciated against HKD.

(ii) 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.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The sales to top five customers account for approximately 66% of total sales. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies 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. Management believes that the Group does not have significant liquidity risk.

(d) Cash flow interest rate risk

The Group's interest rate risk arises from bank balances which bear market rates. As the Group has no other significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3.2 Fair value estimation

The nominal value less impairment provisions of trade and other receivables and the nominal value of trade and other payables approximate their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 estimation and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of financial items within the next financial year are discussed below.

Recognition of share-based compensation expenses

During the year, the Company granted certain share options to employees and directors. 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, dividend yield and volatility, to the BS Model was made by the directors (Note 16).

The total fair value of options granted determined using the BS Model was approximately HKD61,740,000. An amount of HKD28,199,000 (Note 21) was recorded in employee benefit expenses for the year ended 31 March 2007.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION – GROUP

(a) Primary reporting format – business segments

As at 31 March 2007, 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 business mainly includes research and development service, which does not constitute a separately reportable segment.

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	600,564	13,957	(1,042)	(38,467)	575,012
Finance income					5,939
Finance cost					(2,441)
Finance income – net					3,498
Share of profit of an associate					172
Profit before income tax					578,682
Income tax expense					(1,435)
Profit for the year					577,247
Segment assets	1,233,755	154,795	5,318	67,164	1,461,032
Segment liabilities	278,848	27,328	2,458	543	309,177
Current income tax liabilities					10,931
Total liabilities					320,108
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 20)*	(1,963)	–	–	–	(1,963)

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION – GROUP *(continued)*

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

The segment information for the year ended 31 March 2006 is presented below:

	Year ended 31 March 2006				
	Tobacco flavours	Food flavours	Fine chemicals products	Unallocated	Total
Total turnover	683,442	77,104	14,845	7,064	782,455
Inter-segment sales	(58)	(33)	–	(3,346)	(3,437)
Net turnover	683,384	77,071	14,845	3,718	779,018
Operating profit/Segment result	300,254	9,457	665	(6,310)	304,066
Finance income					2,741
Finance cost					(6,467)
Finance cost – net					(3,726)
Share of loss of an associate					(315)
Profit before income tax					300,025
Income tax expense					(9,968)
Profit for the year					290,057
Segment assets	735,026	126,923	7,255	6,544	875,748
Segment liabilities	350,055	17,680	3,945	435	372,115
Current income tax liabilities					3,145
Liability component of preference shares					48,550
Total liabilities					423,810
Other segment items					
Capital expenditure *(Notes 6, 7 and 8)*	67,147	22,509	469	642	90,767
Depreciation *(Note 6)*	9,686	486	74	586	10,832
Amortization *(Notes 7 and 8)*	713	–	–	–	713
Reversal of impairment provision for trade receivables *(Note 20)*	(688)	–	–	–	(688)

5. SEGMENT INFORMATION – GROUP *(continued)*

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

Pursuant to the disposal agreement dated 29 August 2006, the Company disposed of Asiarim Associates Limited, a subsidiary of the Company which engaged in trading of consumer electronic products, at a consideration of HKD1. The disposal did not constitute a discontinued operation as the trading of consumer electronic products is not the primary business of the Group.

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. They exclude taxation and the liability component of preference shares.

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 Mainland China and more than 90% of the Group's assets and liabilities are located and incurred in the Mainland China, respectively. Accordingly, no additional information on geographical segment is presented.

Notes to the Consolidated Financial Statements (Cont'd) (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 2005								
Cost		62,125	7,677	12,463	26,495	1,500	1,713	111,973
Accumulated depreciation		(8,840)	(2,187)	(6,684)	(11,871)	(620)	–	(30,202)
Net book amount		53,285	5,490	5,779	14,624	880	1,713	81,771
Year ended 31 March 2006								
Opening net book amount		53,285	5,490	5,779	14,624	880	1,713	81,771
Acquisition of a subsidiary		20,427	3,195	79	325	–	–	24,026
Additions		514	927	7,142	1,095	638	40,028	50,344
Transfers		–	1,204	–	826	–	(2,030)	–
Disposals		–	(842)	(293)	(1,112)	–	–	(2,247)
Depreciation	*20*	(3,831)	(1,086)	(2,038)	(3,532)	(345)	–	(10,832)
Exchange differences		1,387	133	132	350	20	46	2,068
Closing net book amount		71,782	9,021	10,801	12,576	1,193	39,757	145,130
At 31 March 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	*20*	**(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**

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

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

Depreciation was expensed in the following categories in the consolidated income statements:

		Year ended 31 March	
	Note	**2007**	2006
Cost of goods sold		**2,779**	2,366
Selling and marketing expenses		**890**	755
Administrative expenses		**9,660**	7,711
Total depreciation	*20*	**13,329**	10,832

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	
	2007	2006
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**14,318**	14,112

	Year ended 31 March	
	2007	2006
Beginning of the year	**14,112**	10,054
Additions	**–**	2,311
Acquisition of a subsidiary	**–**	1,769
Amortization	**(399)**	(329)
Exchange differences	**605**	307
End of the year	**14,318**	14,112

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

8. INTANGIBLE ASSETS – GROUP

	Trademarks	Computer Software	Goodwill	Total
At 1 April 2005				
Cost	–	–	306	306
Accumulated amortization	–	–	–	–
Net book amount	–	–	306	306
Year ended 31 March 2006				
Opening net book amount	–	–	306	306
Additions	8,961	112	–	9,073
Acquisition of a subsidiary	–	–	3,244	3,244
Amortization	(372)	(12)	–	(384)
Exchange differences	56	1	41	98
Closing net book amount	8,645	101	3,591	12,337
At 31 March 2006				
Cost	9,017	113	3,591	12,721
Accumulated amortization	(372)	(12)	–	(384)
Net book amount	8,645	101	3,591	12,337
Year ended 31 March 2007				
Opening net book amount	**8,645**	**101**	**3,591**	**12,337**
Additions	**–**	**82**	**–**	**82**
Amortization	**(918)**	**(23)**	**–**	**(941)**
Exchange differences	**354**	**5**	**155**	**514**
Closing net book amount	**8,081**	**165**	**3,746**	**11,992**
At 31 March 2007				
Cost	**9,414**	**198**	**3,746**	**13,358**
Accumulated amortization	**(1,333)**	**(33)**	**–**	**(1,366)**
Net book amount	**8,081**	**165**	**3,746**	**11,992**

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

Trademarks represent the Peacock trademarks, which were purchased from 上海孔雀香精香料有限公司(Shanghai Peacock Flavours & Fragrances Co., Ltd.). Expenditure on acquired trademarks is capitalized and amortized using the straight-line method over their estimated useful lives of 10 years.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

8. INTANGIBLE ASSETS – GROUP *(continued)*

For the purpose of impairment testing, goodwill has been allocated to 2 individual cash generating units ("CGU"). The carrying amount of goodwill relating to the significant CGU, Hua Fang Tobacco Flavors Ltd. ("Guangzhou Huafang"), in comparison with the Group's total carrying amount of goodwill as at 31 March 2007 was HKD3,386,000 (2006: HKD3,244,000).

The recoverable amount of goodwill relating to Guangzhou Huafang was determined based on value in use calculations. Value in use calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period and a discount rate of 10.84%. Cash flow projections during the forecast period for Guangzhou Huafang are based on the expected gross margins during the forecast period. Forecast gross margins have been determined based on past performance and management's expectations for the market development.

After assessing the cash flow projections of the 2 CGUs, the directors considered that there is no impairment of the goodwill as at 31 March 2007 and 2006.

9. INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES – COMPANY

	As at 31 March	
	2007	2006
Investments in subsidiaries	**592,746**	–

The investments in subsidiaries mainly represent the investment cost in Chemactive Investments, which was calculated based on the consolidated net assets of Chemactive Group prepared in accordance with HKFRS on the completion date of the Acquisition as depicted in Note 1.

	As at 31 March	
	2007	2006
Amounts due from subsidiaries		
Chemactive Investments	**124,473**	–
Huabao Investment Company Limited ("Huabao Investment")	**–**	3,251
	124,473	3,251
Amounts due to subsidiaries		
Huabao Investment	**(16,522)**	–
Hero Ace Limited ("Hero Ace")	**(1,314)**	(663)
Sino Top Trading Limited ("Sino Top")	**(915)**	–
Smart Sino International Ltd. ("Smart Sino")	**(44,014)**	–
	(62,765)	(663)

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

10. INVESTMENTS IN AN ASSOCIATE – GROUP

	Year ended 31 March 2007	2006
Beginning of the year	**3,924**	4,132
Share of profit/(loss) of an associate	**172**	(315)
Exchange differences	**(121)**	107
End of the year	**3,975**	3,924

The Group's investments in an associate as at 31 March 2007 is as follows:

Name	Country of incorporation	Paid-up capital	Assets	Liabilities	Revenues	Net profit	% interests indirectly held	Principal activities
Weihai Huayuan Green Industry CO., Ltd. ("Weihai Huayuan")	The PRC	USD 2,100,000	RMB 27,630,000	RMB 7,956,000	RMB 1,920,000	RMB 873,000	20	Production and sale of flavours and fragrances

11. DEFERRED INCOME TAX ASSETS – GROUP

Deferred income tax assets are recognized for the unrealized intra-group profits 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 movement in the deferred income tax assets is as follows:

	Note	Unrealized profits arising from intra-group sales
At 1 April 2005		631
Recognized in the income statement	*23*	1,074
Exchange differences		30
At 31 March 2006		1,735
Recognized in the income statement	*23*	23,607
Exchange differences		680
At 31 March 2007		26,022

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

(b) The Group did not have other material unrecognized deferred income tax assets except as disclosed in Note 23.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

12. INVENTORIES – GROUP

	As at 31 March	
	2007	2006
At cost:		
Raw materials	**49,202**	65,068
Work in progress	**181**	314
Finished goods	**12,488**	59,296
	61,871	124,678

The cost of inventories recognized as expense and included in cost of goods sold for the year ended 31 March 2007 amounted to approximately HKD302,950,000 (2006: HKD407,522,000).

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

13. TRADE AND OTHER RECEIVABLES

		As at 31 March			
		Group		Company	
	Note	**2007**	2006	**2007**	2006
Trade and bills receivables	*13(b)*	**320,406**	358,533	**–**	–
Less: Provision for impairment of receivables		**(905)**	(4,174)	**–**	–
Trade and bills receivables – net		**319,501**	354,359	**–**	–
Prepayments and other receivables		**1,683**	1,168	**465**	170
Due from related parties	*29*	**–**	1,353	**–**	–
Advances to staff		**1,731**	2,286	**–**	–
Others		**7,337**	4,762	**–**	–
		330,252	363,928	**465**	170

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

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

	As at 31 March	
	2007	2006
0 – 90 days	**291,764**	316,500
91 – 180 days	**23,379**	33,337
181 – 360 days	**3,773**	2,711
Over 360 days	**1,490**	5,985
	320,406	358,533

14. CASH AND CASH EQUIVALENTS

	As at 31 March			
	Group		Company	
	2007	2006	**2007**	2006
Cash at bank and in hand	**857,431**	180,862	**60,740**	7

15. SHARE CAPITAL

		GROUP										
		Ordinary shares of HKD0.10 each		Convertible cumulative non-voting preference shares of HKD1.00 each ("Class 2")		Convertible cumulative non-voting preference shares of HKD0.10 each ("Class 1")		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*	*HKD'000*	*Number of shares*	*HKD'000*	*HKD'000*
Authorized:												
At 1 April 2005 and 31 March 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	*15(a)*	3,000,000,000	300,000	–	–	–	–	–	–	2,500,000,000	250,000	550,000
At 31 March 2007		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 2005, as previously reported		247,309,435	24,731	–	–	–	–	526,900,000	–	–	–	24,731
New preference shares issued in connection with the very substantial acquisition	*15(b)*	–	–	–	–	–	–	–	–	2,219,731,526	221,973	221,973
Conversion of new preference shares	*15(b)*	2,219,731,526	221,973	–	–	–	–	–	–	(2,219,731,526)	(221,973)	–
At 1 April 2005, as restated, and 31 March 2006		2,467,040,961	246,704	–	–	–	–	526,900,000	–	–	–	246,704
At 1 April 2006, as previously reported		247,309,435	24,731	–	–	–	–	526,900,000	–	–	–	24,731
New preference shares issued in connection with the very substantial acquisition	*15(b)*	–	–	–	–	–	–	–	–	2,219,731,526	221,973	221,973
Conversion of new preference shares	*15(b)*	2,219,731,526	221,973	–	–	–	–	–	–	(2,219,731,526)	(221,973)	–
At 1 April 2006, as restated		2,467,040,961	246,704	–	–	–	–	526,900,000	–	–	–	246,704
Conversion of original preference shares	*15(c)*	526,900,000	52,690	–	–	–	–	(526,900,000)	–	–	–	52,690
Exercise of warrants	*15(d)*	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

15. SHARE CAPITAL *(continued)*

		COMPANY										
		Ordinary shares of HKD0.10 each		Convertible cumulative non-voting preference shares of HKD1.00 each ("Class 2")		Convertible cumulative non-voting preference shares of HKD0.10 each ("Class 1")		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*	*HKD'000*	*Number of shares*	*HKD'000*	*HKD'000*
Authorized:												
At 1 April 2005 and 31 March 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	*15(a)*	3,000,000,000	300,000	–	–	–	–	–	–	2,500,000,000	250,000	550,000
At 31 March 2007		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 2005 and 31 March 2006		247,309,435	24,731	–	–	–	–	526,900,000	–	–	–	24,731
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	*15(b)*	–	–	–	–	–	–	–	–	2,219,731,526	221,973	221,973
Conversion of new preference shares	*15(b)*	2,219,731,526	221,973	–	–	–	–	–	–	(2,219,731,526)	(221,973)	–
Conversion of original preference shares	*15(c)*	526,900,000	52,690	–	–	–	–	(526,900,000)	–	–	–	52,690
Exercise of warrants	*15(d)*	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

15. SHARE CAPITAL *(continued)*

(a) On 26 July 2006, a resolution for the increase of authorized share capital of HKD550,000,000 was duly passed during the special general meeting of shareholders of the Company. The total authorized share capital was increased to HKD887,690,000.

(b) On 1 August 2006, pursuant to the acquisition agreement dated 7 June 2006, the Company issued and allotted 2,219,731,526 new non-redeemable convertible preference shares at HKD1.80 per share as consideration to acquire Chemactive Investments (Note 1). On 3 August 2006, Ms. Chu Lam Yiu, Resourceful Link, Power Nation, Jumbo Elite and Real Elite exercised the conversion right to convert 2,219,731,526 new non-redeemable convertible preference shares into ordinary shares at HKD0.10 per share. In accordance with the Accounting Guideline 5 issued by the HKICPA, the share capital and premium (Note 17) issued for the purpose of acquiring entities under common control are recognized from the date upon which Ms. Chu Lam Yiu controlled the Company and Chemactive Investments. The merger reserve is also calculated in accordance with the merger accounting as depicted in that guideline (Note 17).

(c) On 3 August 2006, Mogul exercised its conversion right and converted 526,900,000 original convertible preference shares into ordinary shares at the price of HKD0.10 per share (Note 17(b)).

(d) On 3 August 2006, Mogul exercised its warrants and subscribed 49,000,000 ordinary shares at the price of HKD0.10 per share.

(e) Particulars of different classes of preference shares are as follows:

i The terms of the preference shares of HKD1.00 each ("Class 2") are set out in the relevant prospectus dated 3 October 1996 issued by the Company to its shareholders. The holders of the preference shares are entitled to convert their shares into ordinary shares at a conversion price of HKD0.22 as adjusted. To the extent that the preference shares have not been converted on or prior to 15 October 2001, they shall be, subject to the Companies Act 1981 of Bermuda ("Companies Act"), redeemed at par on 22 October 2001. Pursuant to an ordinary resolution passed by the shareholders on 19 March 2004, the preference shares were redeemed at HKD1.00 each after the completion of the subscription agreement on 22 March 2004 between Mogul and the Company. The cost for the redemption was approximately HKD24.2 million.

ii The terms of the preference shares of HKD0.10 each ("Class 1") issued on 17 December 1999 at a price of HKD0.30 each were altered and approved by a special resolution passed by the shareholders on 19 March 2004. The preference shares of HKD0.10 each was compulsorily redeemed at HKD0.2815 each upon completion of the subscription agreement on 22 March 2004 and the holders were not entitled to any accrued dividend or interest. The cost for redemption was approximately HKD33.3 million.

15. SHARE CAPITAL *(continued)*

(e) Particulars of different classes of preference shares are as follows: *(continued)*

iii The terms of the Original Preference Shares issued on 22 March 2004 at a price of HKD0.10 each ("Principal Amount") are as follows:

– the preference shares are entitled to a cumulative annual dividend of 5% on the Principal Amount, payable semi-annually in arrears on the 30th of April and 31st of October but are not entitled to any further dividend distribution.

– the holders of the preference shares have the right to request the Company to redeem all or part only of the preference shares should the listing of the Company's shares on the Stock Exchange be cancelled or trading in the Company's shares on the Stock Exchange be suspended for a period of 20 consecutive trading days or more. On each of the third and fourth anniversary of the date of issue, one-third of the preference shares first issued on the date of issue shall become redeemable by the Company in cash; and the Company shall redeem all the then outstanding preference shares on the fifth anniversary of the date of issue or the earliest date permitted under the Companies Act, whichever is the later.

– the holders of the preference shares are entitled to convert their shares in multiple of 100,000 into ordinary shares at any time prior to the date upon which such preference shares are redeemed.

– the holders of the preference shares have the same voting rights as those attaching to the ordinary shares of the Company only if there are any accrued dividends overdue for more than 12 months or where certain resolutions are proposed.

iv The terms of the New Preference Shares issued on 26 July 2006 at a price of HKD0.10 each are as follows:

– the preference shares are not entitled to any dividend.

– the holders of the preference shares do not have the right to request the Company to redeem any of the preference shares.

– the holders of the preference shares are entitled to convert their shares in multiple of 1,000,000 into ordinary shares at any time.

– the holders of the preference shares have the same voting rights as those attaching to the ordinary shares of the Company only where certain resolutions are proposed, e.g. to wind up the Company or alter the rights attaching to the preference shares.

16. SHARE OPTION SCHEME

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

No share options had been granted to any persons under the Previous Share Option Scheme since its adoption. 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.

Movement in the number of share options outstanding during the year and their related weighted average exercise price was as follows:

	Note	**Weighted average exercise price in HKD per share**	**Number of share options** *('000)*
At 1 April 2006			
Granted		3.09	127,600
Exercised	*16(a)*	3.09	(19,750)
At 31 March 2007			107,850

(a) The weighted average closing price immediately before the share option exercised dates was HKD4.22 per share.

Share options outstanding as at 31 March 2007 are analyzed as follows:

Grantee	**Exercise price in HKD per share**	**Number of share options** *('000)*	**Expiry date**
Directors	3.09	25,150	24 October 2015
Employees	3.09	82,700	9 October 2015
At 31 March 2007	3.09	107,850	

Out of the 107,850,000 (2006: Nil) share options outstanding as at 31 March 2007, 12,150,000 (2006: Nil) share options are currently exercisable.

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

Exercise price	HKD3.09
Volatility	51.86%
Dividend yield	2% with 30% annual growth rate
Risk free rate	3.68% – 3.895%, depending on the vesting periods
Expected life	0 to 0.5 year, from the end of different vesting periods

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

17. RESERVES

		GROUP							
	Note	Contributed surplus	Merger reserve 17(a)	Share premium	Capital reserve	Share-based compensation reserve	Exchange reserve	Other reserves 17(d)	Total
At 1 April 2005, as previously reported		51,111	–	244,588	18,233	–	266	41,119	355,317
Effect of very substantial acquisition		–	(592,734)	370,773	–	–	–	–	(221,961)
At 1 April 2005, as restated		51,111	(592,734)	615,361	18,233	–	266	41,119	133,356
Appropriations from net profit		–	–	–	–	–	–	9,576	9,576
Purchase of additional interests in a subsidiary from a minority shareholder		–	–	–	–	–	–	1,443	1,443
Exchange differences		–	–	–	–	–	3,668	–	3,668
At 31 March 2006, as restated		51,111	(592,734)	615,361	18,233	–	3,934	52,138	148,043
At 1 April 2006, as previously reported		51,111	–	244,588	18,233	–	3,934	52,138	370,004
Effect of very substantial acquisition	15(b)	–	(592,734)	370,773	–	–	–	–	(221,961)
At 1 April 2006, as restated		51,111	(592,734)	615,361	18,233	–	3,934	52,138	148,043
Conversion of original preference shares into ordinary shares	17(b)	–	–	8,613	(16,556)	–	–	–	(7,943)
Appropriations from net profit		–	–	–	–	–	–	9,381	9,381
Cost of issuance of shares		–	–	(2,102)	–	–	–	–	(2,102)
Purchase of additional interests in a subsidiary from a minority shareholder	28	–	–	–	–	–	–	(316)	(316)
Capital reorganization	17(c)	237,080	–	(621,872)	–	–	–	–	(384,792)
Employee share option scheme									
– Value of employee services	21	–	–	–	–	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)

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

17. RESERVES *(continued)*

	Note	COMPANY Contributed surplus	Share premium	Capital reserve	Share-based compensation reserve	Total
At 1 April 2005 and 31 March 2006		51,111	244,588	18,233	–	313,932
At 1 April 2006		51,111	244,588	18,233	–	313,932
Effect of very substantial acquisition	*15(b)*	–	370,773	–	–	370,773
Conversion of original preference shares into ordinary shares	*17(b)*	–	8,613	(16,556)	–	(7,943)
Cost of issuance of shares		–	(2,102)	–	–	(2,102)
Capital reorganization	*17(c)*	237,080	(621,872)	–	–	(384,792)
Employee share option scheme						
– Value of employee services	*20*	–	–	–	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

(a) By adoption of the Accounting Guideline 5 issued by the HKICPA, the merger reserve of the Group represents the difference between the acquisition cost (i.e. the consolidated net assets of Chemactive Group prepared in accordance with HKFRS on the completion date of the Acquisition) and the share capital of Chemactive Investments upon the completion of the acquisition of Chemactive Investments by the Company on 1 August 2006.

(b) On 3 August 2006, 526,900,000 original convertible preference shares were converted into ordinary shares by Mogul (Note 15(c)). The equity component, amounting to HKD16,556,000, of these preference shares as calculated in accordance with HKAS 32 in the capital reserve and the liability component of the preference shares were transferred to share capital of HKD52,690,000 and share premium of HKD8,613,000.

(c) Pursuant to the Capital Reorganization approved at the special general meeting of shareholders held on 26 July 2006 and the relevant laws and regulations in Bermuda, the Company cancelled all credits in its share premium account, which was used to eliminate the accumulated losses of the Company as at 31 March 2006, with the balance credited to the contributed surplus account on 30 August 2006.

(d) In accordance with relevant rules and regulations on foreign investment enterprises incorporated in China, all subsidiaries of the Company established in China shall make appropriations from the net profit to the reserve fund and the enterprise expansion fund, after offsetting accumulated losses from previous years, and before distributing profit to its shareholders. The appropriation for the reserve fund shall not be less than 10% of the net profit and will cease to accrue when the accumulated appropriation exceeds 50% of the registered capital of each entity. The percentages to be appropriated to the enterprise expansion fund are determined by the board of directors of respective companies of the Group in China.

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

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

18. TRADE AND OTHER PAYABLES

		As at 31 March			
		Group		Company	
	Note	**2007**	2006	**2007**	2006
Trade payables	18(a)	**80,329**	157,273	**–**	–
Due to related parties	29	**80,419**	77,955	**–**	–
Dividends payable	18(b)	**94,022**	94,022	**–**	–
Wages payable		**2,834**	1,463	**–**	–
Other taxes payable		**37,052**	30,115	**–**	–
Accrued expenses		**3,142**	3,080	**–**	–
Other payables		**11,379**	8,207	**538**	343
		309,177	372,115	**538**	343

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

	As at 31 March	
	2007	2006
0-90 days	**77,660**	145,930
91-180 days	**1,876**	7,549
181-360 days	**793**	3,794
	80,329	157,273

(b) Dividends payable

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

19. OTHER INCOME

		Year ended 31 March	
	Note	**2007**	2006
Sales of raw materials		**98**	197
Government grants	19(a)	**1,687**	13,970
Others		**2,245**	1,949
		4,030	16,116

(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 represent the income tax refund for re-investment in subsidiaries of the Group by way of capitalization of dividends.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

20. 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 2007	2006
Depreciation, excluding amounts included in research and development	6	**9,889**	7,518
Amortization	7, 8	**1,340**	713
Changes in inventories of finished goods and work in progress		**18,567**	(2,294)
Raw materials and consumables used		**284,383**	409,816
Reversal of impairment provision for trade receivables		**(1,963)**	(688)
Lease rentals		**3,830**	2,586
Auditors' remuneration		**3,753**	433
Travelling expenses		**10,559**	9,934
Entertainment expenses		**9,744**	9,684
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	21	**28,471**	22,654
Share option compensation expenses	21	**28,199**	–
Research and development			
– Employee benefit expenses	21	**9,303**	3,592
– Depreciation	6	**3,440**	3,314
– Others		**8,069**	3,781

21. EMPLOYEE BENEFIT EXPENSES

	Note	Year ended 31 March 2007	2006
Wages and salaries		**30,107**	19,217
Pension costs – defined contribution plans	21(a)	**4,130**	3,092
Share options granted to directors and employees	20	**28,199**	–
Others		**3,537**	3,937
		65,973	26,246

(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.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

21. EMPLOYEE BENEFIT EXPENSES *(continued)*

(a) Retirement scheme benefit *(continued)*

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

(b) Directors' emoluments

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 directors:					
Ms. Chu Lam Yiu	**–**	**–**	**–**	**–**	**–**
Mr. Chen Yong Chang	**–**	**95**	**4**	**1,637**	**1,736**
Mr. Poon Chiu Kwok *(i)*	**120**	**352**	**7**	**1,637**	**2,116**
Mr. Wang Guang Yu	**–**	**123**	**10**	**1,637**	**1,770**
Mr. Xia Li Qun *(ii)*	**–**	**166**	**16**	**1,637**	**1,819**
Independent non-executive directors:					
Mr. Lee Luk Shiu *(iii)*	**110**	**–**	**–**	**187**	**297**
Ms. Ma Yun Yan	**96**	**–**	**–**	**187**	**283**
Mr. Mak Kin Kwong, Peter	**120**	**–**	**–**	**187**	**307**
					8,328

The remuneration of each director for the year ended 31 March 2006 is set out below:

Name of director	Fees	Salaries	Employer's contribution to pension scheme	Share options granted to directors	Total
Executive directors:					
Ms. Chu Lam Yiu	–	–	–	–	–
Mr. Chen Yong Chang	5	–	–	–	5
Mr. Poon Chiu Kwok *(i)*	120	–	–	–	120
Mr. Wang Guang Yu	5	–	–	–	5
Independent non-executive directors:					
Ms. Ma Yun Yan	48	–	–	–	48
Mr. Mak Kin Kwong, Peter	120	–	–	–	120
					298

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

21. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' emoluments *(continued)*

Notes:

(i) Designated from Independent Non-executive Director to Executive Director on 1 May 2006.

(ii) Appointed on 1 September 2006.

(iii) Appointed on 1 May 2006.

During the years ended 31 March 2007 and 2006, no directors waived any emoluments, and 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.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2006: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining 2 (2006: 3) individuals during the year are as follows:

	Year ended 31 March	
	2007	2006
Basic salaries and allowances	**2,432**	1,700
Contributions to the retirement scheme	**12**	31
Share options granted	**1,564**	–
	4,008	1,731

The emoluments fell within the following band:

	Number of employees	
	2007	2006
Emolument band		
Nil to HKD1,000,000	**–**	3
HKD1,000,001 – HKD1,500,000	**–**	–
HKD1,500,001 – HKD2,000,000	**1**	–
HKD2,000,001 – HKD2,500,000	**1**	–

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

22. FINANCE INCOME AND FINANCE COSTS

	Note	Year ended 31 March 2007	2006
Interest expense on liability component of preference shares	24(b)	**(2,441)**	(6,467)
Interest income on bank deposits		**5,939**	2,741
Finance income/(costs) – net		**3,498**	(3,726)

23. INCOME TAX EXPENSE

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

	Note	Year ended 31 March 2007	2006
Current income tax			
– Hong Kong profits tax	23(a)	**132**	285
– PRC enterprise income tax	23(b)	**24,910**	10,757
Deferred income tax	11	**(23,607)**	(1,074)
		1,435	9,968

(a) Hong Kong profit tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

(b) PRC enterprise income tax is provided on the basis of the profit, which are prepared using the accounting rules and regulations applicable to enterprises in the Mainland China, adjusted for income and expense items, which are not assessable or deductible for income tax purpose. Details of the applicable tax rates for enterprises of the Group in the Mainland China are as follows:

(i) Huabao Food Flavours & Fragrances (Shanghai) Co., Ltd. ("Huabao Shanghai") and Shanghai H&K Flavours & Fragrances Co., Ltd. ("Huabao Kongque") were qualified as foreign investment production enterprise incorporated in Jiading State Hi-Tech Industrial Zone. Accordingly, Huabao Kongque is subject to enterprise income tax of 15% (2006: 15%) and local income of 3% (2006: 3%). Moreover, Huabao Shanghai was qualified as technologically advanced enterprise and was approved by the local tax bureau to entitle to enterprise and local income tax reduction of 50%, the tax rates of each shall not be less than 10%, for the three years from 2004. Accordingly, Huabao Shanghai is subject to enterprise income tax of 15% from 1 January 2007 to 31 March 2007 (from 1 April 2005 to 31 December 2006: 10%) and local income tax of 3% from 1 January 2007 to 31 March 2007 (from 1 April 2005 to 31 December 2006: 1.5%).

(ii) Taicang Wenhua Enterprise Co., Ltd. ("Taicang Wenhua"), Huashun Fragrance (Shanghai) Co., Ltd. ("Huashun Shanghai") and Wuxi Huaxin Flavour & Fragrance Co., Ltd. ("Wuxi Huaxin") were qualified as foreign investment production enterprises incorporated in the coastal economic development zone. Accordingly, they are subject to enterprise income tax of 24% (2006: 24%) and local income tax of 3% (2006: 3%).

23. INCOME TAX EXPENSE *(continued)*

(iii) Huabao Xianghua Keji Fazhan (Shanghai) Co. Ltd. ("Huabao Keji") was incorporated in the coastal economic development zone. Accordingly, it is subject to enterprise income tax of 24% (2006: 24%) and local income tax of 3% (2006: 3%).

(iv) Wuxi Fuhua Flavour & Fragrance Co., Ltd ("Wuxi Fuhua") and Wuxi Jiahua Flavour & Fragrance Co., Ltd. ("Wuxi Jiahua") were qualified as foreign investment production enterprise incorporated in Wuxi State Hi-Tech Industrial Zone. Accordingly, they are subject to enterprise income tax of 15% (2006: 15%) and exempted from local income tax (2006: 0%).

(v) Qingdao Huabao Flavors & Fragrances Co., Ltd. ("Qingdao Huabao") was qualified as a foreign investment production enterprise incorporated in Qingdao State Hi-Tech Industrial Zone. Accordingly, Qingdao Huabao is subject to enterprise income tax of 15% (2006: 15%) and local income tax of 3% (2006: 3%).

(vi) Yunnan Tianhong Flavor & Fragrance Co., Ltd. ("Yunnan Tianhong") was qualified as foreign investment production enterprise in Yunnan province. According to the income tax law of the PRC, enterprises incorporated in the provinces of the western part of the Mainland China are subject to enterprise income tax of 15% and exempted from the local income tax. Moreover, Yunnan Tianhong was qualified as technologically advanced enterprise and was approved by the local tax bureau to entitle to enterprise income tax reduction of 50%, the tax rate of which shall not be less than 10%, for the three years from 2006. Accordingly, Yunnan Tianhong is subject to enterprise income tax of 10% from 1 January 2006 to 31 March 2007 (from 1 April 2005 to 31 December 2005: 7.5%) and exempted from the local income tax (2005: 0%).

(vii) Guangzhou Huafang was a foreign investment production enterprise incorporated in Guangzhou Economic & Technical Development Zone. Accordingly, Guangzhou Huafang is subject to enterprise income tax of 15% (2006: 15%) and exempted from the local income tax (2006: 0%).

In accordance with the relevant applicable tax regulations, Huabao Shanghai , Huabao Kongque, Taicang Wenhua, Huashun Shanghai, Wuxi Huaxin, Wuxi Fuhua, Wuxi Jiahua, Qingdao Huabao, Huabao Keji, Yunnan Tianhong and Guangzhou Huafang were entitled to full exemption from enterprise income tax for the first two years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local income taxes for all of these companies are exempted during the tax holiday periods. Guangzhou Huafang started to derive taxable income in the Mainland China in the fiscal year ended 31 December 1994; Huabao Shanghai started to derive taxable income in the Mainland China in the fiscal year ended 31 December 1999; Yunnan Tianhong started to derive taxable income in the Mainland China in the fiscal year ended 31 December 2001; Huabao Kongque, Wuxi Fuhua and Wuxi Jiahua started to derive taxable income in the Mainland China in the fiscal year ended 31 December 2005. No taxable profit has been reported by Taicang Wenhua, Huashun Shanghai , Wuxi Huaxin, Huabao Keji and Qingdao Huabao.

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

23. INCOME TAX EXPENSE *(continued)*

(d) The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rates of the home country of the Company and its subsidiaries as follows:

	Year ended 31 March	
	2007	2006
Profit before income tax	**578,682**	300,025
Less: Share of (profit)/loss of an associate	**(172)**	315
	578,510	300,340
Tax calculated at tax rate applicable to respective group companies	**140,589**	85,481
Effect of tax holiday	**(142,222)**	(78,567)
Tax impact of income not subject to tax	**–**	(15)
Tax impact of expenses not deductible for tax purposes	**959**	2,046
Utilization of previously unrecognized tax losses	**–**	(105)
Tax losses for which no deferred income tax assets were recognized	**2,109**	1,128
Income tax expense	**1,435**	9,968

24. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 March	
	2007	2006
Profit attributable to equity holders of the Company	**567,051**	283,089
Weighted average number of ordinary shares in issue *('000)*	**628,198**	247,309
Shares issued for the acquisition of Chemactive Investment *('000)*	**2,219,732**	2,219,732
Total *('000)*	**2,847,930**	2,467,041
Basic earnings per share *(HK cents per share)*	**19.91**	11.47

24. EARNINGS PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. The Company has three types of dilutive potential ordinary shares: original convertible preference shares, warrants and share options.

The original convertible preference shares are assumed to have been converted into ordinary shares, with net profit adjusted to eliminate interest expense less the tax effect.

As for warrants and 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 warrants and share options. The number of shares determined based on the above is compared with the number of shares which would have been issued assuming the exercise of warrants and share options.

		Year ended 31 March	
	Note	**2007**	2006
Profit attributable to equity holders of the Company		**567,051**	283,089
Interest expense on liability component of preference shares	22	**2,441**	6,467
Earnings used to calculate diluted earnings per share		**569,492**	289,556
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*		**2,847,930**	2,467,041
Adjustments for:			
– conversion of original convertible preference shares *('000)*		**179,002**	526,900
– exercise of warrants *('000)*		**15,911**	45,808
– exercise of share options *('000)*		**8,770**	–
Weighted average number of ordinary shares for diluted earnings per share *('000)*		**3,051,613**	3,039,749
Diluted earnings per share *(HK cents per share)*		**18.66**	9.53

25. DIVIDENDS

During the year ended 31 March 2007, an interim dividend of HKD54,775,000 (HK1.8 cents per share) (2006: Nil) has been paid by the Company. A final dividend of HK3.8 cents per share (2006: Nil), HKD116,382,000 in aggregate, is proposed at the meeting of board of directors held on 18 June 2007. Thus, it is not recognized as divided payable at the balance sheet date.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

26. CASH GENERATED FROM OPERATIONS

	Note	Year ended 31 March 2007	2006
Profit before income tax		**578,682**	300,025
Adjustments for:			
– Depreciation	*6*	**13,329**	10,832
– Amortization	*7, 8*	**1,340**	713
– Interest income	*22*	**(5,939)**	(2,741)
– Interest expense on liability component of preference shares	*22*	**2,441**	6,467
– Share of (profit)/loss of associates	*10*	**(172)**	315
– Reversal of provision for trade receivables		**(1,963)**	(688)
– Loss on disposal of property, plant and equipment		**98**	2,220
Changes in working capital:			
– Inventories		**62,807**	7,795
– Trade and other receivables		**64,233**	35,955
– Trade and other payables		**(38,540)**	(26,943)
Net cash generated from operations		**676,316**	333,950

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

	Note	Year ended 31 March 2007	2006
Net book amount	*6*	**98**	2,247
Loss on disposal of property, plant and equipment		**(98)**	(2,220)
Proceeds from disposal of property, plant and equipment		**–**	27

27. COMMITMENTS – GROUP

(a) Capital commitments

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

	Year ended 31 March 2007	2006
Property, plant and equipment:		
Contracted but not provided for	**395**	2,005
Authorized but not contracted for	**–**	369
	395	2,374

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

27. COMMITMENTS – GROUP *(continued)*

(b) Operating lease commitments

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

	Year ended 31 March	
	2007	2006
Land and buildings:		
Not later than 1 year	**2,242**	1,308
Later than 1 year and not later than 5 years	**5,064**	4,538
	7,306	5,846

28. BUSINESS ACQUISITION

On 22 April 2006, Ingame Technology Limited ("Ingame"), a subsidiary of the Company, acquired an additional 19% interests in Qingdao Huabao from its minority shareholder, Qingdao Etsong Sunrise Investment Co., Ltd., at a cash consideration of HKD715,000. The share of the carrying amount of net assets acquired was approximately HKD399,000. The excess of consideration over the share of carrying amount of net assets acquired, amounting to approximately HKD316,000 (Note 17), was debited to other reserves.

29. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Ms. Chu Lam Yiu	The ultimate controlling equity holder of the Group
Mogul	An immediate holding company of the Company
Resourceful Link	An immediate holding company of the Company
Power Nation	An immediate holding company of the Company
Jumbo Elite	An immediate holding company of the Company
Real Elite	An immediate holding company of the Company
Ms. Mo Shuzhen	A close family member of Ms. Chu Lam Yiu
Mr. Wang Hongwei	A close family member of Ms. Chu Lam Yiu
HuaBao International Limited ("HuaBao International")	A company directly controlled by Ms. Chu Lam Yiu
Huakang Industrial & Trading Development (HK) Limited ("Huakang")	A company directly controlled by Ms. Chu Lam Yiu
Yingrun Investment Development Co. Ltd. ("Yingrun")	A company directly controlled by a close family member of Ms. Chu Lam Yiu
Champion International Development Limited ("Champion International")	A company directly controlled by a close family member of Ms. Chu Lam Yiu
Weihai Huayuan	An associate indirectly held by the Company

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

29. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties

The Group has entered into the following significant transactions with related parties:

	Year ended 31 March	
	2007	2006
Sales of goods, net of value-added tax, to:		
– Weihai Huayuan	**9,823**	6,107
Purchase of raw materials from:		
– Weihai Huayuan	**9,546**	6,487
Loans to Yingrun:		
Beginning of the year	**–**	52,367
Repayments	**–**	(52,367)
End of the year	**–**	–

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

29. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties

	Note	As at 31 March 2007	2006
Balances due from related parties:			
Included under trade receivables			
– Weihai Huayuan		**4,968**	7,014
Balances of non-trade receivables from	*13*		
– Ms. Chu Lam Yiu		–	9
– HuaBao International		–	14
– Huakang		–	324
– Yingrun		–	192
– Champion International		–	740
– Weihai Huayuan		–	74
		–	1,353
Balances due to related parties:			
Included under trade payables			
– Weihai Huayuan		**7,872**	4,488
Balance of non-trade payable to	*18*		
– Ms. Chu Lam Yiu		**80,419**	77,730
– Ms. Mo Shuzhen		–	225
		80,419	77,955

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

(d) On 22 March 2004, the Company, Huabao Investment, a wholly-owned subsidiary of the Company, and Mogul, an immediate holding company of the Company, entered into a loan agreement (the "Loan Agreement") which was approved by the shareholders at a special general meeting held on 19 March 2004. Pursuant to the Loan Agreement, Mogul agreed to grant a revolving loan facility of up to HKD15 million (the "Loan Facility") to the Company and Huabao Investment at an interest rate of 2% over the six-month Hong Kong Interbank Offered Rate. Repayment of the loan and the relevant interests are guaranteed by the Company (limited to HKD15 million) and secured by a first legal fixed charge on the Company's entire shareholding interests in Huabao Investment and a first floating charge on all the assets of Huabao Investment. For the two years ended 31 March 2007, the Group did not make any drawdown under the Loan Facility.

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

30. EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from 1 January 2008.

As at the date that these financial statements are approved for issue, detailed measures of the new CIT Law have yet to be issued, and specific provisions concerning the applicable income tax rates, computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions for the periods from 2008 and onwards have not been clarified. Consequently, the Group is not in a position to reasonably assess its applicable income tax rates when the new CIT Law becomes effective.

31. PARTICULARS OF SUBSIDIARIES

Name	Place of incorporation	Nominal value of issued ordinary/registered share capital	Percentage of equity interest attributable to the Company		Principal and operations activities
			Direct	Indirect	
Aromascape Development Centre GmbH	Germany	EUR25,000	–	100	Research and development of flavours & fragrances
Chemactive Investments	British Virgin Islands	USD1	100	–	Investment holding
Future Dragon	British Virgin Islands	USD1	–	100	Investment holding
Hero Ace	Hong Kong	HKD1	100	–	Provision of management services
Guangzhou Huafang	PRC	USD4,000,000	–	51	Manufacturing & sales of tobacco flavours & fragrances
Huabao Keji	PRC	USD2,100,000	–	100	Research and development of flavours & fragrances
Huabao Shanghai	PRC	USD10,000,000	–	100	Manufacturing & sales of tobacco flavours & fragrances
Huabao Flavours & Fragrances (HK) Ltd	Hong Kong	HKD3,000,000	–	100	Research, development, manufacturing & sales of flavours & fragrances
Huabao Group Ltd.	British Virgin Islands	USD1	–	100	Investment holding

Notes to the Consolidated Financial Statements (Cont'd) (All amounts in HK dollar thousands unless otherwise stated)

31. PARTICULARS OF SUBSIDIARIES *(continued)*

Name	Place of incorporation	Nominal value of issued ordinary/registered share capital	Percentage of equity interest attributable to the Company		Principal and operations activities
			Direct	Indirect	
Huabao Industrial & Trading Development (HK) Ltd	Hong Kong	HKD10,000	10	90	Investment holding
Huabao Investment	British Virgin Islands	USD1	100	–	Investment holding
Ingame	British Virgin Islands	USD1	–	100	Investment holding
Nocton	British Virgin Islands	USD1	–	100	Investment holding
Qingdao Huabao	PRC	HKD3,673,500	–	70	Manufacturing & sales of tobacco flavours & fragrances
Huabao Kongque	PRC	RMB100,000,000	–	100	Manufacturing & sales of food flavours & fragrances
Smart Sino	Hong Kong	HKD10,000	–	100	Investment holding
Sino Asia Technology Ltd.	British Virgin Islands	USD98	–	100	Investment holding
Sino Prospect Holdings Ltd	British Virgin Islands	USD1	–	100	Investment holding
Sino Top	Hong Kong	HKD100	–	100	Trading of fine chemicals
Spanby	British Virgin Islands	USD1,195	–	100	Investment holding
Symhope Investment Ltd.	British Virgin Islands	USD50,000	–	100	Investment holding
Taicang Wenhua	PRC	USD1,200,000	–	100	Manufacturing & sales of tobacco flavours & fragrances
Wuxi Fuhua	PRC	USD7,000,000	–	100	Manufacturing & sales of tobacco flavours & fragrances
Wuxi Huaxin	PRC	USD1,000,000	–	100	Manufacturing & sales of tobacco flavours & fragrances
Wuxi Jiahua	PRC	RMB60,000,000	–	100	Manufacturing & sales of tobacco flavours & fragrances

31. PARTICULARS OF SUBSIDIARIES *(continued)*

Name	Place of incorporation	Nominal value of issued ordinary/registered share capital	Percentage of equity interest attributable to the Company		Principal and operations activities
			Direct	Indirect	
Yunnan Tianhong	PRC	USD2,250,000	–	60	Manufacturing & sales of tobacco flavours & fragrances
Huahang Trading Development (Shenzhen) Ltd.	PRC	HKD500,000	–	100	Trading of fine chemicals
Huashun Shanghai	PRC	USD1,000,000	–	100	Manufacturing & sales of fine chemicals

Five Year Financial Summary

RESULTS

	Year ended 31 March				
	2003	2004	2005	2006	**2007**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	***HKD'000***
			(Note a)		
Turnover	11,315	26,723	730,173	779,018	**1,013,229**
Gross profit	610	356	179,707	368,482	**704,146**
Profit/(Loss) before income tax	(5,957)	(7,502)	113,441	300,025	**578,682**
Income tax expense	–	–	(11,060)	(9,968)	**(1,435)**
Profit/(Loss) for the year	(5,957)	(7,502)	102,381	290,057	**577,247**

ASSETS AND LIABILITIES

	As at 31 March				
	2003	2004	2005	2006	**2007**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	***HKD'000***
			(Note a)		
Total assets	2,010	16,531	769,983	875,748	**1,461,032**
Total liabilities	(4,779)	(12,625)	(344,138)	(423,810)	**(320,108)**
Shareholders' funds/(deficit)	(2,769)	3,906	425,845	451,938	**1,140,924**

Note a: Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA is adopted to prepare these consolidated financial information. Please refer to Note 2.1(a) to the Consolidated Financial Statements for the application of merger accounting.

Glossary

ACCA	Association of Chartered Certified Accountants
AGM	Annual general meeting
Aromascape R&D Centre	Aromascape Research & Development Centre
Board	Board of the Company
Bye-laws	Bye-laws of the Company
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 30 to 37
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
Group or Huabao Group	the Company and its subsidiaries
Guangzhou Huafang	Hua Fang Tobacco Flavors Ltd.
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standard
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICS	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 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
ICSA	Institute of Chartered Secretaries and Administrators
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
PRC	The People's Republic of China
Qingdao Huabao	Qingdao Huabao Flavors & 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 New 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
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.
USD	US dollars
Wuxi Fuhua	Wuxi Fuhua Flavour & Fragrance Co Ltd.
Wuxi Huaxiu	Wuxi Hua Xin Flavour & Fragrance Co Ltd.
Wuxi Jiahua	Wuxi Jiahua Flavour & Fragrance Co Ltd.
Yunnan Tianhong	Yunnan Tianhong Flavor & 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.