

Your Feel Our Mission



food flavour

fragrances

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. CHU Lam Yiu (*Chairman*)

Mr. CHEN Yong Chang

Mr. POON Chiu Kwok

Mr. WANG Guang Yu

Mr. XIA Li Qun

Independent Non-executive Directors

Mr. LEE Luk Shiu

Ms. MA Yun Yan

Mr. MAK Kin Kwong, Peter

AUDIT COMMITTEE

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

Mr. LEE Luk Shiu

Ms. MA Yun Yan

REMUNERATION COMMITTEE

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

Mr. CHEN Yong Chang

Ms. MA Yun Yan

QUALIFIED ACCOUNTANT

Ms. CHOY Man Har

COMPANY SECRETARY

Mr. CHU Tak Shun

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISOR

Herbert Smith

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1103, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudian Road

Pembroke

Bermuda

BRANCH SHARE REGISTRAR

Tricor Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 336

COMPANY WEBSITE

www.huabao.com.hk

FINANCIAL HIGHLIGHTS

	Unaudited		
	For the Six Months Ended 30 September		
	2007	2006	Growth
	<i>HKD'000</i>	<i>HKD'000</i>	%
Sales	643,551	458,247	+40.4%
Gross profit	478,944	299,778	+59.8%
Gross profit margin	74.4%	65.4%	+13.8%
Operating profit	389,589	249,155	+56.4%
Profit after tax	377,726	248,160	+52.2%
Profit attributable to the equity holders of the Company	374,487	244,751	+53.0%
	<i>HK cents</i>	<i>HK cents</i>	
Earnings per share			
– Basic	12.23	9.23	+32.5%
– Diluted	12.02	8.13	+47.8%
Interim dividend per share	2.30	1.80	+27.8%

MANAGEMENT DISCUSSION AND ANALYSIS

Company profile

Huabao International Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) are primarily engaged in the research and development (“R&D”), production and sales of tobacco and food flavours and fragrances. The business was founded in the early 90’s of the last century. Over the past nearly two decades, the founder and the management of the Group have been devoting to develop China’s flavour and fragrance industry and turned it into the leading player in China’s flavours and fragrance industry. Its sales revenue ranked top in the industry and captured a significant market share in the flavour and fragrance market in China. At the end of October 2007, the Company was the largest public listed company in flavour and fragrance industry in Asia Pacific with our market capitalization of about US\$2.9 billion.

Currently, the Group has established its manufacturing bases in Shanghai, Yunnan, Guangdong, Jiangsu, Shandong, etc., and R&D centers in Shanghai, Yunnan, Guangdong and Germany. The technical centre of Huabao Food Flavours and Fragrances (Shanghai) Co Ltd., a wholly owned subsidiary of the Group, is the only State-recognized technical center in China’s flavour and fragrance industry. The Group takes on leadership roles in a number of China’s flavour and fragrance industry associations, including the Deputy Director of China Association of Fragrance Flavour and Cosmetic Industry, Deputy Director of China Food Additive Association, 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 DISCUSSION AND ANALYSIS (Cont'd)

Results

The Group achieved a sales revenue of HKD643,551,000 for the six months ended 30 September 2007, representing an increase of 40.4% as compared with the corresponding period last year. The sales revenue of tobacco flavours amounted to HKD560,078,000, representing an increase of 37.6% as compared with the corresponding period last year; the sales revenue of food flavours amounted to HKD78,542,000, representing an increase of 70.1% as compared with the corresponding period last year. The overall gross profit margin reached 74.4% (corresponding period last year was 65.4%). During the reporting period, profits attributable to equity holders of the Company was HKD374,487,000, representing an increase of 53.0% as compared with the corresponding period last year.

Recently completed major strategic acquisition of flavours and fragrances companies

On 30 July 2007, the Company entered into an acquisition agreement whereby the Company acquired 100% interest in Win New Group Limited ("Win New") and its subsidiaries (collectively the "Win New Group") at a total consideration of HKD652,337,000 (the "Acquisition"). The consideration was funded by the Company's internal resources. The transaction was 100% approved by attended independent shareholders at the special general meeting held on 6 September 2007 and was completed on 19 September 2007.

1. Summary of the Major Acquisition

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

2. Reasons for Acquisition

Driven by China's strong economic growth and improving living standards, the demand for consumer products have been increasing. Consumers' demand for high quality and tailor-made products has been rising in China. China's consumer product manufacturers tend to introduce more localized products with new features and unique tastes to meet the rising consumer demand. The directors believe that driven by the consumer market in China, the flavour and fragrance industry will keep on developing quickly.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

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

3. *Synergy from the Acquisition*

For the six months ended 30 September 2007, the unaudited profit after tax (before impairment and amortisation of goodwill and intangible assets) of Win New Group reached HKD29,972,000 (the Effective Guaranteed Profit is approximately HKD54,360,000). The significant increase in the profit of Win New Group was mainly because the vendor has taken effective measures to integrate the business after the vendor's acquisition of major subsidiaries of Win New Group, which resulted in higher operation efficiency.

Review of results of the tobacco flavours business

The sales revenue of tobacco flavours reached HKD560,078,000 for the six months ended 30 September 2007, representing an increase of 37.6% as compared with the corresponding period last year. The increase was mainly due to the Group's continuous development strategy of "Big Customers, Big Brands" to capture the accelerated consolidation opportunity of the tobacco industry and to achieve rapid growth by adhering to the combination of organic growth and merger plus acquisition. For the six months ended 30 September 2007, China's top ten tobacco companies have all become ultimate customers of the Group; eight of the top ten cigarette brands chose the Group as their core supplier of tobacco flavours; the Group is also the core tobacco flavours supplier of all the eight most influential cigarette brands.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Review of results of the food flavours business

For the six months ended 30 September 2007, the sales revenue of food flavours reached HKD78,542,000, representing an increase of 70.1% over the same period last year. The Group has already become one of the largest local food flavours manufacturers in China. The increase in revenue of food flavours was mainly attributable to the increased sales of new products and direct sales to customers, as well as the recently completed Acquisition by the Group.

As to the product mix, food flavours produced by the Group during the reporting period were mainly sweet products. However, the Group is stepping up its efforts to develop savory products to launch more new flavours for local Chinese consumers' taste in order to expand the market share. During the reporting period, Shanghai H & K Flavours & Fragrances Co Ltd. launched a total of 65 new products, including 44 sweet flavours and 21 savory flavours.

Review of R&D

The Group has been recognized by the State as the only technology centre in the flavour and fragrance industry in China since 2003. This represents the most leading R&D capability in the industry in China. With the opening of the R&D centre in Germany to attach the technical capability directly into world heights, the Group has further strengthened its R&D capability and the competitiveness of its products.

The Group has always been market driven to develop new products that meet the market's demand. For the six months ended 30 September 2007, the Group developed a total of 175 new products, including 31 tobacco flavours products and 65 food flavours products.

The Group further improved the raw material structure and enhanced the product functions as well as the added value through ceaseless and active R&D on new raw materials. For the six months ended 30 September 2007, the Group developed a number of new raw materials, including 22 natural flavourings, 8 bioflavours and 10 reaction flavours. The Group invested in a new plant in Jiangsu for extraction of natural flavourings to speed up industrialisation of the flavour-extraction technology, which further enhanced product functions and competitiveness of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

The Group also actively strengthened technical exchange and cooperation with some research institutes in China. It has formed a close cooperation relationship with two institutes in the area of basic research and product development. The Group pays special attention on training technical talents. Apart from internal training, the Group also adopts a "Go Out and Invite In" approach by regularly inviting famous professors who have over decades of experience in the field of flavours and fragrances to give training and talks to all staff on flavours and fragrances. The themes of trainings included "Maillard reaction technology and its regulatory control", "Microcapsulisation of flavour oils", "The bringing out of the taste of food", "Local and foreign market development of fine fragrances", "The application of bio-technology in processing tobaccos", "The analysis of tobacco flavours and the progress of technology of development and production" etc. In the meantime, the Group will also arrange staff for overseas training from time to time, in order to enhance their professional level and widen their horizons.

For the six months ended 30 September 2007, the Group developed new products as follows:

High-end new flavours and fragrances products	Total 175
Tobacco flavours	31
Food flavours	65
Fragrances	20
Natural flavourings	22
Bioflavours	8
Synthetic aromatics	12
Reaction flavours	10
Flavour precursors	5
Micro-characteristic chemical compounds	2

Prospects

Sustained rapid growth of China's economy

China's economy effectuated rapid growth in the first half of 2007. China's GDP amounted to RMB10,676.8 billion in the first half of 2007, representing an increase of 11.5% over the same period last year. The rapid growth of China's economy will further boost domestic demand, and the consumer goods market in China will promise sustained growth.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Consolidation opportunity of the flavour and fragrance industry in China

China's flavour and fragrance industry is still in a comparatively disperse situation with over 600 peer players. The highly scattered industry offers an opportunity for consolidation. Though the Group is the leading player in China's flavour and fragrance industry, based on the industry's total sales revenue amounting to approximately RMB13.4 billion at the end of 2006, the Group's current market share is still below 10%. By leveraging its leading position in the industry, the Group will propel the industry consolidation in the right time and adhere to the development strategies of organic growth plus merger and acquisition.

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

Currently, Chinese consumption per capita of flavours and fragrances is relatively low. With rapid development in China's economy and continual improvement in people's living standard, the Directors believe that Chinese consumption per capita of flavours and fragrances will continue to grow and the prospect is promising. Meanwhile, as China's consumer products market gradually becomes maturing; the demand of local Chinese consumers for domestic products increases; and the Chinese government adopts increasingly tough safety control over food, the Chinese market of flavours and fragrances certainly will progress in bi-direction of quantity and quality. Such factors will bring further development opportunities to domestic top market players of flavours and fragrances like the Group.

Development strategy

Our future development strategy remains 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 plus merger and acquisitions, so as to realise rapid growth:

- Continue to maintain tobacco flavours as the core business
- Speed up the 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

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Financial review

Analysis on interim results for the six months ended 30 September 2007

Sales revenue

The group recorded a sales revenue of HKD643,551,000 for the six months ended 30 September 2007, representing an increase of 40.4% as compared with HKD458,247,000 for the corresponding period last year. The growth of sales revenue was mainly due to substantial increase in the sales of tobacco flavours and food flavours. For six months ended 30 September 2007, the sales revenue of tobacco flavours of the Group increased by 37.6% to HKD560,078,000, while that of food flavours increased by 70.1% to HKD78,542,000.

Cost of goods sold

Cost of goods sold of the Group amounted to HKD164,607,000 for the six months ended 30 September 2007, representing an increase of 3.9% as compared with HKD158,469,000 for the corresponding period last year. Compared with the sales revenue increase, the increase of cost of goods sold was relatively slow which was mainly due to the increase of gross profit margin of the Group.

Gross profit and gross profit margin

Gross profit of the Group increased from HKD299,778,000 for the six months ended 30 September 2006 to HKD478,944,000 for the six months ended 30 September 2007, representing a growth of 59.8%, while the gross profit margin of the Group increased from 65.4% during the first half of last financial year to 74.4% for the first half of current financial year. The remarkable increase in gross profit was attributable to the substantial increase in sales revenue of the Group and the increase in gross profit margin was due to new product launch and the improvement of raw material structure.

Other income

Other income of the Group was HKD6,587,000 for the six months ended 30 September 2007, representing an increase of 194.1% as compared with HKD2,240,000 for the six months ended 30 September 2006. The increase of other income was mainly due to increase in government grant.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Selling and marketing expenses

Selling and marketing expenses of the Group comprised mainly traveling expenses, transportation cost, salaries and office expenses. The selling and marketing expense of the Group for the six months ended 30 September 2007 was HKD26,107,000, representing an increase of 28.9% as compared with HKD20,251,000 for the corresponding period last year. Selling and marketing expenses represented 4.1% and 4.4% of the total sales during the current period and the corresponding period last year respectively. The increase in selling and marketing expenses was a result of the Group's strengthened efforts in direct sales of food flavours, integration post the Acquisition and marketing promotion in tobacco flavours, while the decrease of its ratio to sales revenue was mainly due to the rapid growth of the Group's sales revenue and advantage of scale.

Administrative expenses

The Group's administrative expenses amounted to HKD69,835,000 for the six months ended 30 September 2007, representing an increase of 114.1% when compared to last interim period of HKD32,612,000. Administrative expenses mainly include salaries, R&D expenses, intermediary advisory fees, depreciation expenses, office administration expenses, public utilities expenses, etc. If the elements that are not comparable with last year are excluded from the administrative expenses for the current period, which are the exchange losses of HKD6,911,000 arising from Acquisition, the expenses of HKD14,456,000 in relation to share option granted to directors and employees, and amortization expenses of intangible assets of HKD5,626,000 belongs to Win New Group, the administrative expenses of the current period will be HKD42,842,000, representing an increase of 31.4% compared to the corresponding period last year. Administrative expenses, excluding the above factors, would be 6.7% and 7.1% of the total sales for the current period and the corresponding period last year respectively. Apart from the above reasons, the increase in administrative expenses for the period was mainly due to the increase of R&D expenses. The R&D expenses increased from HKD7,827,000 for the corresponding period last year to HKD14,616,000 for this period, representing an increase of 86.7%. Such increase is attributable to the opening of the R&D center in Germany which employed high-end technical staff.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Operating profit

Operating profit of the Group for the six months ended 30 September 2007 was HKD389,589,000, representing an increase of 56.4% as compared with HKD249,155,000 for the corresponding period last year, while the operating profit margin increased to 60.5% during the first half of this year from 54.4% for the first half of last year. The increase in operating profit was due to the increase in sales revenue and increase in gross profit margin.

Income tax expense

Income tax expense of the Group for the six months ended 30 September 2007 was HKD20,394,000, compared with HKD404,000 for the corresponding period last year. The increase in income tax expenses was mainly due to the significant decrease of deferred tax assets resulted from the recognition of unrealized profit arising from intra-group sale.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was HKD374,487,000 for the six months ended 30 September 2007, representing an increase of 53.0% as compared with HKD244,751,000 for the six months ended 30 September 2006. The net margin of the profit attributable to the equity holders of the Company increased from 53.4% for the first half of previous year to 58.2% for the first half of current year.

Net current asset and financial resources

As at 30 September 2007, the net current asset of the Group was HKD628,575,000 (31 March 2007: HKD929,426,000). The Group generates its working capital mainly through its operating activities and maintains a healthy financial position. As at 30 September 2007, the Group had cash and cash equivalents of HKD632,477,000 (31 March 2007: HKD858,494,000), which was denominated in RMB, the decrease was mainly due to payment of HKD652,337,000 for the Acquisition.

The Group had no outstanding bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

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 sales revenue of the corresponding period and multiplied by the number of days in that period. The Group generally offers its customers credit terms of 0-180 days, depending on the business volume and the history of business relationship with its customers. For the six months ended 30 September 2007, the group's average debtors' turnover period was 80 days, representing a decrease of 29 days as compared with 109 days for the last financial year ended 31 March 2007. The debtors' turnover period decreased as a result of enhancing credit management and control measures 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 0-180 days. For the six months ended 30 September 2007, the Group's average creditors' turnover period was 108 days, representing a decrease of 32 days as compared with 140 days for the last financial year ended 31 March 2007. The decrease of creditors' turnover period was due to the decrease of inventory and the adjustment of suppliers' supply cycle.

Inventory and inventory turnover period

As at 30 September 2007, the Group's inventory balance amounted to HKD97,816,000 (31 March 2007: HKD61,871,000). For the six months ended 30 September 2007, inventory turnover period, calculated based on the average amount of inventories as at the beginning and end of the relevant financial period divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period, was 87 days, representing a decrease of 23 days as compared with 110 days for the last financial year ended 31 March 2007. The decrease of inventory turnover period was due to the Group strengthened the management of inventory.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Foreign exchange and exchange rate risk

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

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2007.

Human resources

As at 30 September 2007, the Group employed a total of 952 staff in the mainland China, Hong Kong and Germany. During the period, the Group continuously recruited high calibers based on the business needs. The sound development trend of our Company attracted a large number of domestic and overseas talents from the industry. The Board of Directors placed great emphasis on the further development of the new staff and allows them amply room for growth. In addition, we timely conducted market surveys in respect of remunerations in order to offer competitive remuneration packages. Key management and technicians of the target company were retained when acquisition took place.

To bring the Group to world heights in both technology and management, the Group highly values staff cultivation and recruitment and has continuously enhanced the initiatives and creativity of the staff. As such, the Group offers competitive salaries and other benefits like retirement contribution schemes, etc. to the staff and provides appropriate rewards subject to their performance. Also, the Group has implemented a share options scheme to reward the staff and directors who have made significant contributions to the business development of the Group. Share options were granted to a total of 62 persons, including directors, senior management, technical and business executives last year. The Group believes in human-oriented principle, dedicates to the growth and development of the staff and provides a sound working system and environment for the purposes of guiding their establishment of a set of common values and encouraging their utilization of the spirits of creativity and cooperation, and also conducts diversified trainings to the staff in order to continuously improve their knowledge and professional skills for the realization of our growth with the staff.

OTHER INFORMATION

Directors' interests in shares, underlying shares and debentures

As at 30 September 2007, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (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%
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 above five companies.

(b) Interests in share options of the Company

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

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

OTHER INFORMATION (Cont'd)

Share options

At the special general meeting of shareholders held on 22 September 2006, the Company adopted a share option scheme (the "Share Option Scheme").

As at 30 September 2007, there are 107,450,000 shares of share options granted by the Company pursuant to the Share Option Scheme which are valid and outstanding. The details of share options granted, exercised, canceled and lapsed during the period under the Share Option Scheme are set out as follows:

Grantee	Grant Date	Exercise Price HKD	Exercisable Period	Number of Share Options					Balance as at 30 September 2007
				As at 1 April 2007	Granted during the period	Exercised during the period	Canceled during the period	Lapsed during the period	
<i>Executive Directors:</i>									
Mr. CHEN Yong Chang	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	-	-	-	-	5,250,000
Mr. POON Chiu Kwok	25 October 2006	3.09	25/10/2006-24/10/2016	7,000,000	-	-	-	-	7,000,000
Mr. WANG Guang Yu	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	-	-	-	-	5,250,000
Mr. XIA Li Qun	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	-	-	-	-	5,250,000
<i>Independent Non-executive Directors:</i>									
Mr. LEE Luk Shiu	25 October 2006	3.09	25/10/2006-24/10/2016	800,000	-	-	-	-	800,000
Ms. MA Yun Yan	25 October 2006	3.09	25/10/2006-24/10/2016	800,000	-	-	-	-	800,000
Mr. MAK Kin Kwong, Peter	25 October 2006	3.09	25/10/2006-24/10/2016	800,000	-	-	-	-	800,000
Other Employees	10 October 2006	3.09	10/10/2006-9/10/2016	82,700,000	-	400,000 ¹	-	-	82,300,000
Total				107,850,000	-	400,000	-	-	107,450,000

Note 1: The weighted average closing market price per share immediately before the dates on which the share options were exercised was HKD7.15.

Directors' rights to acquire shares or debentures

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

OTHER INFORMATION (Cont'd)

Interests of substantial shareholders

As at 30 September 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 person held interests or short positions in 5% or more of the issued share capital of the Company:

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

Name of Shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued ordinary share capital of the Company
JP Morgan Chase & Co.	Institution Investor	178,945,000	5.84%

Corporate Governance

The Company has complied with the code provisions recommended in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2007 except for the deviations from the following code provisions:

A.2.1 recommends the separation of roles of chairman and chief executive officer. After due consideration, the board of directors ("Board") has not adopted this code provision and 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 independent non-executive directors ("INEDs") throughout the period; and

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

E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Due to other business commitment abroad, the Chairlady of the Board could not attend the annual general meeting held on 10 August 2007. Mr. Poon Chiu Kwok, an executive director of the Company, has chaired the meeting as empowered by the bye-laws of the Company and an Audit Committee member was also available to answer questions thereat.

OTHER INFORMATION (Cont'd)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors and relevant employees (as defined in the Listing Rules) of the Company. Having made specific enquiry to all directors and relevant employees, all directors and relevant employees confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2007.

Interim dividend

The Board has resolved to declare an interim dividend of HK2.3 cents (2006: HK1.8 cents) per share for the six months ended 30 September 2007 which is expected to be paid around 29 February 2008 to shareholders whose names appear on the register of members of the Company as at 19 February 2008.

Closing of register of members

The register of members of the Company will be closed from 15 February 2008 to 19 February 2008, both days inclusive, during which period no transfer of shares will be effected. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 14 February 2008 in order to qualify for the interim dividend.

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

The Group has not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2007.

Public float

Throughout the six months ended 30 September 2007, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

Audit Committee

The Audit Committee comprises three INEDs, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu. The Audit Committee has reviewed the condensed consolidated interim financial statements for the six months ended 30 September 2007 together with the Board.

By order of the Board

CHU Lam Yiu
Chairman

Hong Kong, 29 November 2007

REVIEW REPORT



羅兵咸永道會計師事務所

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

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

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 20 to 38 which comprises the condensed consolidated balance sheet of Huabao International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 September 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 November 2007

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

At 30 September 2007

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 30 September 2007 Unaudited	As at 31 March 2007 Restated
Assets			
Non-current assets			
Property, plant and equipment	5	179,214	155,171
Leasehold land and land use rights	5	23,639	14,318
Intangible assets	5	659,173	11,992
Investment in an associate		3,982	3,975
Deferred income tax assets	6	15,510	26,022
		881,518	211,478
Current assets			
Inventories		97,816	61,871
Trade and other receivables	7	356,244	331,148
Cash and cash equivalents		632,477	858,494
		1,086,537	1,251,513
Total assets		1,968,055	1,462,991
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	306,309	306,269
Reserves	10	(34,206)	(116,910)
Retained earnings			
– Proposed dividend	15	70,451	116,397
– Others		1,045,409	774,233
		1,387,963	1,079,989
Minority interest		92,542	60,915
Total equity		1,480,505	1,140,904
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	6	29,588	–
Current liabilities			
Trade and other payables	11	455,327	311,156
Current income tax liabilities		2,635	10,931
		457,962	322,087
Total liabilities		487,550	322,087
Total equity and liabilities		1,968,055	1,462,991
Net current assets		628,575	929,426
Total assets less current liabilities		1,510,093	1,140,904

Notes on pages 24 to 38 constitute an integral part to this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 September 2007

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Unaudited For the six months ended 30 September	
		2007	2006
Sales	4	643,551	458,247
Cost of goods sold		(164,607)	(158,469)
Gross profit		478,944	299,778
Other income		6,587	2,240
Selling and marketing expenses		(26,107)	(20,251)
Administrative expenses		(69,835)	(32,612)
Operating profit		389,589	249,155
Finance income		8,508	1,778
Finance costs		–	(2,441)
Finance income/(costs) – net		8,508	(663)
Share of profit of an associate		23	72
Profit before income tax		398,120	248,564
Income tax expense	13	(20,394)	(404)
Profit for the half year		377,726	248,160
Attributable to:			
Equity holders of the Company		374,487	244,751
Minority interest		3,239	3,409
		377,726	248,160
		HK cents	<i>HK cents</i>
Earnings per share for profit attributable to the Company's equity holders for the half year			
Basic	14(a)	12.23	9.23
Diluted	14(b)	12.02	8.13
Interim dividend per share	15	2.30	1.80

Notes on pages 24 to 38 constitute an integral part to this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

(All amounts in HK dollar thousands unless otherwise stated)

	Unaudited						
	Attributable to the Company's equity holders					Minority interest	Total equity
	Note	Share capital	Reserves	Retained earnings	Total		
At 1 April 2006		246,704	148,043	2,963	397,710	54,228	451,938
Exchange differences		–	10,912	–	10,912	999	11,911
Profit for the half year		–	–	244,751	244,751	3,409	248,160
Conversion of original preference shares into ordinary shares		52,690	(7,943)	–	44,747	–	44,747
Exercise of warrants		4,900	–	–	4,900	–	4,900
Cost of issuance of shares		–	(2,102)	–	(2,102)	–	(2,102)
Dividends payable to minority shareholders		–	–	–	–	(5,335)	(5,335)
Appropriations from net profit		–	595	(595)	–	–	–
Purchase of additional interests in a subsidiary from a minority shareholder		–	(316)	–	(316)	(399)	(715)
Capital reorganization		–	(384,792)	384,792	–	–	–
At 30 September 2006		304,294	(235,603)	631,911	700,602	52,902	753,504
At 1 April 2007		306,269	(116,910)	890,630	1,079,989	60,915	1,140,904
Exchange differences		–	39,025	–	39,025	1,736	40,761
Profit for the half year		–	–	374,487	374,487	3,239	377,726
Dividends payable to minority shareholders		–	–	–	–	(3,169)	(3,169)
Dividends payable to shareholders		–	–	(116,397)	(116,397)	–	(116,397)
Appropriations from net profit		–	32,860	(32,860)	–	–	–
Combination of Win New Group	2	–	(4,833)	–	(4,833)	29,821	24,988
Employee share option scheme							
– Value of employee services		–	14,456	–	14,456	–	14,456
– Exercise of share options		40	1,196	–	1,236	–	1,236
At 30 September 2007		306,309	(34,206)	1,115,860	1,387,963	92,542	1,480,505

Notes on pages 24 to 38 constitute an integral part to this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT*For the six months ended 30 September 2007**(All amounts in HK dollar thousands unless otherwise stated)*

	Unaudited	
	For the six months ended	
	30 September	
	2007	2006
Cash flows from operating activities, net	403,180	257,326
Cash flows (used in)/from investing activities, net	(630,433)	20,525
Cash flows from/(used in) financing activities, net	1,236	(2,603)
Net (decrease)/increase in cash and cash equivalents	(226,017)	275,248
Cash and cash equivalents at 1 April	858,494	180,862
Cash and cash equivalents at 30 September	632,477	456,110

Notes on pages 24 to 38 constitute an integral part to this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2007

(All amounts in HK dollar thousands unless otherwise stated)

1. GENERAL INFORMATION

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

The Company 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, Resourceful Link International Limited, Power Nation International Limited, Jumbo Elite Limited and Real Elite Investments Limited, which are solely beneficially owned by Ms. Chu Lam Yiu ("Ms. Chu"), who is the Company's ultimate controlling shareholder and Chairman of the board of directors.

Pursuant to an acquisition agreement dated 30 July 2007, the Company acquired Win New Group Limited ("Win New") and its subsidiaries ("Win New Group") from Ms. Chu (the "Acquisition") at a consideration of HKD652,337,000 (equivalent to approximately RMB631,300,000) satisfied by cash payment. The Acquisition was a major acquisition pursuant to The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), details of which were set out in the circular dated 20 August 2007 issued by the Company. The Acquisition was completed on 19 September 2007.

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

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

This condensed consolidated interim financial information is presented in thousands of units of HK dollars ("HKD'000") unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors on 29 November 2007.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2007 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the financial statements of the Company for the year ended 31 March 2007 and the above-mentioned circular depicting the major acquisition.

Application of merger accounting

As to the Acquisition, since the Company and Win New Group were both controlled by Ms. Chu before and after the completion of the Acquisition, this condensed consolidated financial information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial information include the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence since Ms. Chu controlled the Company and the entities comprising Win New Group. For companies acquired from third parties during the period, they would be included in the condensed consolidated financial information of the Group from the date of that acquisition.

The entities comprising Win New Group were effectively controlled by Ms. Chu described as following:

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

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

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

The consolidated balance sheet as at 30 September 2007:

	The Group (excluding Win New Group)	Win New Group	Adjustment (Note)	Consolidated
Investment in Win New Group	652,337	–	(652,337)	–
Other assets – net	796,223	684,282		1,480,505
Net assets	1,448,560	684,282		1,480,505
Share capital	306,309	–	–	306,309
Merger reserve	(592,734)	–	(4,833)	(597,567)
Retained earnings and other reserves	1,673,503	653,222	(647,504)	1,679,221
Minority interest	61,482	31,060		92,542
	1,448,560	684,282		1,480,505

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

There were no significant changes to the consolidated balance sheet (including merger reserve) of the Group as at 31 March 2007 as a result of the Acquisition.

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

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2007 and those described in the Appendices I.B to I.F of the above-mentioned circular regarding the accounting policies adopted by the principal subsidiaries of Win New Group.

The following standards, amendments to standards and interpretations are mandatory for financial year ending 31 March 2008:

HKFRS 7	Financial Instruments Disclosures
HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

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

- HK(IFRIC)-Int 12: Service Concession Arrangements, effective for annual periods beginning on or after 1 January 2008;
- HK(IFRIC)-Int 13: Customer Loyalty Programmes, effective for annual periods beginning on or after 1 July 2008;
- HK(IFRIC)-Int 14: HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective for annual periods beginning on or after 1 January 2008;
- HKFRS 8: Operating Segments, effective for annual periods beginning on or after 1 January 2009;
- HKAS 23 (Revised): Borrowing Costs, effective for annual periods beginning on or after 1 January 2009.

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

In addition, the following accounting policies are adopted in relation to the Acquisition:

Intangible assets

Intangible assets, primarily trademarks, customer relationships and non-competition agreement acquired as part of a business combination are capitalized separately from goodwill and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful lives, which range from 10 to 20 years.

4. SEGMENT INFORMATION

(a) Primary reporting format – Business segments

As at 30 September 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

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

	Unaudited				Total
	For the six months ended 30 September 2007				
	Tobacco flavours	Food flavours	Fine chemicals products	Unallocated	
Total turnover	560,082	81,398	4,931	5,120	651,531
Inter-segment sales	(4)	(2,856)	–	(5,120)	(7,980)
Net turnover	560,078	78,542	4,931	–	643,551
Operating profit/Segment result	409,169	10,423	163	(30,166)	389,589
Finance income					8,508
Finance costs					–
Finance income – net					8,508
Share of profit of an associate					23
Profit before income tax					398,120
Income tax expense					(20,394)
Profit for the half year					377,726

The segment information for the six months ended 30 September 2006 is presented follows:

	Unaudited				Total
	For the six months ended 30 September 2006				
	Tobacco flavours	Food flavours	Fine chemicals products	Unallocated	
Total turnover	407,011	46,309	5,063	3,936	462,319
Inter-segment sales	(38)	(142)	–	(3,892)	(4,072)
Net turnover	406,973	46,167	5,063	44	458,247
Operating profit/Segment result	243,696	7,029	(138)	(1,432)	249,155
Finance income					1,778
Finance costs					(2,441)
Finance costs – net					(663)
Share of profit of an associate					72
Profit before income tax					248,564
Income tax expense					(404)
Profit for the half year					248,160

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

(b) Secondary reporting format – Geographical segment

More than 99% of the Group's activities are carried out in the mainland China of the People's Republic of China ("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.

5. CAPITAL EXPENDITURES

	Note	Unaudited						
		Property, plant and equipment (excluding Construction in progress)	Construction in progress	Total property, plant and equipment	Leasehold land and land use rights	Goodwill	Other intangible assets	Total intangible assets
For the six months ended								
30 September 2006								
At 1 April 2006		105,373	39,757	145,130	14,112	3,591	8,746	12,337
Additions		2,250	1,726	3,976	-	-	14	14
Transfers		30,029	(30,029)	-	-	-	-	-
Disposals		(1,408)	-	(1,408)	-	-	-	-
Depreciation and amortization	12	(6,129)	-	(6,129)	(198)	-	(454)	(454)
Exchange differences		1,777	699	2,476	243	63	145	208
At 30 September 2006		131,892	12,153	144,045	14,157	3,654	8,451	12,105
For the six months ended								
30 September 2007								
At 1 April 2007		154,826	345	155,171	14,318	3,746	8,246	11,992
Combination of Win New Group	(a)	15,500	-	15,500	9,145	514,472	126,441	640,913
Additions		7,620	6,545	14,165	-	-	75	75
Transfers		223	(223)	-	-	-	-	-
Disposals		(235)	-	(235)	-	-	-	-
Depreciation and amortization	12	(9,151)	-	(9,151)	(278)	-	(6,127)	(6,127)
Exchange differences		3,756	8	3,764	454	9,737	2,583	12,320
At 30 September 2007		172,539	6,675	179,214	23,639	527,955	131,218	659,173

- (a) These assets were originally presented in the consolidated financial statements of Win New Group arising from various acquisitions before its combination with the Company as mentioned in Note 1. As at 30 September 2007, there was no indication of impairment for these assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

6. DEFERRED INCOME TAX ASSETS/LIABILITIES

The movement in the deferred income tax is as follows:

		Unaudited	Deferred
		income tax assets	income tax liabilities
		<i>Unrealized profits arising from intra-group sales</i>	<i>Revaluation surplus of assets and recognition of intangible assets</i>
	Note		
At 1 April 2006		1,735	–
Recognized in the income statement	13	8,087	–
At 30 September 2006		9,822	–
At 1 April 2007		26,022	–
Combination of Win New Group		–	29,854
Recognized in the income statement	13	(10,999)	(820)
Exchange differences		487	554
At 30 September 2007		15,510	29,588

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

Deferred income tax liabilities were originally presented in the consolidated financial statements of Win New Group arising from the revaluation surplus of property, plant and equipment, as well as recognition of intangible assets as a result of various acquisitions before the combination of Win New Group with the Company.

7. TRADE AND OTHER RECEIVABLES

		As at 30 September 2007 Unaudited	As at 31 March 2007 Restated
	Note		
Trade and bills receivables	(b)	336,593	320,406
Less: Provision for impairment of receivables		(926)	(905)
Trade and bills receivables – net		335,667	319,501
Prepayments and other receivables		6,704	2,579
Advances to staff		4,338	1,731
Others		9,535	7,337
		356,244	331,148

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

9. SHARE OPTION SCHEME

On 10 October 2006 and 25 October 2006, the Company granted 97,200,000 and 30,400,000 share options with 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 half year and their related weighted average exercise price was as follows:

	<i>Note</i>	Exercise price in HKD per share	Number of share options (‘000) Unaudited
At 1 April 2006 and 30 September 2006			–
At 1 April 2007			107,850
Exercised	(a)	3.09	(400)
At 30 September 2007			107,450

(a) The weighted average closing price immediately before the share option exercised dates was HKD7.15 per share.

Share options outstanding as at 30 September 2007 are analyzed as follows:

Grantee	Exercise price in HKD per share	Number of share options (‘000) Unaudited	Expiry Date
Directors	3.09	25,150	24 October 2016
Employees	3.09	82,300	9 October 2016
At 30 September 2007	3.09	107,450	

As at 30 September 2007, 11,750,000 (31 March 2007: 12,150,000) out of the outstanding share options are currently exercisable.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

10. RESERVES

	Note	Unaudited						Total	
		Contributed surplus	Merger reserve	Share premium	Capital reserve	Share-based compensation reserve	Exchange reserve		Other reserves
At 1 April 2006		51,111	(592,734)	615,361	18,233	-	3,934	52,138	148,043
Conversion of original preference shares into ordinary shares		-	-	8,613	(16,556)	-	-	-	(7,943)
Appropriations from net profit		-	-	-	-	-	-	595	595
Cost of issuance of shares		-	-	(2,102)	-	-	-	-	(2,102)
Purchase of additional interests in a subsidiary from a minority shareholder		-	-	-	-	-	-	(316)	(316)
Capital reorganization		237,080	-	(621,872)	-	-	-	-	(384,792)
Exchange differences		-	-	-	-	-	10,912	-	10,912
At 30 September 2006		288,191	(592,734)	-	1,677	-	14,846	52,417	(235,603)
At 1 April 2007		288,191	(592,734)	68,285	1,677	18,966	37,502	61,203	(116,910)
Combination of Win New Group	2	-	(4,833)	-	-	-	-	-	(4,833)
Appropriations from net profit		-	-	-	-	-	-	32,860	32,860
Employee share option scheme									
- Value of employee services		-	-	-	-	14,456	-	-	14,456
- Exercise of share option		-	-	1,370	-	(174)	-	-	1,196
Exchange differences		-	-	-	-	-	39,025	-	39,025
At 30 September 2007		288,191	(597,567)	69,655	1,677	33,248	76,527	94,063	(34,206)

11. TRADE AND OTHER PAYABLES

	Note	As at 30 September 2007 Unaudited	As at 31 March 2007 Restated
Trade payables	(a)	117,467	80,329
Due to a related party	17(c)	80,297	80,419
Dividends payable	(b)	213,588	94,022
Wages payable		4,278	2,834
Other taxes payable		21,093	37,052
Accrued expenses		5,241	3,142
Other payables		13,363	13,358
		455,327	311,156

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

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

	As at 30 September 2007 Unaudited	As at 31 March 2007 Restated
0 – 90 days	88,341	77,660
91 – 180 days	19,947	1,876
181 – 360 days	7,917	793
Over 360 days	1,262	–
	117,467	80,329

(b) It represents:

- (i) 2007 final dividend of the Company;
- (ii) Dividend payable to a minority shareholder; and
- (iii) Dividends declared by the subsidiaries: Spanby Industrial Limited, Nocton International Limited and Future Dragon International Limited, to their then shareholders prior to the incorporation of their immediate holding company and the Company's subsidiary, Chemactive Investments Limited.

12. EXPENSES BY NATURE

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

	<i>Note</i>	Unaudited For the six months ended 30 September 2007	2006
Depreciation, excluding amounts included in research and development	5	7,583	4,476
Amortization	5	6,405	652
Employee benefit expenses, excluding share option, granted to directors and employees and amounts included in research and development		23,119	11,193
Lease expenses		2,831	1,189
Travelling expenses		7,291	5,345
Entertainment expenses		6,690	5,565
Share option, granted to directors and employees		14,456	–
Research and development			
– Employee benefit expenses		8,512	2,596
– Depreciation	5	1,568	1,653
– Others		4,536	3,578

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)*(All amounts in HK dollar thousands unless otherwise stated)***13. INCOME TAX EXPENSE**

		Unaudited	
		For the six months ended	
		30 September	
	<i>Note</i>	2007	2006
Current taxation:			
– Hong Kong profits tax	<i>(a)</i>	29	53
– PRC enterprise income tax	<i>(b)</i>	10,186	8,438
Deferred income tax assets	<i>6</i>	10,999	(8,087)
Deferred income tax liabilities	<i>6</i>	(820)	–
		20,394	404

- (a) Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period.
- (b) PRC enterprise income tax has been provided on the basis of the profit, which is prepared using the accounting rules and regulations applicable to enterprise in the Mainland China, adjusted for income and expense items, which are not assessable or deductible for income tax purpose.
- (c) No provision for income tax in other jurisdictions has been made as the Group has no income assessable for income tax in those jurisdictions during the period.

14. EARNINGS PER SHARE**(a) Basic**

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

	Unaudited	
	For the six months ended	
	30 September	
	2007	2006
Profit attributable to equity holders of the Company	374,487	244,751
Weighted average number of ordinary shares in issue ('000)	3,062,736	2,652,714
Basic earnings per share (HK cents per share)	12.23	9.23

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)*(All amounts in HK dollar thousands unless otherwise stated)***(b) Diluted**

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. For the six months ended 30 September 2007, the Company has one type of dilutive potential ordinary shares – share options.

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

	Unaudited	
	For the six months ended	
	30 September	
	2007	2006
Profit attributable to equity holders of the Company	374,487	244,751
Interest expense on liability component of preference shares	–	2,441
Earnings used to determine diluted earnings per share	374,487	247,192
Weighted average number of ordinary shares used to calculate basic earnings per share ('000)	3,062,736	2,652,714
Adjustments for:		
– conversion of original convertible preference shares ('000)	–	357,025
– exercise of warrants ('000)	–	31,736
– exercise of share option ('000)	53,195	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	3,115,931	3,041,475
Diluted earnings per share (HK cents per share)	12.02	8.13

15. DIVIDENDS

The interim dividend for the six months ended 30 September 2007 declared after the balance sheet date amounts to HK2.3 cents (2006: HK1.8 cents) per ordinary share, HK\$70,451,000 in aggregate. As the interim dividend is declared after the balance sheet date, it is not recognized as dividend payable as at 30 September 2007.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)*(All amounts in HK dollar thousands unless otherwise stated)***16. COMMITMENTS****(a) Capital commitments**

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

	As at 30 September 2007 Unaudited	As at 31 March 2007 Audited
Property, plant and equipment: Contracted but not provided for	3,412	395

(b) Operating lease commitments

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

	As at 30 September 2007 Unaudited	As at 31 March 2007 Audited
Land and buildings: Not later than 1 year	4,586	2,242
Later than 1 year and not later than 5 years	6,815	5,064
	11,401	7,306

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Cont'd)

(All amounts in HK dollar thousands unless otherwise stated)

17. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Ms. Chu	The ultimate controlling shareholder of the Company
Weihai Huayuan Green Industry Co., Ltd. ("Weihai Huayuan")	An associate of the Group

(b) Transactions with related parties

Except for the major acquisition mentioned in Note 1, the Group has entered into the following significant transactions with related parties:

	Unaudited For the six months ended 30 September	
	2007	2006
Sales of goods, net of value-added tax, to:		
– Weihai Huayuan	3,076	4,043
Purchase of raw materials from:		
– Weihai Huayuan	3,520	7,726

(c) Balances with related parties

	As at 30 September 2007 Unaudited	As at 31 March 2007 Audited
Note		
Balances due from related parties:		
Included under trade receivables		
– Weihai Huayuan	1,507	4,968
Balances due to related parties:		
Included under trade payables		
– Weihai Huayuan	3,545	7,872
Balance of non-trade payables to		
– Ms. Chu	80,297	80,419
11		

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