華寶
Huabao

Huabao International Holdings Limited
(Incorporated in Bermuda with limited liability)
Stock Code : 00336

Another PROMISING RESULTS in Challenging Environment

Annual Report 2008-2009

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. CHU Lam Yiu *(Chairman)*
Mr. LAU Chi Tak *(CEO)*
Mr. POON Chiu Kwok
Mr. WANG Guang Yu
Mr. XIA Li Qun *(CFO)*
Mr. XIONG Qing

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. MAK Kin Kwong, Peter *(Chairman)*
Ms. MA Yun Yan
Mr. XIA Li Qun

QUALIFIED ACCOUNTANT

Ms. CHOY Man Har *FCPA, FCCA*

COMPANY SECRETARY

Mr. POON Chiu Kwok *ACIS, ACS*

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISOR

Herbert Smith

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1103, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudian Road
Pembroke
Bermuda

BRANCH SHARE REGISTRAR

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00336

COMPANY WEBSITE

www.huabao.com.hk

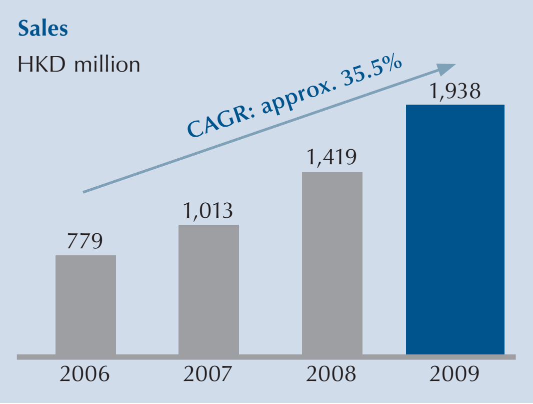
INVESTOR RELATIONS WEBSITE

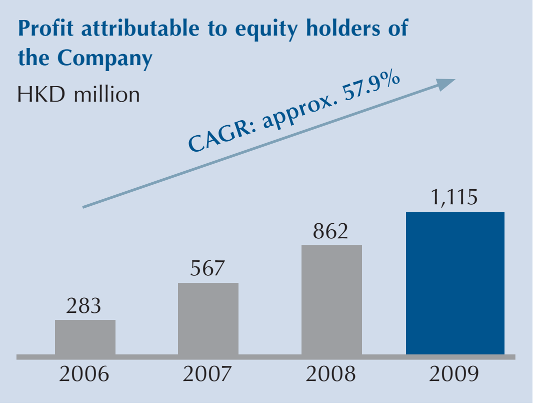
http://cms2.todayir.com/html/client/huabao/

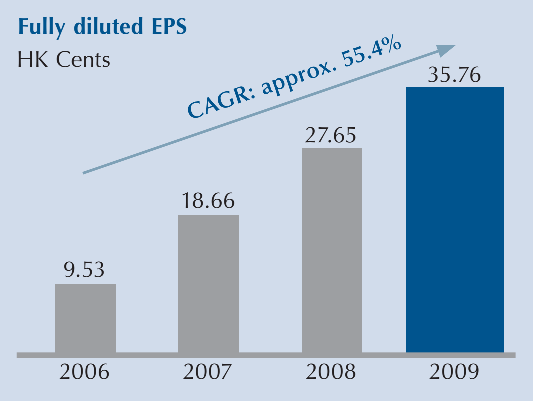
FINANCIAL HIGHLIGHTS

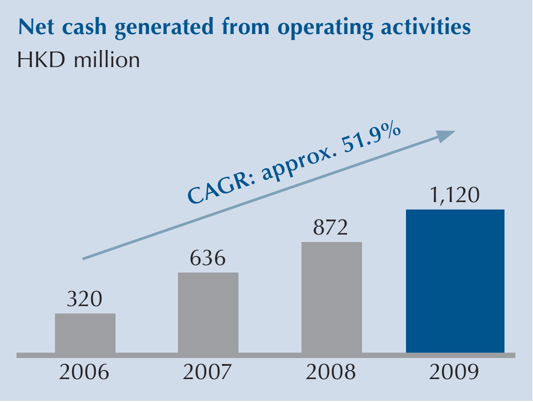
The Group has achieved outstanding results in the past four years:

- Strong sales increased to approximately HKD1.938 billion for the current year from about HKD779 million for the year ended 31 March 2006 with a CAGR of approximately 35.5%
- Profit attributable to the equity holders of the Company amounted to approximately HKD1.115 billion for the current year from HKD283 million for the year ended 31 March 2006 with a CAGR of approximately 57.9%
- Diluted earnings per share recorded HK35.76 cents for the current year from HK9.53 cents for the year ended 31 March 2006 with a CAGR of approximately 55.4%
- Net cash generated from operating activities grew from HKD320 million for the year ended 31 March 2006 to approximately HKD1.120 billion for the current year with a CAGR of approximately 51.9%
- The Company has been in a sound financial position without any debt owing to financial institutions, or involvement in any structural investment products during the past four years









Financial Highlights

	2009	2008	Change in percentage	4 years' CAGR
	HKD'000	*HKD'000*	%	%
Sales	**1,938,443**	1,419,137	+36.6	+35.5
Gross profit	**1,460,971**	1,063,148	+37.4	+58.3
Gross profit margin	**75.4%**	74.9%		
Operating profit	**1,199,825**	889,901	+34.8	+58.0
Operating profit margin	**61.9%**	62.7%		
Selling and marketing expenses to sales	**4.1%**	4.1%		
Administration expenses to sales	**11.5%**	11.0%		
– Share option compensation expenses	**30,889**	32,047		
– Amortization of land use rights and intangible assets	**27,087**	13,923		
Profit before income tax	**1,211,868**	904,000	+34.1	+59.3
Profit attributable to the equity holders of the Company	**1,114,693**	862,145	+29.3	+57.9
Earnings per share (HK cents)				
– Basic	**36.22**	28.13	+28.8	
– Diluted	**35.76**	27.65	+29.3	+55.4
Net cash generated from operating activities	**1,119,963**	871,964	+28.4	+51.9
Cash and cash equivalents	**1,125,238**	971,595	+15.8	
Total equity	**2,934,192**	2,021,977	+45.1	
Dividend per share (HK cents)	**10.8**	8.3		
Special dividend per share (HK cents)	**3.0**	Nil		
Dividend payout ratio	**30%**	30%		
Special dividend payout ratio	**8%**	Nil		
Gearing ratio*	**Nil**	Nil		
Current ratio (times)	**2.6**	3.6		
Liquidity ratio (times)	**2.3**	3.3		
Inventory turnover (days)	**135**	102		
Trade receivables turnover (days)	**74**	83		
Trade payables turnover (days)	**124**	124		

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

COMPANY PROFILE, CORPORATE CULTURE AND KEY EVENTS FOR THE YEAR

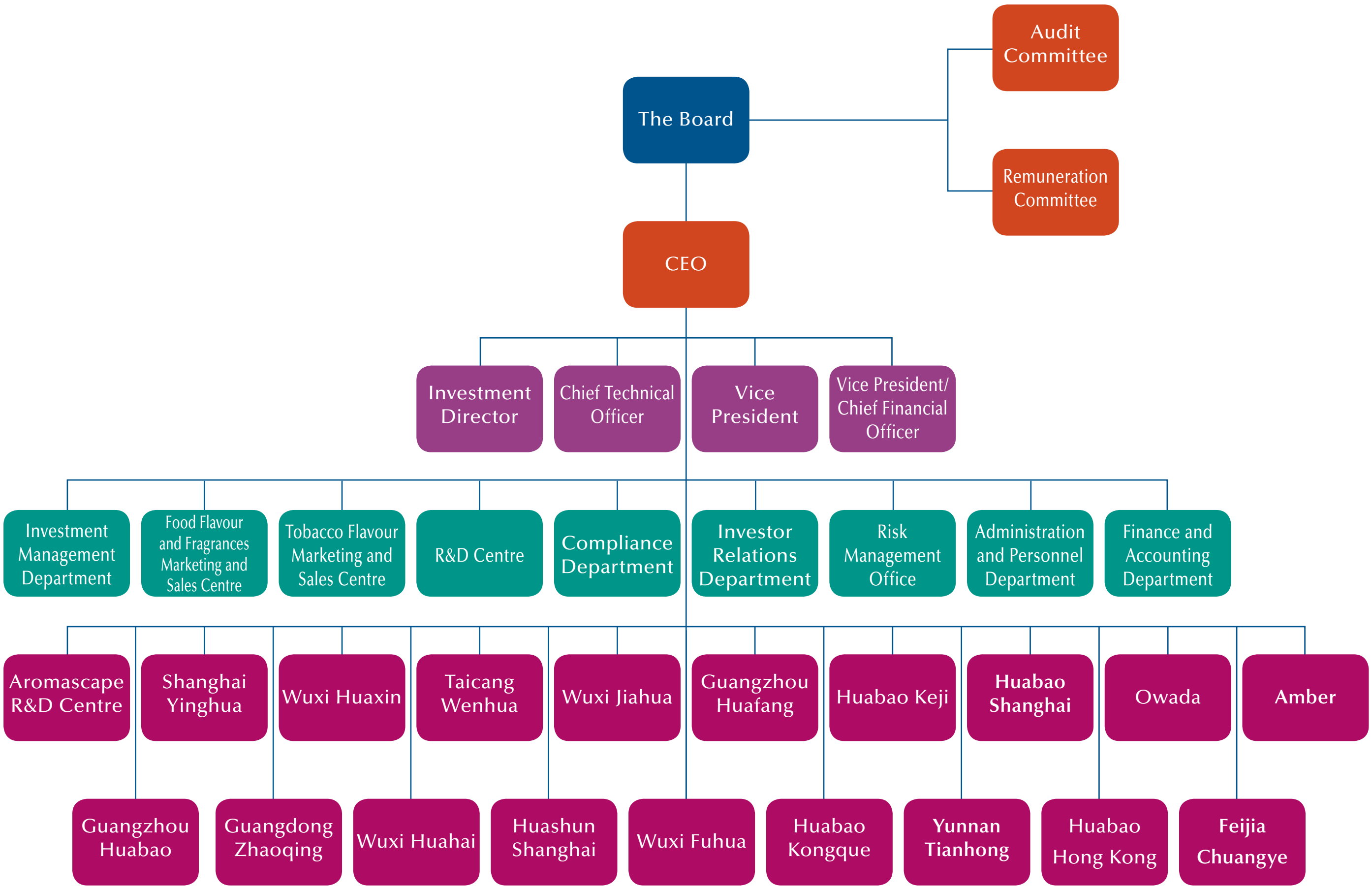
Company profile

Huabao Group is a market leader in China's flavour and fragrance industry. After successfully completed acquisition of Chemactive Investments on 1 August 2006, the Group has been the leading producer in terms of sales revenue in the flavour and fragrance industry in China, capturing significant market share. As at June 2009, the Company was the largest publicly listed company in terms of market capitalization in Asia Pacific within the flavour and fragrance industry.

The Group is primarily engaged in the R&D, production and sales of tobacco flavour, food flavour and fragrances. The Group has established 16 manufacturing bases in Shanghai, Yunnan, Guangdong, Jiangsu and Fujian, etc., and has established a R&D centre in Holzminden, Germany, a state-recognized technical centre in Shanghai and R&D departments in Guangzhou, Yunnan and Fujian. The technical centre of Huabao Shanghai (a wholly owned subsidiary of the Group) is the only State-recognized technical centre in China's flavour and fragrance industry. The Group's senior management takes on leadership roles in a number of industry associations, including the Deputy Director of CAFFCI, Deputy Director of China Food Additives & Ingredients Association and Chairman of Shanghai Food Additive Industry Association.

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

Management Structure and Principal Operating Subsidiaries



Corporate Culture

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

Company Profile, Corporate Culture and Key Events for the Year

Key Events for This Year

Apr 08

Appointed Mr. Lau Chi Tak as the executive director and the CEO of the Company to separate the chairman and CEO role

Aug 08

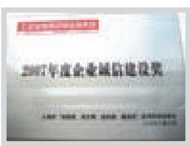
Completed the acquisition of Wealthy King Group, strengthen Huabao's leading position in tobacco flavour industry

Nov 08

Signed a framework agreement on strategic cooperation with Hongta Tobacco Group

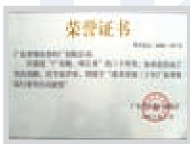
May 08

Acquired 51% equity interest in Amber for a breakthrough of frangrances business development



Huabao Kongque awarded with "2007 enterprise credit construction award"

Oct 08



Guangdong Zhaoqing awarded for the Prize of "Outstanding contributions to the food industry in thirty-years of Reform and Opening-Up of Guangdong province" and the trademark of "Xinghu" awarded as one of "The most influential brands"

32 state government food officials visited Shanghai technical centre of the Group

Dec 08

Awarded with the "Excellence in Investor Relations" award by IR Magazine

Jun 08

Guangzhou Huabao commenced production to speed up the development of savory flavour business

Mar 09

"Hedon" trademark won the title of "Shanghai Famous Brand Product" for the second time

CHAIRMAN'S STATEMENT

Dear Shareholders,

Last year, leveraging on the effective leadership of the management, the Group achieved an approximately 36.6% increase in revenue and a continuous, robust growth in profit attributable to equity holders of 29.3%. Meanwhile, the Group achieved a 38.3% CAGR in revenue and an approximately 40.2% CAGR in profit attributable to equity holders over the last three years, outperforming the three-year development goal set by the management. In addition to the Group's robust growth in results over the last three years, I am also gratified by the rapid growth in dividend by an approximately 57.0% CAGR in dividend per Share over the last three years, which made most efforts to bring best returns to all Shareholders.

Our hard-won results in the previous year were achieved amid global economic crisis as well as major food safety incidents of the Chinese food industry. The outstanding results are attributable to our insistence on maintaining a close connection to the fast growing Chinese consumer products market, on the development strategy of "Multi-pronged, focus growth" with tobacco flavour as the core business, on the operating strategy of "Big Customers, Big Brands" and on the operation philosophy of creating value for clients; they fully reflect our management's capabilities to meet changes, to execute strategies and to control risks. In the meantime, it also shows the stability and specific risk prevention capability of the Group's business development in market turbulence.

The Group has achieved the operation goal for the last three years and established a new development plan for the future development. We will maintain a heavy reliance on the most dynamic Chinese economy and Chinese consumer market with enormous growth potential, insisting on a development trend combining organic growth and M&A, on the development strategy of "Multi-pronged, focus growth" to maintain steady yet robust growth. Though the haze of the global economic crisis is yet to be cleared, there is no doubt that the Chinese economy will experience the quickest recovery and continue to be the most dynamic region of the global economy. As we achieved outstanding results amid the sharp decline of the global economy in the previous year, therefore we are confident in achieving the future development goals of the Group.

I would like to express my gratitude to the marvelous work contributed by our management team as the Group's future development relies on its wisdom and diligence. I would like to express my appreciation to all staff members for their hard work and wish that they will continue to uphold the spirit of Huabao: "innovative, pragmatic, loyal and cooperative", adhere to the enterprise operation concept of "market driven and client first" to achieve mutual growth for the enterprise and themselves. I would also like to express my gratitude to the Shareholders for their continuous supports to the Board and me.

CHU Lam Yiu
Chairman

Hong Kong, 18 June 2009

CEO's Statement

Dear Shareholders, This was my first year to serve as the CEO of Huabao.

It was an unforgettable year when I looked back. In 2008, the global financial tsunami has eventually turned into one of the most severe economic crises ever seen in history. Its impacts on the Chinese economy began to emerge in the fourth quarter last year. In face of the slumping international economy, the Chinese government has taken a series of highly-effective measures to boost the economy. The promulgation and implementation of these measures have maintained a steady recovery and growth momentum of the Chinese economy and stabilized the confidence of Chinese consumers. The Chinese market has become one of the places with the highest economic vitality in the world. To cope with such complicated and changing external conditions, the management and I have taken a series of initiatives to proactively face the challenges. We have accomplished various goals in business development and continued to attain outstanding achievements in various aspects by insisting on the implementation of our multi-pronged, focused growth strategy. The growth in sales revenue continued to exceed 30% and the increase in profit attributable to equity holders lifted by approximately 29.3%, representing a stronger integrated corporate competitiveness. Once again, these results reconfirmed that Huabao's position and strength as a market leader in China flavour and fragrance industry.

OUTSTANDING OPERATING RESULTS AND HEALTHY FINANCIAL POSITION

For the year ended 31 March 2009, sales revenue of the Group increased by about 36.6% to approximately HKD1,938 million, which outperformed the expected growth target; gross profit margin maintained at about 75.4%, representing a continuous and steady growth; profit attributable to equity holders was approximately HKD1,115 million, representing a rise of about 29.3%; and basic EPS was about HK36.22 cents, representing an increase of about 28.8%. All of these have evidenced excellent results. For the year ended 31 March 2009, the total assets of the Group amounted to HKD3,752 million and the cash balance of the Group amounted to approximately HKD1,125 million without any debt owing to financial institution. Once again, a sound financial position and outstanding operating results showed the solid execution capability of Huabao management team.

DIVIDEND AND SPECIAL DIVIDEND

For the year ended 31 March 2009, the Group's net cash flow generated from operating activities amounted to approximately HKD1,120 million and cash and cash equivalents balance amounted to approximately HKD1,125 million. To reward all shareholders, after taking account of excellent operating results and strong cash flows, the Board recommended the payment of final dividend for the year of HK5.8 cents per Share plus a special dividend of HK3.0 cents per Share to the shareholders. For the year ended 31 March 2009, the accumulated dividend paid by the Group amounted to HKD426 million or HK13.8 cents per Share.

BUSINESS REVIEW

As to the tobacco flavour business, the long-term commitment to the "Big Customers, Big Brands" development strategy has enabled the Group to successfully capitalize on the opportunities in the consolidation of the tobacco industry in China and continuously benefit from the development trend of high quality and healthy products. The sales revenue from the tobacco flavour business for the year once again recorded a remarkable growth of 33.4%. In the meantime, the Group had entered into a strategic cooperation agreement with Hongta Tobacco Group to further enhance the Group's position among major tobacco group customers which enabled us to continue to benefit from the future consolidation of the tobacco industry.

As to the food flavour business, the Group had achieved an organic growth of 28.1%. Such robust organic growth of the food flavour business was mainly attributable to an improvement of product quality and a rapid growth of the food operation of Win New Group due to the technological improvements and enlargement of productivity. In addition, Huabao Kongque had further expanded the market and enhanced its position among current clients through the launch of several natural products. Guangzhou Huabao has duly commenced its production and has been expanding the market aggressively and becoming a new growth driver for the Group. The Group's direct sales customer base has been further expanded and strengthened. The revenue of direct sales increased rapidly.

As to the fragrances business, thanks to the successful integration, the revenue of Amber for the eleven months ended 31 March 2009 reached HKD55.748 million, achieving the target set by the management.

As to the raw materials and R&D, the product competitiveness was enhanced by using the unique raw materials developed with high technology in the raw materials base in Wuxi, leading to an increase in gross profit margin from 74.9% of last year to 75.4%. With respect to R&D, the Group, on the one hand, actively promoted the applied research and established its good partnerships in R&D with the key customers by taking advantage of its leading position in the domestic industry; and on the other hand, mastered certain crucial and core technologies by pursuing vigorously the fundamental research with the overseas R&D centre in Germany and obtained fruitful results. During this year, the Group applied for 30 patents for its inventions, conducted 12 important scientific research projects and developed more than 300 new products.

INTEGRATION AHEAD OF PLAN

The Group remained committed to its development strategy combining the organic growth with M&As by identifying suitable opportunities to conduct consolidation in the flavour and frangrance industry. During this year, the Group completed its acquisitions of Amber and Wealthy King Group, established a platform for the development of the fragrances business and further reinforced our position in the tobacco flavour sector. The consolidation after such acquisitions was operated smoothly, bringing in sound benefits. The unaudited profits after income tax for the eleven months ended 31 March 2009 (before impairment and amortization of goodwill and intangible assets) of Amber reached HKD11,179,000 and the unaudited profits after income tax for the year ended 31 March 2009 (before impairment and amortization of goodwill and intangible assets) of Wealthy King Group reached HKD92,268,000, both of which outperformed the profit targets set by the management, representing a remarkable synergy effect.

ENHANCING CORPORATE MANAGEMENT STANDARDS

With the management capability as its top priority at all times, the Group is enhancing its corporate management standards on an on-going basis to

CEO's Statement

continuously improve the product competitiveness through the technological innovation. The Group always emphasizes the quality control of products, and thus has established a quality control system which is consistent with the international standards to ensure the product safety in terms of production and quality. As to the corporate operation, the office systems such as ERP and OA have been constantly upgraded so as to enhance the management efficiency. As to the performance assessment, we have set up a set of KPIs based on the needs of various departments to assess the performance of management personnel regularly by leveraging on the 360-degree evaluation mechanism. As to cash management, Huabao has been adopting a prudent approach towards cash management by specifying clearly the purposes of cash application to create an optimal value for Shareholders. As to risk control, Huabao has set up a tight risk control system so that not only a tight risk control mechanism is in place in day-to-day operations, business development, investment and cash management, but also every investment and business development project must subject to a strict approval process. In addition, an interactive approach has been taken to constantly follow and study the development trend on domestic and overseas peer sectors and relevant sectors as well as to examine regulatory policy change to ensure that we grasped the opportunity in advance. As to cost control, each department actively proposed and implemented various measures to maximize the value and returns for the Company and the Shareholders.

MANAGEMENT TEAM

The fact that I have managed the operation of Huabao smoothly within only a year and achieved promising results is primarily attributable to the support from an excellent and professional management team as well as a common corporate culture. At present, the Group is well-equipped with an experienced and professional management team with international exposures as well as a group of employees who accommodate to the future development. The Group will also continue to devote itself to cultivate and bring in professionals and talents and to create a good environment for the growth of employees. These will certainly keep Huabao's business growing bigger and better.

OUTLOOK

Looking forward, although the global economy will remain weak and its recovery is still on-going, China economy will maintain its sustainable and stable growth momentum. The global flavour and fragrance industry and the domestic tobacco and consumer products industries will remain resilient to economy cycle. Huabao will continue to implement the development strategy of multi-pronged with focused growth. In line with its prudent corporate management approach, Huabao will also develop its businesses by way of the combination of organic growth and M&As so as to create an integrated core value chain. In addition, Huabao will seize the opportunities for development and consolidation and endeavour to develope itself to a leading international flavour and fragrance company. The management and I are confident in the future of Huabao, and will work together diligently to create an optimal value and return for our shareholders.

I would like to take this opportunity to express my gratitude to our shareholders, customers and suppliers for their continuous concern and supports. I truly express my appreciation to the Directors, the management and all staff members of the Group for their loyalty, diligence and hard-working 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 shareholders.

LAU Chi Tak
CEO
Hong Kong, 18 June 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BACKGROUND OF THE GROUP

With business established at the beginning of the 90's, Huabao Group is a leading enterprise in China's flavour and fragrance industry. The Group is primarily engaged in the R&D, production and sales of tobacco flavour, food flavour and fragrances. The Group has a total of 16 manufacturing bases in the PRC, an overseas R&D centre in Holzminden, Germany and a national-level enterprise technological centre in Shanghai. In addition, R&D departments are established in Guangdong, Yunnan and Fujian respectively. The Company is also the No. 1 flavour and fragrance listed company in the Asia Pacific Region and ranked amongst top ten in the world in terms of market capitalization.

Existing Manufacturing Bases and R&D Centres

Production capacity of flavour and fragrance of major subsidiaries (As at 31 March 2009)	
	(tons)
Shanghai	
Huabao Shanghai	3,000
Huabao Kongque	4,500
Huashun Shanghai	1,300
Shanghai Yinghua	1,500
Jiangsu	
Wuxi Fuhua	1,500
Wuxi Jiahua	1,200
Wuxi Huaxin	600
Wuxi Huahai	500
Taicang Wenhua	800
Guangdong	
Guangdong Zhanging	900
Guangzhou Huabao	4,000
Guangzhou Huafeng/Owada (Wealthy King Group)	2,000
Feijia Additive (Wealthy King Group)	500
Others	
Yunnan Tianhong	2,500
Qingdao Huabao	1,000
Amber	800
Total production capacity	**26,600**

RESULTS

For the year ended 31 March 2009, the Group once again achieved outstanding results. Sales revenue amounted to HKD1,938,443,000, representing a growth of about 36.6% from HKD1,419,137,000 for the corresponding period last year, of which: sales revenue from tobacco flavour increased by about 33.4% to HKD1,654,356,000 from HKD1,239,883,000 for the corresponding period last year; sales revenue from food flavour was increased by about 28.1% to HKD219,263,000 from HKD171,101,000 for the corresponding period last year; and sales revenue from fragrances amounted to HKD55,748,000. The overall gross profit margin reached a steady growth of about 75.4% from about 74.9% for the corresponding period last year. During the reporting period, profit attributable to equity holders of the Company amounted to HKD1,114,693,000, representing an increase of about 29.3% from HKD862,145,000 for the corresponding period last year.

Management Discussion and Analysis

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

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

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

In addition, in July 2008 the Group acquired Wealthy King Group at a total consideration of HKD870,550,000. The transaction was approved at the extraordinary general meeting on 7 August 2008, and the acquisition was completed on 14 August 2008.

Completed acquisition of Amber

1. *Summary of the acquisition*

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

2. *Reasons for the acquisition*

   Provided by the characteristics of the low-end daily chemical industry in China, the fragrances industry of China has an enormous total consumption and low consumption per capita with a fragmented market while the middle-end and high-end markets are mainly occupied by international fragrances companies. The Board are of the opinion that the fragrances industry of China, local fragrances enterprises in particular, has huge development potential and the development of frangrances business fully conforms to the Group's fundamental basic of multi-pronged, focus growth and has huge room for development.

3. *Benefits of the acquisition*

   The unaudited profit after income tax (before impairment and amortization of goodwill and intangible assets) of Amber for the eleven months ended 31 March 2009 reached HKD11,179,000. Upon completion of the acquisition, the original management teams of Amber and Huabao were able to work together closely, to take effective integration and to achieve good results.

Completed acquisition of Wealthy King Group

1. *Summary of the acquisition*

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

2. *Reasons of the acquisition*

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

3. *Benefits of the acquisition*

   The unaudited profit after income tax (before impairment and amortization of goodwill and intangible assets) of Wealthy King Group for the year ended 31 March 2009 reached HKD92,268,000, which exceeded the effective guaranteed profit after tax (before impairment and amortization of goodwill and intangible assets) for the year ended 31 March 2009 provided by the vendor. Accordingly, the vendor has fulfilled its obligations under the agreement of acquisition. The substantial increase of profit of Wealthy King Group was mainly attributable to the effective integration measures for upgrading and renovating products, optimizing the raw materials structure of existing products, centralizing the procurement of raw materials and improving financial management.

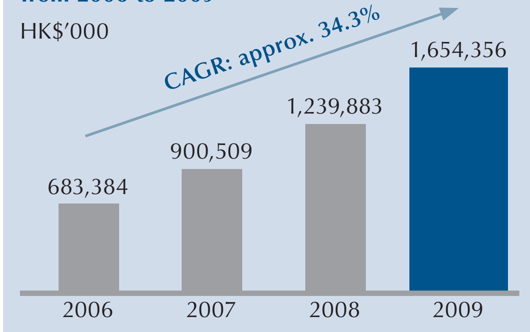
Management Discussion and Analysis

REVIEW OF THE TOBACCO FLAVOUR BUSINESS

1. Review of Results

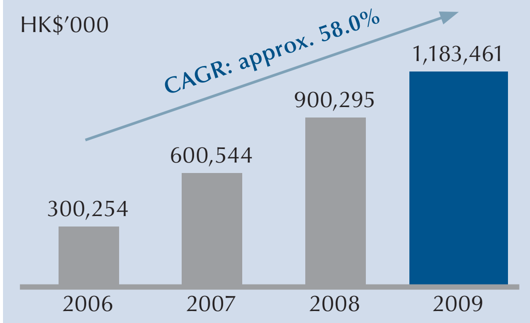
For the year ended 31 March 2009, sales revenue from tobacco flavour reached HKD1,654,356,000, representing a growth of about 33.4% as compared with the corresponding period last year and a CAGR of over 30% since the financial year ended 31 March 2006, outperformed the growth target set by the management. The sustainable and rapid growth of tobacco flavour business was mainly attributable to the consolidation of the tobacco industry, upgrading of the cigarette product mix to the high-end category and the Group's continuously reinforcing on the development model of "Big Customer, Big Brand". During the year, the Board believes that China's top ten cigarette corporations have all become the ultimate customers of the Group.

Growth of turnover of tobacco flavour from 2006 to 2009



For the year ended 31 March 2009, the operating profit of the tobacco flavour business amounted to HKD1,183,461,000, representing an increase of about 31.5% as compared with corresponding period last year.

Growth of Operating Profit (EBIT) of Tobacco Flavour from 2006 to 2009



Since 2001, the Group has set up a joint venture with Hongta Tobacco Group to carry out a full scope of technical service to clients. In order to further strengthen the cooperation between Huabao and Hongta Tobacco Group and also provide more and better service to customers, the Group has signed up a strategic cooperation agreement with Hongta Tobacco Group in November 2008. The Directors are of the view that these measures will enhance the "Big Customers, Big Brands" development strategy effectively, further strengthening

the Group's position among major tobacco group customers, and therefore achieve sustainable revenue in the future consolidation of the tobacco industry.

2. Recent Development in the Tobacco Industry

China is the largest cigarette consumption country, accounting for approximately one-third of the total consumption in the world. China has approximately 350 million smokers, consuming over 2 trillion cigarette sticks each year. In recent years, China's tobacco industry has been growing steadily and reflected several characteristics:

Firstly, the sales volume has maintained a steady growth with around 4% CAGR since 2002; (Source of information: Tobacco Online)

Secondly, the consumption structure is mainly comprised of Chinese style cigarettes while the market share of imported cigarettes was approximately 0.1% only in previous years; (Source of information: Euromonitor International)

Thirdly, the demand on famous and high quality cigarette has been growing fast and the consumption level rising gradually with around 8% CAGR in sales revenue based on steady improving of the living standard of citizens in China; (Source of information: Tobacco Online)

Fourthly, the tobacco industry continues to play a significant role in China's national economy, contributing industrial and commercial profit tax of approximately RMB449.1 billion in 2008, accounting for about 7.3% of the State's fiscal revenue and representing an increase of approximately 16% as compared with approximately RMB388.7 billion in the previous year (Source of information: Tobacco Online).

On-going consolidation in the tobacco industry

In 2008, the consolidation in the tobacco industry entered into a new stage in which the cross-provincial and large-scale industrial restructuring took place. In June 2008, two tobacco groups in Guangdong Province and Guangxi Province respectively announced the first cross-provincial merger in the tobacco industry. In November 2008, Hongyun and Honghe Tobacco Group in Yunnan province announced to merge and the merged group became the largest tobacco group in China. These cases symbolized the consolidation in China tobacco industry has entered into a new stage. As the consolidation was underway, the scale of the major brands and their market shares were further enhanced. From January to December 2008, 13 brands recorded an annual output of over 1 million Cases, and 21 brands achieved sales revenue of more than RMB10 billion each. The sales volume of the top ten brands accounted for approximately 39.6% of the total sales volume in the industry (Source of information: Tobacco Online). The above statistics show that the "Double Ten Strategy" announced by the State Tobacco Monopoly Administration is being implemented progressively, and China's tobacco industry has stepped into a new stage of consolidation, giving rise to greater concentration in the industry.

Management Discussion and Analysis

Development of healthier Chinese style cigarettes

It is apparent that Chinese style cigarettes contain a higher level of tar content than the standard prescribed by more developed countries. In 2007, the average tar content per cigarette in China was approximately 13.4mg (Source of information: Tobacco Science and Technology), while the tar content of major cigarette brands in Europe and US was below 8mg per cigarette and that of major cigarette brands in Japan was below 5mg per cigarette in average. Based on analysis, the Board believes that the Chinese government intends to lower the tar content to a level below 12mg per cigarette in the future. Therefore, the development trend of healthier Chinese style cigarettes is inevitable, it is mainly reflected in the decrease in tar content in and reduction of harmful effects of cigarettes. There are, however, studies in the industry which revealed that the reduction in tar content in cigarettes results in substantial loss of cigarettes' fragrance, specifically indicated by the aroma becoming less intense, flatter, drier, and less enjoyable. Therefore, the introduction of more new fragrance and flavour products is required in order to maintain the original quality, aroma and taste of cigarettes. These efforts provide new growth opportunities for flavour and fragrance companies. As the Group has been well-equipped with technologies in meeting international standard in this aspect, together with its profound knowledge in the tastes of renowned Chinese style cigarette brands, it is believed that there will be a larger room for development in the future.

Development trend of new materials for cigarettes

The Board considers that following the development of healthier Chinese style cigarettes and the trend of new materials, the usage of certain new cigarette materials in products will emerge and expand gradually. The application of new materials and the further improvement of product quality will become a new room for development.

3. Development Strategy of the Tobacco Flavour Business

- To continue to adhere to the "Big Customers, Big Brands" development strategy, and capitalize on the industrial consolidation to capture greater market share.

- To fully utilize the technical advantages to seize new opportunities brought about from the trend of development of quality optimization and healthier products in China's tobacco industry; to develop new products with greater potentials in the market and to further expand the sales revenue.

- To further encourage the technological exchange and cooperation with the leading players in the tobacco industry, seize the opportunity from the development of new materials to cigarettes and continuously explore and promote the application of tobacco flavour into cigarette production.

- To continue to consolidate flavour companies via M&As so as to maintain the Group's strategic position in the sector.

Management Discussion and Analysis

REVIEW OF THE FOOD FLAVOUR BUSINESS

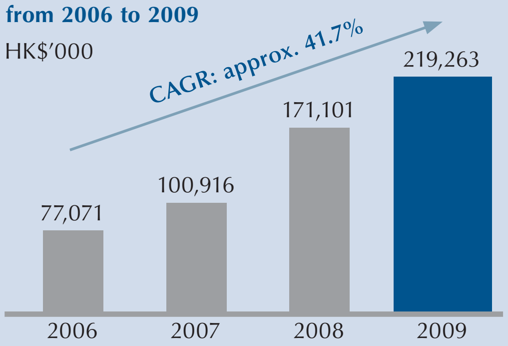
1. Review of Results

For the year ended 31 March 2009, the sales revenue from food flavour reached HKD219,263,000, representing a year-on-year growth of approximately 28.1%. While maintaining the stable gross profit margin and operating profit margin, the food flavour business achieved a rapid organic growth.

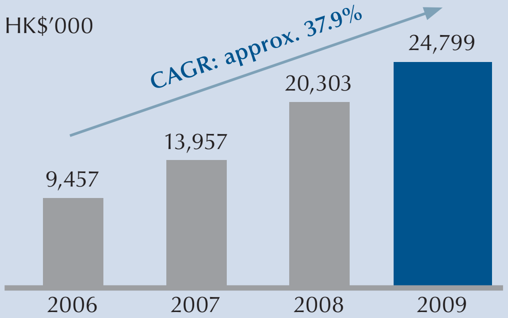
The rapid development of the food flavour business was attributable to the Group's insistence on its strategy of actively developing the local market with localized tastes. During the year, Guangzhou Huabao specialized in the development of localized tastes, creating four major series of products including meat products, snacks, instant noodles and catering and domestic seasonings. A new customer base has been established as well to provide a new growing force for revenue. Meanwhile, the product quality of the food operation of Win New Group acquired in 2007 was improved through technological improvements and enlargement of productivity, leading to a rapid growth and promising results. During the year, Guangdong Zhaoqing awarded for the Prize of "Outstanding contributions to the food industry in thirty-years of Reform and Opening-up of Guangdong province" and the trademark of "Xinghu" awarded as one of "The most influential brands". In addition, Huabao Kongque also developed several series of new natural food flavour products, such as natural milk fat additional aromatiser series, natural tea aroma series, cereal aroma series and natural herbal aroma series, which are produced with high technology and have huge market potentials. The response of the major direct customers and the distribution market to the promotion of these series of products via promotion was encouraging with gradually increasing sales amount. The Group is dedicated to establishing long-term relationships with a number of quality and renowned domestic and foreign end-customers in China's market. The sales revenue from direct sales to customers increased rapidly. Some of the direct sales customers of the Group include Danone (法國達能), Totole (太太樂食品), Mengniu (蒙牛), Yurun (雨潤), Bright (光明), Master Kong (康師傅), Dayefeng (大椰風), Huiyuan Fruit Juice (滙源果汁), Dali Group (達利集團), Heinz (亨氏), Lee Kam Kee (李錦記), COFCO (中糧) and etc.

Management Discussion and Analysis

Growth of Turnover of Food Flavour from 2006 to 2009



Growth of Operating Profit (EBIT) of Food Flavour from 2006 to 2009



Selected direct sales customers

Selected existing customers	
Bright Dairy	Danone China
Huiyuan Juice	Master Kong
Mengniu	Totole
Watsons	Yurnu

Selected new customers	
COFCO	Dali Group
Dali Group	Heinz
Lee Kum Kee	

With the product quality and the food safety as its top priority at all times, the Group has been implementing rigorous control procedures on procurement of raw materials, production and completion of products to actively conform to the international standard, and established a sophisticated quality control system. After obtaining ISO9001, the relevant subsidiaries have successively obtained a series of international certification of qualifications, including Kosher certification, Halal certification, ISO22000 Food Safety Management System Certification and OHSAS18001 Occupational Health and Safety Management System Certification. As at 30 March this year, with zero default, Huabao Kongque passed a certification audit conducted by SGS-CSTC Standards Technical Services Co., Ltd. in relation to the effectiveness, appropriateness and conformity of the company's environmental management system and obtained a certificate in this regard, therefore Huabao Kongque has obtained four major system certifications including ISO9001 Certification, ISO22000 Certification, ISO14001 Certification and OHSAS18001 Certification, evidencing that the management standards of Huabao achieve the international standards in terms of quality and safety. Through strict management systems and control procedures, the Group ensures the safety of production and the product quality, and eliminates potential risks.

2. Development Strategy of Food Flavour Business

In 2008, the PRC food and beverage industry remain a rapid but stable growth. The awareness of the safety issues in the food and beverage industry is increasing. The technological and safety issues will continue to lift up the entry barrier into the food and beverage industry as well as the food flavour industry, leading to a higher market concentration. The development strategy adopted by the Group for the food flavour business will remain unchanged. In other words, the Group will insist on its primary strategy to develop localized tastes:

- To adhere to the two-thronged approach of distribution and direct sales, further consolidate and improve the distribution network, fully utilize the market recognition of "Kongque" brand, step up efforts into product promotion, and move the service network closer to the end users.

- To focus on developing direct sales, secure key customers in the industry, concentrate resources and improve service quality, develop specific projects and seek breakthroughs step by step and establish all-round relationships with key customers through such technological platforms as the State-recognized technology centre, in a bid to promote the rapid growth of direct sales.

- To accelerate the development of savory flavour and to provide food and beverage customers and catering customers with more unique and special products on the bases of high standards, professionalization and localization and specialize in developing the products such as meat products/chilled products, instant noodles, seasonings, puffed ingredients and catering ingredients.

- To upgrade the product R&D level, introduce top-notch R&D personnel in the world and bring the local technology directly in line with the international standards.

- To conduct research into the industry standards and participate in formulating industry standards, stress on and ensure food safety, and enhance the recognition and seize opportunities.

- To be attentive to industry development, keep a close eye on the flavour and fragrance industry, and seek opportunity to acquire and merge with those enterprises whose products and market are complementary and strategic to the Group, thereby speeding up the development.

Management Discussion and Analysis

REVIEW OF FRAGRANCES BUSINESS

1. Business overview

In May 2008, the Group successfully acquired 51% equity interests in Amber and stepped into the fragrances industry. Amber plays an important role in the fragrances industry in China, and is a member of CAFFCI and a high-tech company in Xiamen. "Amber" is recognized as a well-known trademark in Xiamen. In April this year, Amber was rated as one of the small-mid enterprises with the most growth potential in Xiamen. After the acquisition, the Group has implemented the technological improvement and upgrading on Amber, which enlarged its productivity. The Group also revamped the original laboratories, expanded Amber's flavourist team and added a new applied engineer team. As to brand management, the Group enhanced its marketing efforts, planned and aggressively organized large-scale exhibitions to improve Amber's brand reputation and market influence. During the year, Amber established offices in Shanghai and Guangzhou, further expanding key markets in Pearl River Delta and Yangtze River Delta. Gradually, Amber explored the market and formed business relationship with more domestic famous daily chemical corporations.

Two teams has been working closely and ensured smooth implementation of the consolidation, which brought in satisfactory results. For the eleven months ended 31 March 2009, sales revenue from Amber reached HKD55,748,000, and unaudited profit after income tax (before impairment and amortization of goodwill and intangible assets) amounted to HKD11,179,000, which outperformed the target set by the management. As to product mix, Amber's primary products comprise aromatherapy fragrances, detergent fragrances, which are applied to personal care and household products.

Amber is dedicated to establishing good partnerships with a batch of quality and renowned ultimate customers in China's market, such as Liby (立白), Lanju (欖菊), Lonkey (浪奇), Sanxiao (三笑), Rainbow Group (彩虹集團), YaDai (雅黛) and certain domestic leading manufactures of mosquito-repellent incense. For the year ended 31 March 2009, Amber developed nearly 50 new products, and made certain major breakthroughs in fragrances such as fresheners, detergent, perfumed soap and personal care products, etc.

2. Development strategy of fragrances business

- To fully utilize the platform of Amber and the robust composite R&D capability of the state-recognized technology centre and the overseas R&D centre, specialize in expanding and developing localized products and business; based on aromatic and detergent products, to reinforce the development of new products such as shampoo, perfumed bathing lotion, air fresheners and the expansion of the customer base.

- To seek opportunities for M&As and identify the right opportunity to acquire and merge with those enterprises whose products and market are complementary with the Group so as to further expand the scale and competitiveness of the Group.

- To capitalize on the relatively high regional density of the PRC fragrances market, set a foothold in Xiamen and further explore key markets in Pearl River Delta and Yangtze River Delta in order to expand and achieve growth.

REVIEW OF R&D

The R&D ability of a flavour and fragrance company truly represents its overall strength. The Group has set up an internationally and domestically leading R&D team which is up to the international standards. The state-recognized technology centre in Shanghai, the overseas R&D centre in Germany and the professional R&D departments in Yunnan, Guangdong and Fujian together formed a vertically integrated platform for R&D from the fundamental level to the applied one. The R&D strategy of the Group has always been market-driven to closely trace the latest global industry trends and to accelerate the mastering of key raw material technologies. Moreover, the Group developed products and technologies that meet the market demand, providing a comprehensive technical service for customers, and devoted in maximizing value for clients.

Internationalized R&D Team

Huabao has been emphasizing the development of its world-calibre talents. Since August 2006, Huabao has set up an internationalized R&D team whose R&D capability is directly in line with the internationally-advanced level. The Group has always kept abreast of the changes of the human resources market and actively promoted the diversification and internationalization of its talented persons. In the future, we believe that the successful development of Huabao will continue to attract more overseas and domestic talents to join the Group.

Management Discussion and Analysis



Personnel	Number of personnel
Foreign experts	8
Domestic R&D personnels	
– Senior experts	20
– Tobacco flavour experts	52
– Food flavour experts	58
– Fragrances experts	12
– Fragrance developer	24
– Analysis, tests and quality control professionals	40
Total	**214**

R&D Achievements

During the year, the Group has achieved fruitful results in R&D and the scope of application with the development of a total of 388 new products. The Group has applied for 30 patents and released 22 significant academic papers and undertaken 12 important joint scientific research projects contracted by National Development and Reform Commission, the "863" project of the Chinese government and Hubei Tobacco Corporation.

New flavour and fragrance products developed this year	Total 388
Tobacco flavour	86
Food flavour	150
Fragrances	57
Naturally flavouring	47
Bioflavour	6
Synthetic aromatics	25
Reaction flavour	17

	The Group's major patents list	Applied segment	
		Tobacco flavour	**Food flavour**
1	Study on the extraction of functional ingredients from Chinese herbs and on the development of controlled release and its commercialization	✓	
2	Study on property modification of rice protein and starch as well as its application	✓	
3	Approach for producing milk enhancer using sulfur containing amino acid and sugar as raw material		✓
4	Approach for the preparation of tobacco materials by oxidation of terpenoids under pressure	✓	
5	Approach for developing black tea flavour using black tea as raw material, and its usage in tobacco	✓	
6	A fiber peppermint derivative, its preparation and usage	✓	✓
7	Micro emulsion of controlled release for cinnamon leave oil, its preparation and usage	✓	✓
8	Preparation for cocoa ingredients, products thereby and its usage	✓	✓
9	Method for upgrading tobacco quality by protease biotransformation	✓	
10	The Extraction and Application of Zimbabwe Tobacco Absolute Oil	✓	
11	The Making and Application of The Extract of Grosrenor Momordica (Luohanguo)	✓	
12	The making and Application of The Extract of Yunnan Red tea	✓	

Fostering Talents

The Group has adhered to the people-oriented principle and highly emphasized the training and exchange of R&D technical staff. By means of stringent gate-keeping measures, the scientific and reasonable arrangement and the integration of theories and practical experience, the Group has implemented the specific impartation of knowledge, training and internal exchange and rotation in such area. Through the successful implementation, the overall in R&D capability of the Group in R&D has been comprehensively upgraded, the technological innovative capability of the Group has been sharped and the competitiveness of the Company's products in the market has been further improved. In order to further strengthen the integrated theoretical level of technical staff and encourage the sharing and diversification of knowledge, the Company opened up various channels to encourage the R&D staff to step out from laboratories and to step in and understand the market. These measures have facilitated the active development of new products and new product series. As such, the products can not only meet but also lead and fully understand the market demand. Moreover, the Group has established long-term partnerships with domestic renowned professional institutions which enlist tertiary graduates regularly and design long-term career development plan for Huabao. With its excellent results and sound reputation, Huabao becomes a choice of more and more professionals, thus laying down a solid foundation for the long-term development of Huabao.

Raw Materials

The Group established Wuxi Huahai in Wuxi in 2007, which is engaged in extraction and concentration technology of natural aromatic plants, Chinese herbs and medicine plants by bringing in advanced production lines complying with the international standards. During the reporting period, the Group has given Wuxi Huahai's state-of-art technology in full play to further develop new aromatic materials mainly from natural raw materials. Wuxi Huahai successfully developed more than 40 new raw materials, well facilitated the speed of new products development from tobacco and food flavour and fragrance divisions and significantly improved the competitiveness of the products, further stabilizing and increasing gross profit margin of products and eventually laying down a solid foundation for the long-term development of Huabao.

Technical Cooperation and Undertaking of Significant R&D Projects

The Group places great emphasis on fundamental R&D capability, and has been constantly carrying out significant R&D projects with relevant departments through its state-recognized technology centre in Shanghai to jointly work on. During the year, the technology centre successfully passed the assessment on the technology innovation abilities of state-recognized technology centre hosted by the National Development and Reform Commission in 2006. In addition, the Group was awarded the Science and Technology Second Prize by the Chinese Cereals and Oils Association with its modification technology research on rice protein and starch and product application development. The Group also maintains close relationship with clients and R&D institutions so as to undertake technical research together and develop cooperation in production, study and research in order to enhance its R&D capability.

OTHER INFORMATION

Human Resources

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

As at 31 March 2009, the Group employed a total of 1,245 employees in the PRC, Hong Kong and Germany, representing an increase of approximately 22% or 225 employees from 1,020 employees of last year. The labour cost of the year amounted to HKD144,577,000, representing an increase of 35.8% or HKD38,129,000 from HKD106,448,000 for the previous year. The increase of labour cost was mainly due to the increase in the number of employees and due to the employment of high quality management and technical talents.

To upgrade the Group to the international standard in terms of technology and management, the Group highly values the stability of the employees and has continuously enhanced the employees' initiatives and creativity. To that end, the Group provides its employees with competitive remunerations, pensions contribution schemes and other fringe benefits, and grants awards to the employees based on their performance. The Group's share option scheme is also in position to reward employees (including directors) who have made significant contributions to the business development of the Group. The Group granted a total of 10,400,000 share options again to two executive directors. Including the share options granted in past 2 years, the Group has granted a total of 155,500,000 share options to 79 employees (including directors). The Group cherishes its people and endeavours to provide its employees with a good operational system and sound working environment for their better growth and development, guide them towards common values, encourage innovation and cooperation, and provide them with diversified training programs to upgrade their qualifications, thereby achieving mutual growth of both the employees and the Group.

FINANCIAL REVIEW

Analysis of consolidated results for the year ended 31 March 2009

Sales

The Group recorded a sales of HKD1,938,443,000 for the year ended 31 March 2009, representing an increase of about 36.6% as compared with HKD1,419,137,000 of last year. The rapid growth of sales was mainly due to substantial increase in the sales of tobacco and food flavour of the Group and the acquisition of Wealthy King Group and Amber. For the year ended 31 March 2009, the turnover of tobacco flavour of the Group increased by about 33.4% to HKD1,654,356,000, contributing about 85.3% of the total income, food flavour increased by about 28.1% to HKD219,263,000, contributing about 11.3% of the total income, while the turnover of fragrances of the Group amounted to HKD55,748,000, contributing about 2.9% of the total income.

Management Discussion and Analysis

Cost of sales

Cost of sales of the Group amounted to HKD477,472,000 for the year ended 31 March 2009, representing an increase of about 34.1% as compared with HKD355,989,000 for the corresponding period of last year. The percentage increase in the cost of goods sold which was lower than the percentage increase in the sales revenue was mainly attributable to the stable increase in the gross profit margin of the Group.

Gross profit and gross profit margin

Gross profit of the Group increased to HKD1,460,971,000 for the year ended 31 March 2009 from HKD1,063,148,000 for the year ended 31 March 2008, representing a growth of about 37.4%, while the gross profit margin of the Group increased to about 75.4% for this financial year from about 74.9% for the last financial year. Gross profit margin remains stable. The increase in gross profit was primarily due to the substantial increase in the sales revenue of the Group.

Other income

Other income of the Group was HKD39,657,000 for the year ended 31 March 2009, representing a decrease of about 2.2% as compared with HKD40,548,000 for the year ended 31 March 2008. The decrease in other income was mainly attributable to the decrease in exchange gains from RMB appreciation.

Selling and marketing expenses

Selling and marketing expenses of the Group mainly comprised of travelling expenses, transportation cost, salaries and office expenses. The selling and marketing expenses of the Group amounted to HKD78,661,000 for the year ended 31 March 2009, representing an increase of about 34.8% as compared with HKD58,348,000 for the previous year. Both selling and marketing expenses represented about 4.1% of the total sales during the periods under review respectively, the ratios remain stable.

Administrative expenses

The Group's administrative expenses amounted to HKD222,142,000 for the year ended 31 March 2009, representing an increase of about 42.9% as compared with HKD155,447,000 for the previous year. Administrative expenses accounted for about 11.5% and about 11.0% of the total sales during the periods under review respectively, percentage was slightly increased as compared with that of last year. The increase was mainly attributable by the increase of R&D expenses and staff's salaries and benefits.

Operating profit

The operating profit of the Group was HKD1,199,825,000 for the year ended 31 March 2009, representing an increase of about 34.8% as compared with HKD889,901,000 for the previous year. The operating margin of the Group was remains stable compared with the level of previous year.

Management Discussion and Analysis

Income tax expenses

Income tax expenses of the Group amounted to HKD82,157,000 for the year ended 31 March 2009, representing a sharp increase of about 138.9% as compared with HKD34,384,000 for the previous year, and the income tax rates were about 6.8% and about 3.8% respectively. Such sharp increase in the income tax expenses was mainly attributable to the provision of income tax arising from the proposed dividends payment by the PRC subsidiaries to its parent companies which are outside mainland China in relation to the profit generated by those PRC subsidiaries during the period and the preferential tax periods (two-year exemption and three-year half rate) for certain subsidiaries of the Group were expired.

Net current assets and financial resources

As at 31 March 2009, the net current assets of the Group was HKD1,143,626,000 (2008: HKD1,112,946,000). The Group generates its working capital mainly through its operating activities and maintains a healthy financial position. As at 31 March 2009, the Group had cash and cash equivalents of HKD1,125,238,000 (2008: HKD971,595,000), over 90% of which was denominated in RMB.

The Group neither had debt from financial institutions nor held any forex hedge products or structural investment products or financial derivatives.

Investing activities

The Group's investing activities were mainly incurred for the purchase of fixed assets and the strategically development strategies for M&As. For the year ended 31 March 2009, the net cash used in investing activities amounted to HKD673,869,000, mainly incurred for the acquisition of Wealthy King Group. For the year ended 31 March 2008, the net cash used in investing activities amounted to HKD644,599,000.

Financing activities

For the year ended 31 March 2009, the net cash used in financing activities amounted to HKD295,927,000, mainly used for dividend distribution to shareholders. For the year ended 31 March 2008, the net cash used in financing activities amounted to HKD171,962,000.

Debtors' turnover period

The calculation of debtors' turnover period is based on the average amount of trade receivables net of provision as at the beginning and end of the relevant financial period divided by total turnover of the corresponding period and multiplied by the number of days in that period. The Group generally offers its customers credit terms of 0-180 days, depending on the business volume and the history of business relationship with its customers. For the year ended 31 March 2009, the Group's average debtors' turnover period was 74 days, representing a decrease of 9 days as compared with 83 days for the last financial year ended 31 March 2008. The debtors' turnover period decreased as a result of enhancing credit management and control measures undertaken by the Group.

Creditors' turnover period

The calculation of creditors' turnover period is based on the average amount of trade payables as at the beginning and end of the relevant financial period divided by cost of goods sold of the corresponding period and multiplied by the number of days in that period. Credit terms granted by suppliers to the Group ranged from 0 to 180 days. For the year ended 31 March 2009, the Group's average creditors' turnover period was 124 days, same as that for the last financial year ended 31 March 2008 of 124 days. The creditors' turnover period remains stable.

Management Discussion and Analysis

Inventory and inventory turnover period

As at 31 March 2009, the Group's inventory balance amounted to HKD215,653,000 (2008: HKD136,862,000). For the year ended 31 March 2009, the inventory turnover period, calculated based on the average amount of inventories as at the beginning and the end of the relevant financial year divided by cost of sales for the corresponding period and multiplied by the number of days in that period, was 135 days, representing an increase of 33 days as compared with 102 days for the previous year. Comparing with the interim reporting period ended 30 September 2008, the Group's inventory turnover period was 142 days, representing a decrease of 7 days. The longer inventory turnover period for the year was a result of inventory storage adjustment of the Group in order to fulfill the production requirement and shorter supply cycle of customers.

Foreign exchange and exchange rate risk

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

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 31 March 2009.

Future prospects

The PRC market remains prosperous

While the developed economies including Europe and US were suffering the most severe crisis in a century, the PRC economy still demonstrated a rapid growth of 9% in 2008 (Source of information: National Bureau of Statistics of China). With the implementation of RMB4 trillion economic stimulation scheme of the PRC government, the GDP of the PRC is expected to maintain at the growth rate of 8% in 2009. The PRC economy will become one of the most active markets around the globe. The strong domestic demand in the PRC market further indicates that the influence of economic crisis on the PRC tobacco industry and the consumer product industry is relatively small. The Board remains confident in the development of the PRC economy as well as the PRC consumer product market.

Characteristics of the global flavour and fragrance industry

The flavour and fragrance industry is characterized by its relatively high stability, thus having higher resistance to economic cycles. The development of the PRC flavour and fragrance industry is still at an initial stage in which the concentration of the industry is low with an abundant space for development. As the largest domestic flavour and fragrance company in the PRC and, by leveraging on its capabilities, the Group will seize the opportunities arising from the consolidation of the industry to pursue M&As, further expand its market share and develop new businesses so as to enhance the Company's comprehensive competitiveness.

Development strategy

Our future development strategy remains to seize the opportunities arising from the rapid growth of China's economy, maintain the tobacco flavour operation as the core business, adhere to the strategy of diversification, and score rapid growth through organic growth and M&As:

- To continue to maintain the tobacco flavour as the core business
- To accelerate the development of the food flavour business
- To fully utilize the platform of Amber and to expand the fragrances business
- Actively develop the upstream raw materials segment, strive to form an integrated value chain, and develop the Group into a worldwide leading flavour and fragrance company

Growth of the existing businesses

- Tobacco flavour: to leverage on the strengths in products and technologies, further strengthen the cooperation with other market leaders in tobacco industry, further expand its market share in leading tobacco companies and in famous and quality brands, and keep exploring new applications of tobacco flavour.
- Food flavour: to speed up the development of savoury flavour and fragrance, develop new products, and expand direct sales.
- Fragrances: to step up efforts in the integration of Amber for enhancement and development
- Upstream raw materials: to develop its unique advantages in raw materials and further enhance its core competitiveness of the products

Endeavour to seek the opportunities for M&As

- Tobacco flavour: to further strengthen the strategic position in the industry through M&As
- Food flavour: to further enhance the industry leadership through M&As
- Fragrances: to further enlarge the operation scale through M&As

Further promotion of internationalization

The Group has been promoting the strategy of internationalization. Talents and technology are the core competitive edges of the Group and constitute the first step for internationalization. Looking forward, the Group will endeavour to create a favourable environment in order to continuously attract overseas and domestic professionals to join the Group. Meanwhile, the Group will also accelerate the research on overseas markets and identify the right opportunity to enter into international markets cautiously.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Note)

EXECUTIVE DIRECTORS

Ms. CHU Lam Yiu, aged 39, has been serving as the Chairman and Executive Director of the Company since March 2004. Ms. Chu is also a director of the Company's principal subsidiaries marked with[C1] and the legal representative of that marked with[C2] as set out in note 32 to the consolidated financial statements. Ms. Chu is currently the Deputy Director of CAFFCI, Deputy Director of China Food Additive Production Application Industry Association and a member of the Fourth Chinese People's Political Consultative Conference Committee (Shenzhen, Guangdong province). Ms. Chu is experienced in formulating strategies and making executive decisions on business operation, investments and market development. Ms. Chu is the sole director of Mogul Enterprises Limited, Resourceful Link International Limited and Power Nation International Limited, all of which are the substantial shareholders of the Company.

Mr. LAU Chi Tak, aged 52, has been serving as the CEO and an Executive Director of the Company since April 2008. Mr. Lau is also a director of the Company's principal subsidiaries marked with[L1] and the legal representative of those marked with[L2] as set out in note 32 to the consolidated financial statements. Mr. Lau holds a Bachelor's Degree in Chemistry and has over 20 years' experience in the international flavour and fragrance industry. He held a managerial position in a leading international flavour and fragrance company before joining us. He possesses in-depth knowledge of the Asian market and is particularly experienced in the business development in the greater China area.

Mr. POON Chiu Kwok, aged 46, has been serving as an Executive Director of the Company since May 2006 and also serves as the Company Secretary of the Company. Mr. Poon holds a master degree in international accounting, a postgraduate certificate in laws, a bachelor degree in laws and a bachelor degree in business studies. He is a member of the Hong Kong Securities Institute and its Professional Education Committee, an associate member of the Institute of Chartered Secretaries and Administrators, and the Hong Kong Institute of Chartered Secretaries. Mr. Poon has worked as a regulator, commercial and investment banker and has broad experience in finance and securities regulations. He was an independent non-executive director of INNOMAXX Biotechnology Group Limited during February to November 2006. He now serves as an independent non-executive director of Tsingtao Brewery Company Limited and CATIC Shenzhen Holdings Limited.

Mr. WANG Guang Yu, aged 45, has been serving as an Executive Director of the Company since August 2004. Mr. Wang is also the Chief Technical Officer of the Company and a director of the Company's principal subsidiaries marked with[W1] and the legal representative of those marked with[W2] as set out in note 32 to the consolidated financial statements. He holds a Master's Degree in Chemical Analysis and has a qualification of senior engineer. He has been awarded special allowance granded by the PRC government in recognition of his outstanding contribution to the engineering technology sector of China. Mr. Wang previously worked in management positions of large-scale chemical company in China and is currently the Deputy Director of CAFFCI. Mr. Wang has nearly 15 years of R&D and management experiences in the chemical industry.

Mr. XIA Li Qun, aged 42, has been serving as an Executive Director, the Vice President and Chief Financial Officer of the Company since September 2006. Mr. Xia is also a director of the Company's principal subsidiaries marked with[X1] and the legal representative of those marked with[X2] as set out in note 32 to the consolidated financial statements. 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 Honorary Chairman of the Shanghai Food Additive Association. He holds a Bachelor of Arts in Economics and is a certified accountant, certified tax specialist and certified appraiser in China. He is responsible for the Group's finance, administration and human resources.

Mr. XIONG Qing, aged 32, has been serving as an Executive Director of the Company since February 2008. Prior to joining the Group, he previously worked in several international investment banks for years. Mr. Xiong has extensive experiences with Chinese enterprises and international capital market. Mr. Xiong majored in international accounting in Tsinghua University School of Economics and Management, and graduated with a Bachelor's Degree in Economics. He is also a EMBA degree holder of INSEAD in France.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Luk Shiu, aged 51, 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 of 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 48, has been serving as an Independent Non-executive Director of the Company since September 2004. She graduated from the Law School of Peking University in 1984 and has been qualified as a lawyer in China in 1986. Ms. Ma has been dedicated to teaching and doing research in the Law School in relation to international commerce and investment aspects for 10 years. She is now the Partner of Shu Jin Law Firm. Ms. Ma has extensive experience in the legal field in relation to the capital markets, including investments, acquisition and mergers, issuance of securities etc, and has lead-managed the issuance of shares and convertible bonds and major restructuring of numerous listed companies such as China Vanke Co., Ltd., China Petroleum Jilin Chemical Engineering Construction Co. Ltd., China Merchants Property Development Co., Ltd., Wisesoft 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 was one of the members of the Fourth Listing Committee of Shenzhen Stock Exchange and 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.

Biographical Details of Directors and Senior Management

Mr. MAK Kin Kwong, Peter, aged 47, has been serving as an Independent Non-executive Director of the Company since March 2004. Mr. Mak is the managing director of Venfund Investment, a Shenzhen based mid-market M&A investment banking firm specializing in cross-border mergers and acquisitions, corporate restructuring, capital raising and international financial advisory services for Chinese privately-owned clients, which he co-founded in late 2001. Prior to that, Mr. Mak spent 17 years at Arthur Andersen Worldwide where he was a Firm partner and served as the managing partner of Arthur Andersen Southern China in his last position with the Firm. Mr. Mak also serves as an independent non-executive director and audit committee chairman of Trina Solar Limited, China GrenTech Corp. Ltd., Dragon Pharmaceutical Inc., Network CN Inc. and China Security & Surveillance Technology, Inc. all of which are companies listed in the U.S.; Gemdale Industries Inc., listed in Mainland China; China Dongxiang (Group) Co., Ltd., Pou Sheng International (Holdings) Limited and Real Gold Mining Limited, listed on the Hong Kong Stock Exchange. Mr. Mak is also the non-executive director of Bright World Precision Machinery Ltd., a company listed in the Republic of Singapore.

Mr. Mak was the non-executive director of Vinda International Holdings Ltd., a listed company in Hong Kong for the period from June 2007 to December 2008.

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

SENIOR MANAGEMENT

Mr. ZHANG Yong, aged 48, is the 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 China. Mr. Zhang has nearly 20 years' experience in marketing and management.

Mr. Alan DAVIES, aged 61, is the Chief Technical Officer of tobacco flavour 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 a 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 flavour.

Biographical Details of Directors and Senior Management

Mr. Helmut GEHLE, aged 51, is the Chief Technical Officer of food flavour, and holds Chemical Technology Certificate of Industrial Vocational School, Holzminden, Germany. Mr. Gehle served as a 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 46, is the 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 a senior executive in a large enterprise group and has years of experience in operations management of enterprise group, proficient in corporate strategy planning, group strategy management, design of standard corporate governance, and well experienced in capital operations including project planning and enterprise M&A.

Mr. LI Xiu Quan, aged 45, is Investment Director of the Group, He holds a Bachelor's Degree in Economics and is a senior accountant. Mr. Li served as a senior executive in a Mainland listed company. Mr. Li has nearly 20 years of experience in financial and investment management.

Note: Information contained in this section was up to 31 March 2009

CORPORATE GOVERNANCE REPORT

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

The Company has complied with the code provisions under the CG Code as set out in Appendix 14 to the Listing Rules throughout the reporting period except for the deviation from the code provision 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 maximize the profitability of the Company and to enhance long-term value of the Company for the shareholders. To this end, the Board assumes the responsibilities for leadership and control of the Company and oversees the businesses, strategic development, financial performance and corporate governance of the Group. All new Board members have been briefed the general business background and policy of the Company on joining the Board and all Directors have been given regular training to update and refresh their skills and knowledge so far relating to discharging their duties as Directors.

Board members meet regularly and at least four times a year to discuss strategies and business issues, including financial performance, of the Group. Finance Department also provides and reports to the Board monthly management account of the Company regularly.

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

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

Chairman and Chief Executive Officer

The roles of Chairman and CEO of the Company have been separated. To ensure a balance of power and delegation, the Company has established a clear division of the responsibilities between the Chairman, Ms. CHU Lam Yiu and the CEO, Mr. LAU Chi Tak.

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

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

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

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

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

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

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

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

- To provide leadership for the management;

- To implement the strategic planning and business development;

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

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

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

Board Composition

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

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

Biographies of the Directors are set out on pages 32 to 34 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 considered to be independent pursuant to the Listing Rules.

Directors' Appointments and Re-election

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

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

Responsibilities of Directors

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

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

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

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry to 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 the latest information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.

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

2. REMUNERATION OF DIRECTORS

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

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

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

- made recommendations on the Company's policies and structure for all the remuneration of the Executive Directors;
- proposed the specific remuneration packages of the Executive Directors, and made recommendations on the remuneration of the INEDs for the Board's approval by reference to market conditions, performance of the Group and the individual and corporate goals and objectives as set by the Board from time to time; and
- reviewed and evaluated the Company's share option scheme.

Directors abstain from voting in determining their own remuneration packages.

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

Details of the emoluments of each Director are set out in note 22(b) to the consolidated financial statements. Details of the Share Option Scheme and the share options granted to the Directors are set out on pages 49 to 51 of this annual report.

3. ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The auditors have a primary responsibility for auditing and reporting on the financial statements and the Auditors' Report to the Shareholders is set out on page 57 of this annual report.

Internal Controls

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

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

Initiated by the Audit Committee, PricewaterhouseCoopers Consultants (Shenzhen) Ltd has conducted a review of the internal controls system of the Group in March 2008 under the principles set out by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") covering major control aspects. Since then, the Company has implemented various measures to further strengthen the internal controls system. The Board considers that the internal controls systems of the Company are in broad effective.

Training on relevant regulations of a listed issuer in Hong Kong has been conducted jointly by the Company's Compliance Department and Herbert Smith, which is the Company's counsel for the Directors (including independent non-executive Directors) and senior management team on regular basis. In addition, professionals from the finance and accounting department and compliance department have attended a number of continuous professional development and training program to keep abreast of the regulatory and accounting standard requirements.

Audit Committee

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

To ensure on-going compliance with the newly amended CG Code, the terms of reference of the Audit Committee are revised to coordinate with the responsibility of the Board to review the sufficiency of manpower for financial reporting purposes as well as the supervisory role of the Audit Committee. 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 annual and interim financial statements and 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;
- reviewed the sufficiency of manpower for financial reporting purposes;
- 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 2009, the fees payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

Nature of services	**Amount** HKD'000
Audit services	4,349
Non-audit services:	
– Interim results review	1,920

4. DELEGATION BY THE BOARD

The day-to-day running of the Company is delegated to the management and divisional heads which 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 state clearly their respective 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 request a special general meeting for transaction of any business specified in such requisition.

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

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

Meeting	Date	Venue	Resolutions
AGM	1 August 2008	Suite 1103, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	1. To receive the audited financial statements for the year ended 31 March 2008; 2. To declare final dividend for the year ended 31 March 2008; 3. To re-elect Directors and to authorize the Board to fix their remuneration; and 4. To re-appoint the auditors; and 5. To grant general mandates to repurchase shares and to issue shares.
SGM	7 August 2008	Meeting Room, Regus Conference Centre, 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	1. To acquire 100% equity interests in Wealthy King Investments Limited

The Chairman and representative from the Audit Committee were present and available to answer questions raised by the Shareholders at the AGM.

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

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

6. ATTENDANCE RECORD

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

	Board Regular Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Executive Directors			
Ms. CHU Lam Yiu *(Chairman)*	4/4	n/a	n/a
Mr. LAU Chi Tak [(1)]	4/4	n/a	n/a
Mr. POON Chiu Kwok	4/4	n/a	n/a
Mr. WANG Guang Yu	4/4	n/a	n/a
Mr. XIA Li Qun	4/4	n/a	1/1
Mr. XIONG Qing	3/4	n/a	n/a
Independent Non-executive Directors			
Mr. LEE Luk Shiu	4/4	2/2	n/a
Ms. MA Yun Yan	4/4	2/2	1/1
Mr. MAK Kin Kwong, Peter	4/4	2/2	1/1
Attendance rate	97%	100%	100%

Note:

(1) Appointed on 9 April 2008

INVESTOR RELATIONS REPORT

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

Investor Relations Review

In 2008, in order to develop continuously and maintain an investor relations and communication which ensure that the most updated information would be transmitted to investors in a fair manner, the Group organized various activities proactively and aggressively through different channels to develop an effective and satisfactory communication under stringent expenses. Details of activities last year are as follows:

Details of Activities	**Number of participations**
Interim and Annual Non-deal Roadshows	2
Roadshows in Mainland and Overseas Roadshows	12 (including, among others, Hong Kong, Shenzhen, Beijing, Shanghai, Singapore, Tokyo, New York, Las Vegas, Boston, London, Germany and France)
Investment Forum	11
One-for-one Group Discussions	117
Telephone Conference Calls	42
Site Visits and Reverse Roadshows	14

- ### ANNUAL GENERAL MEETINGS

  It is important for the Shareholders to have access to clear and meaningful data 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 during the year.

- ### PRESS AND ANALYSTS' CONFERENCES

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

- ## INTERNATIONAL ROADSHOWS AND INVESTMENT FORUMS

  The Company treasures every opportunity to communicate with 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.

- ## 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.

- ## COMPANY'S SITE VISITS AND REVERSE ROADSHOWS

  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 of the Company's businesses, technology and daily operations, and independent market surveillance on the other.

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

  The Company's website at www.huabao.com.hk contains important corporate data, biographical details of Directors, organization structure, press releases, interim and annual reports, announcements and circulars issued by the Company in order to enable the Company's Shareholders and members of the investor community to have timely access to the most updated information about the Group. The information is also available in the investor relations website at http://cms2.todayir.com/html/client/huabao.

- ## OTHER COMMUNICATION CHANNELS

  Shareholders and members of the investor community are welcomed 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 at www.huabao.com.hk. Designated personnel are assigned for the task to ensure that all data is disclosed on a fair and non-sensitive basis and all disclosures are in line with the Company's policy and the relevant regulatory requirements.

- ## MEDIA COMMUNICATION

  During the announcement of its annual results, the Group held a press conference to facilitate the access of the most updated information of the Company by media, investors and the public in a fair, open and timely manner. In addition, to strengthen the interaction between the Group and media, it actively issued press release and arranged interviews with the management.

- ## 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. During the period, the Company has been covered by 15 established and reputable research institutes as follows:

  - BNP Paribas Securities (Asia) Ltd.
  - BOC International

- China International Capital Corporation Limited
- Citigroup Investment Research
- CLSA Research Limited
- DBS Vickers Securities
- Deutsche Bank
- First Shanghai Group
- HSBC
- ICEA Securities Asia Limited
- JP Morgan
- Macquarie Securities
- Nomura International (Hong Kong) Limited
- SHK Financial Group
- UOB Kay Hian Pte Ltd.

(shown in alphabetical order in English)

Market recognition

"Certificates of Excellence" from IR Magazine (2008)

"Certificates of Excellence" from IR Magazine is an award to recognize the performance of the IR relations personnel from different regions and industries. Winners are elected a survey to numerous analysts and investors, who will elect the most outstanding IR relations personnel in their opinions, by way of independent questionnaires.

JP Morgan MSCI China Indices (Third Quarter in 2008)

The Company was officially incorporated into the index on 25 November 2008, becoming a constituent stock. The full name of MSCI is Morgan Stanley Capital International, which is primarily engaged in the provision of the global indices and the relevant derivatives. According to the statistics, the existing amount of capital used for tracing the MSCI stock indices exceeds US$3,000 billion.

Prospects

Looking forward in 2009, the Company will maintain a bilateral and interactive communication with investors, and is determined to enhance the quality of information disclosure in the prevailing turbulent market. The Company will make disclosure of its latest development and the industry under the conditions of fairness, accuracy and timeliness.

Information for Investors

Share information (As at 31 March 2009)

Board Lot Size	5,000 shares
Number of issued shares	3,084,805,961 shares
Market Captilization (Based on the closing price of HKD6.38 on 31 March 2009)	HKD19.681 billion

Investor Relations Report

Stock Code

Stock Exchange of Hong Kong Limited	00336
Reuters	336.HK
Bloomberg	336HK

Financial Calendar

Announcement of 2008-09 Interim Results	2 December 2008
Announcement of 2008-09 Final Results	18 June 2009
Date of Closure of Register of Shareholders	From 4 August 2009 to 7 August 2009 (both days inclusive)
Annual General Meeting	7 August 2009
Date of Payment of 2008-09 Final Dividend and Special Dividend	16 October 2009
Financial Year End Date	31 March

Dividend for 2008-09

Interim Dividend	HK5.0 cents per share
Final Dividend	HK5.8 cents per share
Special Dividend	HK3.0 cents per share

Investor Relations Contact
If you have any enquiries, please contact:
Investor Relations Department
Huabao International Holdings Limited
Suite 1103, Central Plaza
18 Harbour Raod
Wan Chai
Hong Kong
Telephone: (852) 2185 1233
Fax: (852) 2511 8229
Email: polly.tong@huabao.com.hk
Investor Relations Website: http://cms2.todayir.com/html/client/huabao

DIRECTORS' REPORT

The Board presents its report together with the audited financial statements for the year ended 31 March 2009.

MERGER & ACQUISITION

In May 2008, the Company completed the acquisition of 51% equity interests in Amber, which mainly engages in the production and sales of fragrances in the Mainland China.

In August 2008, the Company completed the acquisition of 100% equity interests of Wealthy King Group, which is principally engaged in the manufacture and sales of flavours and fragrances used in tobacco in the PRC, from Longkey Limited for a consideration of HKD870,550,000. Longkey Limited is beneficially owned by Ms. Chu Lam Yiu ("Ms. Chu"), who is a director and controlling shareholder of the Company. The acquisition constituted a disclosable acquisition and connected transaction of the Company pursuant to the Listing Rules. The details of the acquisition were set out in the Company's announcement dated 7 July 2008 and the circular dated 23 July 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the Company's principal subsidiaries are set out in note 32 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 2009 are set out in the consolidated income statement on page 60 of the annual report.

The Board declared an interim dividend of HK5.0 cents (2008: HK2.3 cents) per share, amounting to a total of about HKD154,100,000, was paid on 27 February 2009. The Board proposed the declaration of a final dividend of HK5.8 cents (2008: HK6.0 cents) per share in cash, HKD178,919,000 in aggregate, together with a special dividend of HK3.0 cents per share (2008: nil) in cash, HKD92,544,000 in aggregate, for the year ended 31 March 2009, are expected to be paid on 16 October 2009 to Shareholders whose names appear on the Register of Members of the Company as at 7 August 2009, subject to Shareholders' approval in the forthcoming annual general meeting. Together with the interim dividend declared, the total dividend distribution for the year amounted to HK13.8 cents (2008: HK8.3 cents) per share.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 March 2009, the distributable reserves of the Company amounted to HKD1,496,575,000 (2008: HKD1,505,975,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to HKD476,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 114.

SHARE OPTIONS

As per a resolution passed on the special general meeting held on 22 September 2006, the Company adopted a share option scheme ("Share Option Scheme"). As at 31 March 2009, the share options granted by the Company pursuant to the Share Option Scheme which are valid and outstanding amounted to 108,435,000 shares, represents approximately 3.5% of the ordinary Shares issued. The following is a summary of the Share Option Scheme:

(a) Purpose of the Scheme

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

(b) Participants of the Scheme

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

(c) Maximum number of shares issuable under the Scheme

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

(d) Maximum entitlement of each participant

The maximum number of Shares (issued and to be issued) upon exercise of options (whether exercised, cancelled or outstanding) granted to any participants in any 12-month period under the Share Option Scheme and any other share option scheme of the Company shall not exceed 1% of the total number of ordinary 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 ordinary Shares during such period as may be determined by the Board (the said period shall not in whatever case be later than the last day of the 10-year period after the day on which the offer relating to the option is duly approved by the Board in accordance with the Share Option Scheme (subject to early termination)).

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

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

(g) Acceptance of option offer and payment

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

(h) Basis for determining the exercise price

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

(i) The life of the Scheme

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

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

				Number of share options					
Grantee	**Grant Date**	**Exercise Price**	**Exercisable Period**	**Balance as at 1 April 2008**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**Balance as at 31 March 2009**
		HKD							
Executive Directors:									
Mr. LAU Chi Tak	14 April 2008	6.39	14/4/2008-13/4/2018	–	7,000,000[1]	–	–	–	7,000,000
Mr. POON Chiu Kwok	25 October 2006	3.09	25/10/2006-24/10/2016	7,000,000	–	2,000,000	–	–	5,000,000
Mr. WANG Guang Yu	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	–	750,000	–	–	4,500,000
Mr. XIA Li Qun	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	–	–	–	–	5,250,000
Mr. XIONG Qing	17 October 2007	6.65	17/4/2008-16/10/2017	3,600,000	–	–	–	–	3,600,000
	14 April 2008	6.39	14/4/2008-13/4/2018	–	3,400,000[1]	–	–	–	3,400,000
Independent non-executive Directors:									
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	73,080,000	–	12,945,000	–	2,000,000	58,135,000
	25 October 2006	3.09	25/10/2006-24/10/2016	5,250,000	–	–	–	–	5,250,000
	17 October 2007	6.65	17/4/2008-16/10/2017	13,900,000	–	–	–	–	13,900,000
Total				115,730,000	10,400,000	15,695,000	–	2,000,000	108,435,000

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

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. LAU Chi Tak *(CEO)* *(Appointed on 9 April 2008)*
Mr. POON Chiu Kwok
Mr. WANG Guang Yu
Mr. XIA Li Qun *(CFO)*
Mr. XIONG Qing

Independent Non-executive Directors:

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

In accordance with Bye-law 87(1) and (2) of the Company's bye-laws, Ms. MA Yun Yan, Mr. WANG Guang Yu and Mr. XIA Li Qun 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 31 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

During the reporting period, Ms. Chu has acquired controlling equity interests in an enterprise which is located in the Republic of Botswana in Southern Africa and is engaged in the manufacturing and sale of natural extracts, an upstream raw material in flavour and fragrance sector. During the reporting period, the amount of sale from the enterprise to the Company was approximately HK$12.4 million. (Please refer to the announcement of the Company dated 4 November 2008 relating to the details of such continuing connected transaction between the enterprise and the Company.) Although the business of the enterprise does not complete with the business of the Company in strict sense, Ms. Chu chooses to comply voluntarily with the non-competition undertaking provided by her to the Company under the agreement relating to the acquisition of Chemactive Investments dated 7 June 2006 and pursuant to which, 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.

Save as disclosed above, none of the Directors and his/her respective associates was considered to have an interest in a business which completes or is likely to complete with the business of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 32 to 35 of the annual report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2009, 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 Shares held	Percentage of the issued Share capital
CHU Lam Yiu	Held through controlled corporations*	1,932,179,415	62.64%
POON Chiu Kwok	Beneficial owner	1,000,000	0.03%
XIA Li Qun	Beneficial owner	1,750,000	0.06%

* *1,932,179,415 ordinary shares of the Company are held by Mogul Enterprises Limited, Resourceful Link International Limited, Power Nation International Limited, Jumbo Elite Limited and Real Elite Investments Limited. Ms. Chu 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 2009, 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 2009, other than the interests disclosed in the section headed "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 Company held interests or short positions in 5% or more issued share capital of the Company.

Directors' Report

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

Name of Shareholder	Capacity	Number of issued Shares held	Percentage of the issued Share capital
JPMorgan Chase & Co *(Note)*	Beneficial owner	1,105,000	
	Investment manager	58,355,000	
	Custodian	119,065,266	5.79%
Wellington Management Company, LLP	Investment manager	158,086,240	5.12%

Note: The interests of JPMorgan Chase & Co. included a lending pool of 119,065,266 Shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2009, the percentage of turnover attributable to the Group's five largest customers accounted for approximately 53% and the largest customer contributed approximately 29% to the turnover of the Group, and the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 39% and the largest supplier contributed approximately 26% 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 interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

Sale of tobacco flavour products to Hongta Tobacco Group and its associates

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 Tobacco Group, which is wholly owned by the State-owned Assets Supervision and Administration Commission of the Yunnan Province People's Government of the PRC. In accordance with Chapter 14A of the Listing Rules, Hongta Tobacco Group and its associates are the connected parties of the Company. On 1 June 2006, the Group and Hongta Tobacco Group entered into a framework agreement ("2006 Framework Agreement") pursuant to which the Group shall continually sell tobacco flavour products to Hongta Tobacco Group and its associates. The 2006 Framework Agreement is valid from 1 August 2006 to 31 March 2009, and all the transactions conducted between the Group and Hongta Tobacco Group under the 2006 Framework Agreement constituted continuing connected transactions of the Group. The 2006 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 2006 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

Since late 2006, the PRC State Tobacco Monopoly Administrative Bureau adopted a new raw material procurement system in Yunnan Province where the Group therefore sells the tobacco flavour products required by Hongta Tobacco Group and its associates to Yunnan China Tobacco Materials (Group) Limited Liabilities Company, a company held by the PRC government which is a third party independent from and not connected with the Company and its connected persons. Accordingly, most of the continuing connected transactions between the Group and Hongta Tobacco Group ceased since 1 January 2007 save for Hongta Tobacco Group and its associates which located outside of Yunnan Province and procured tobacco flavour products directly from the Group during the year. The parties subsequently entered into an agreement to renew the 2006 Framework Agreement, details of which are set out below in the section headed "2009 Framework Agreement with Hongta Tobacco Group".

Raw materials purchase from F&G, its subsidiaries and associates

On 4 November 2008, the Group entered into a framework agreement ("2008 Framework Agreement") with F&G pursuant to which F&G and its subsidiaries and associates will supply natural extracts to the Group on an on-going basis for a 30-month period from 9 October 2008 to 31 March 2011. F&G was incorporated in the Republic of Botswana in Southern Africa and is principally engaged in the manufacturing and sale of natural extracts and is wholly owned by Ms. Chu, who is a director and controlling shareholder of the Company. F&G, its subsidiaries and associates are connected persons of the Company according to Chapter 14A of the Listing Rules. Therefore, the transactions contemplated by the 2008 Framework Agreement constitute continuing connected transactions of the Group ("F&G Continuing Connected Transactions") under the Listing Rules.

The estimated aggregate amount for the purchase of the natural extracts by the Group from F&G under the 2008 Framework Agreement will not exceed HKD13 million for the six-month period ending 31 March 2009, HKD21.5 million for the year ending 31 March 2010 and HKD21.5 million for the year ending 31 March 2011 (collectively the "F&G Annual Caps"). As each of the F&G Annual Caps of the F&G Continuing Connected Transactions does not exceed 2.5% of all applicable percentage ratios as calculated pursuant to Rule 14.07 of the Listing Rules, the conduct of the transactions shall only be subject to the compliance with the reporting and announcement requirements under Rule 14A.34 of the Listing Rules but are exempted from the independent shareholders' approval.

Annual review of continuing connected transactions

For the year ended 31 March 2009, the tobacco flavour products sold by the Group to the associates of Hongta Tobacco Group and the raw materials purchased by the Group from F&G, its subsidiaries and associates amounted to approximately RMB47,994,000 and HKD12,362,000 respectively. 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 relevant agreement, and are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board 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 continuing connected transactions:

(i) have been approved by the Board;

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

(iii) have been entered into in accordance with the terms of the relevant agreements; and

(iv) have not exceeded the aforesaid annual limits.

2009 Framework Agreement with Hongta Tobacco Group

Given that the 2006 Framework Agreement would expire on 31 March 2009 and in order to meet the continuing business needs of the Group, the Group entered into a framework Agreement ("2009 Framework Agreement") again with Hongta Tobacco Group on 18 February 2009 where the terms and conditions of the 2009 Framework Agreement are identical to those in the 2006 Framework Agreement in all material respects. The upper limits of annual amounts of continuing connected transactions under the 2009 Framework Agreement for the three years ending 31 March 2012 are RMB66,000,000, RMB86,000,000 and RMB112,000,000 ("Annual Caps") respectively. The Company has obtained a waiver from the Stock Exchange to approve the entering into the 2009 Framework Agreement, the Annual Caps and the conduct of the continuing connected transactions contemplated thereby on the basis of a written independent shareholders' approval in lieu of holding a shareholders' meeting of the Company had been obtained under Rule 14A.43 of the Listing Rules.

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 2009, the members of the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against any member of the Group.

PUBLIC FLOAT

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

AUDITORS

The financial statements for the year ended 31 March 2009 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

By Order of the Board
CHU Lam Yiu
Chairman

Hong Kong, 18 June 2009

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
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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 58 to 113, which comprise the consolidated and company balance sheets as at 31 March 2009, 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 judgment, 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 2009 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 2009

CONSOLIDATED BALANCE SHEET

As at 31 March 2009

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	**278,730**	198,878
Land use rights	7	**58,210**	24,887
Intangible assets	8	**1,507,151**	699,959
Investments in associates	10	**9,233**	3,663
Deferred income tax assets	11	**31,055**	12,345
		1,884,379	939,732
Current assets			
Inventories	12	**215,653**	136,862
Trade and other receivables	13	**526,310**	429,192
Cash and cash equivalents	14	**1,125,238**	971,595
		1,867,201	1,537,649
Total assets		**3,751,580**	2,477,381
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**308,480**	306,911
Reserves	17	**246,730**	130,748
Retained earnings			
– Proposed final dividend	27	**178,919**	184,147
– Proposed special dividend	27	**92,544**	–
– Others	18	**2,013,730**	1,330,425
		2,840,403	1,952,231
Minority interest		**93,789**	69,746
Total equity		**2,934,192**	2,021,977
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	**93,813**	30,701
Current liabilities			
Trade and other payables	19	**683,581**	419,587
Current income tax liabilities		**39,994**	5,116
		723,575	424,703
Total liabilities		**817,388**	455,404
Total equity and liabilities		**3,751,580**	2,477,381
Net current assets		**1,143,626**	1,112,946
Total assets less current liabilities		**3,028,005**	2,052,678

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

On behalf of the Board

Ms. CHU Lam Yiu
Chairman

Mr. XIA Li Qun
Director

BALANCE SHEET

As at 31 March 2009
(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 March 2009	2008
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**1,245,083**	1,245,083
Current assets			
Trade and other receivables	13	**478**	470
Amounts due from subsidiaries	9	**889,849**	720,386
Cash and cash equivalents	14	**11,809**	12,352
		902,136	733,208
Total assets		**2,147,219**	1,978,291
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**308,480**	306,911
Reserves	17	**506,179**	428,362
Retained earnings			
– Proposed final dividend	27	**178,919**	184,147
– Proposed special dividend	27	**92,544**	–
– Others	18	**936,921**	1,033,637
Total equity		**2,023,043**	1,953,057
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	9	**122,095**	24,824
Trade and other payables	19	**2,081**	410
		124,176	25,234
Total liabilities		**124,176**	25,234
Total equity and liabilities		**2,147,219**	1,978,291

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

On behalf of the Board

Ms. CHU Lam Yiu
Chairman

Mr. XIA Li Qun
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year end 31 March 2009	2008
Sales	5	**1,938,443**	1,419,137
Cost of goods sold	21	**(477,472)**	(355,989)
Gross profit		**1,460,971**	1,063,148
Other income – net	20	**39,657**	40,548
Selling and marketing expenses	21	**(78,661)**	(58,348)
Administrative expenses	21	**(222,142)**	(155,447)
Operating profit		**1,199,825**	889,901
Finance income		**19,551**	14,411
Finance costs		**(7,934)**	–
Finance income – net	23	**11,617**	14,411
Share of profit/(loss)of associates	10	**426**	(312)
Profit before income tax		**1,211,868**	904,000
Income tax expense	24	**(82,157)**	(34,384)
Profit for the year		**1,129,711**	869,616
Attributable to:			
Equity holders of the Company		**1,114,693**	862,145
Minority interest		**15,018**	7,471
		1,129,711	869,616
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	26(a)	**36.22**	28.13
– Diluted	26(b)	**35.76**	27.65
Dividends	27	**333,019**	255,119
Special dividend	27	**92,544**	–
		425,563	255,119

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009
(All amounts in HK dollar thousands unless otherwise stated)

		Attributable to equity holders of the Company					
	Notes	Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 April 2007, as restated		**306,269**	**(116,910)**	**890,630**	**1,079,989**	**60,915**	**1,140,904**
Exchange differences		–	140,198	–	140,198	7,482	147,680
Profit for the year		–	–	862,145	862,145	7,471	869,616
Total recognized income and expense for the year ended 31 March 2008		**–**	**140,198**	**862,145**	**1,002,343**	**14,953**	**1,017,296**
Dividends paid to minority shareholders		–	–	–	–	(4,816)	(4,816)
Appropriations from net profit	17	–	51,227	(51,227)	–	–	–
Combination of Win New Group Ltd and its subsidiaries ('Win New Group')		–	(4,833)	–	(4,833)	29,821	24,988
Purchase of additional interests in a subsidiary from minority shareholders		–	9,823	–	9,823	(31,127)	(21,304)
Final dividend for the year ended 31 March 2007		–	–	(116,397)	(116,397)	–	(116,397)
Interim dividend for the 6 months ended 30 September 2007	27	–	–	(70,579)	(70,579)	–	(70,579)
Employee share option scheme							
– Value of employee services	22	–	32,047	–	32,047	–	32,047
– Exercise of share options	16	642	19,196	–	19,838	–	19,838
		642	107,460	(238,203)	(130,101)	(6,122)	(136,223)
Balance at 31 March 2008		**306,911**	**130,748**	**1,514,572**	**1,952,231**	**69,746**	**2,021,977**
Balance at 1 April 2008		**306,911**	**130,748**	**1,514,572**	**1,952,231**	**69,746**	**2,021,977**
Exchange differences		**–**	**48,115**	**–**	**48,115**	**2,632**	**50,747**
Profit for the year		**–**	**–**	**1,114,693**	**1,114,693**	**15,018**	**1,129,711**
Total recognized income and expense for the year ended 31 March 2009		**–**	**48,115**	**1,114,693**	**1,162,808**	**17,650**	**1,180,458**
Dividends paid to minority shareholders		**–**	**–**	**–**	**–**	**(5,651)**	**(5,651)**
Appropriations from net profit	17	**–**	**5,432**	**(5,432)**	**–**	**–**	**–**
Combination of Wealthy King Investments Limited ('Wealthy King') and its subsidiaries ('Wealthy King Group')	2	**–**	**(15,382)**	**–**	**(15,382)**	**–**	**(15,382)**
Acquisition of Profit Fortune Holdings Limited ('Profit Fortune') and its subsidiaries ('Profit Fortune Group')	28	**–**	**–**	**–**	**–**	**12,044**	**12,044**
Final dividend for the year ended 31 March 2008	27	**–**	**–**	**(184,540)**	**(184,540)**	**–**	**(184,540)**
Interim dividend for the 6 months ended 30 September 2008	27	**–**	**–**	**(154,100)**	**(154,100)**	**–**	**(154,100)**
Employee share option scheme							
– Value of employee services	22	**–**	**30,889**	**–**	**30,889**	**–**	**30,889**
– Exercise of share options	16	**1,569**	**46,928**	**–**	**48,497**	**–**	**48,497**
		1,569	**67,867**	**(344,072)**	**(274,636)**	**6,393**	**(268,243)**
Balance at 31 March 2009		**308,480**	**246,730**	**2,285,193**	**2,840,403**	**93,789**	**2,934,192**

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year end 31 March	
		2009	2008
Cash flows from operating activities			
Cash generated from operations	29	**1,152,013**	899,382
Income tax paid		**(32,050)**	(27,418)
Net cash generated from operating activities		**1,119,963**	871,964
Cash flows from investing activities			
Acquisition of subsidiaries		**(599,237)**	(628,608)
Purchases of property, plant and equipment		**(87,457)**	(30,489)
Purchases of land use right		**(2,027)**	–
Proceeds from disposal of property, plant and equipment	29	**454**	300
Purchase of intangible assets		**(323)**	(213)
Interest received		**14,721**	14,411
Net cash used in investing activities		**(673,869)**	(644,599)
Cash flows from financing activities			
Dividends paid to shareholders		**(338,554)**	(186,970)
Dividend paid to minority interests		**–**	(4,830)
Proceeds from issue of shares in connection with exercise of share options		**48,498**	19,838
Repayment of short-term loan		**(13,135)**	–
Interest paid		**(65)**	–
Proceeds from prior shareholders of Wealthy King		**91,229**	–
Repayment to shareholders		**(83,900)**	–
Net cash used in financing activities		**(295,927)**	(171,962)
Net increase in cash and cash equivalents		**150,167**	55,403
Cash and cash equivalents at beginning of the year		**971,595**	858,494
Effects of exchange rate changes on cash and cash equivalents		**3,476**	57,698
Cash and cash equivalents at end of the year	14	**1,125,238**	971,595

The notes on pages 63 to 113 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

1 GENERAL INFORMATION

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

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

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

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

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

These consolidated financial statements are presented in thousands of units of HK dollars ('HKD'000') unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the 'Board') on 18 June 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Application of merger accounting

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

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

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

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 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *Application of merger accounting (Continued)*

The consolidated balance sheet as at 31 March 2009:

	The Group (excluding Wealthy King Group)	Wealthy King Group	Adjustments *(Note)*	Consolidated
Investment in Wealthy King Group	870,550	–	(870,550)	–
Other assets – net	2,077,615	856,577	–	2,934,192
Net assets	2,948,165	856,577		2,934,192
Share capital	308,480	–	–	308,480
Merger reserve	(597,567)	–	(15,382)	(612,949)
Retained earnings and other reserves	3,143,463	856,577	(855,168)	3,144,872
Minority interest	93,789	–	–	93,789
	2,948,165	856,577		2,934,192

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

There were no changes to the consolidated balance sheet (including merger reserve) of the Group as at 31 March 2008 as a result of the Acquisition as Ms. Chu's control of Wealthy King Group commenced on 1 April 2008.

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

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

(b) *Standard, amendment and interpretations effective in the financial year ended 31 March 2009*

(i) The following amendment and interpretation to standards are mandatory for the financial year ended 31 March 2009:

- HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standard, amendment and interpretations effective in the financial year ended 31 March 2009 (Continued)

(i) The following amendment and interpretation to standards are mandatory for the financial year ended 31 March 2009: *(Continued)*

- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements.

(ii) The following interpretation to standards is mandatory for the financial year ended 31 March 2009 but not relevant to the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements'

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 April 2009;

- HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 April 2009. It is not expected to have any impact on the Group's financial statements;

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The revised standard requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 April 2009;

- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply HKAS 23 (Amendment) from 1 April 2009;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 April 2010;

- HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, Financial instruments: recognition and measurement, is classified as held for sale under HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone financial statements of each entity;

- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 April 2009;

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 April 2009, but it is not expected to have any impact on the Group's financial statements;

- HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 April 2009;

- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 April 2009;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 April 2010 in its separate financial statements. This amendment is not relevant to the Group;

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 April 2009, but it is not expected to have a material impact on the Group's consolidated financial statements;

- HKFRS 3 (Revised), 'Business combination' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) from 1 April 2010;

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRS. The Group will apply the HKFRS 5 (Amendment) to all partial disposals of subsidiaries from 1 April 2010;

- HKFRS 8, 'Operating segments', replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail by management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
- HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial instruments: presentation' and HKFRS 7, 'Financial instruments: disclosures') (effective from 1 January 2009).
- HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).
- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective from 1 July 2009).
- HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009).
- HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- The minor amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.
- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009)
- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008)
- HK(IFRIC) – Int 17 – 'Distributions of non-cash assets to owners' (effective from 1 July 2009).
- HK(IFRIC) – Int 18, 'Transfers of assets from customers' (effective from 1 July 2009)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

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

(a) *Subsidiaries*

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

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

(b) *Transactions with minority interest*

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

(c) *Associates*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associates (Continued)

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances of individual companies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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

2.6 Land use rights

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 consolidated 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 or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investment in associates' and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Customer relationships and non-competition agreement

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

(c) Trademarks

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

(d) Computer software

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

(e) Patents

Patents include purchased technology acquired from third parties. They have a finite useful life and carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the technology over their estimated useful lives of 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

2.9 Financial assets

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

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

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

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

2.10 Inventories

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

2.11 Trade and other receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade payables

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

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Employee benefits

(a) *Pension obligations*

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

(b) *Share-based compensation*

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

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

2.17 Revenue recognition

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

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

(a) *Sales of goods*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Revenue recognition *(Continued)*

(c) Dividend Income

Dividend income is recognised when the right to receive payment is established.

2.18 Research and development costs

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

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

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

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

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

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

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

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

Development assets are tested for impairment annually.

2.19 Operating lease

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

2.20 Government grants

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Government grants *(Continued)*

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

2.21 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) *Market risk*

(i) Foreign exchange risk

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

Should RMB be strengthened/weakened by 5% against HKD during the year ended 31 March 2009, with all other factors remaining unchanged, the profit for the year would be affected as follows:

	Change of profit for the year increase/(decrease)	
	2009	2008
Group		
– Strengthened by 5%	**64,257**	48,478
– Weakened by 5%	**(64,257)**	(48,478)
Company		
– Strengthened by 5%	**–**	–
– Weakened by 5%	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

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

(iii) Price risk

The Group is exposed to commodity price risk, especially for raw materials which are the major cost of the Group. It has not used any commodity futures to hedge its price risk exposure. However, the Group has maintained the procurement function on a group basis to control timing of purchase and bargaining on price to minimize purchase costs. Such centralization strengthens the Group's bargaining power with suppliers on purchase price, as well as enables stock up of goods when purchase price is foreseen to increase inevitably. During the year, if the purchase price of raw materials increased by 1%, the Group's profit before tax would be decreased by approximately HKD4,388,000 (2008: HKD3,300,000).

(b) Credit risk

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

	As at 31 March	
	2009	2008
Group		
State-owned commercial banks in the PRC	**506,942**	311,869
Commercial banks listed in the PRC, Hong Kong or other territories	**276,746**	328,040
Cash at other banks and financial institutions	**340,534**	330,959
Cash on hand	**1,016**	727
	1,125,238	971,595
Company		
Commercial banks listed in Hong Kong or other territories	**11,809**	12,352

The Group currently sells substantially all its tobacco and food flavours and fragrances products in the PRC domestic market. Credit is granted for a period up to 6 months to the major customers. The credit period is determined according to an assessment made on the financial conditions and past payment history of these customers with the approval obtained from senior management. As at 31 March 2009, the 5 largest debtors accounted for 28% (2008: 40%) of total trade receivables balance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

The directors are of the view that the customers with outstanding balances as at 31 March 2009 are either existing customers with long cooperation history with the Group and/or reputable companies in the industry. The risk of credit default is considered to be low and accordingly, the provision for doubtful debts as at 31 March 2009 amounting to approximately HKD1,989,000 (2008: HKD2,100,000) is considered adequate to cover any significant potential credit risk.

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

(c) Liquidity risk

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

3.2 Capital risk management

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

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

The operating cash inflows of the Group are sufficient for investing activities including acquisition of new businesses. The Group does not have bank or other borrowings.

3.3 Fair value estimation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of goodwill

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

Should the budgeted gross margin used in the value-in-use calculation for the tobacco flavours, food flavours and fragrance CGUs be 10% lower than management's estimates at 31 March 2009 respectively, the Group would not be required to recognize impairment of goodwill for the year ended 31 March 2009 and to reduce the carrying value of other intangible assets and property, plant and equipments.

If the estimated pre-tax discount rate applied to the cash flows of the CGUs had been one basic point higher than management's estimates, the Group would not be required to recognize an impairment of goodwill for the year ended 31 March 2009 and to reduce the carrying value of other intangible assets and property, plant and equipments.

(b) Recognition of share based compensation expense

During the year ended 31 March 2009, the Company granted certain share options to two directors. The Company has 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 parameters, such as risk free rate, expected life of share options granted, dividend yield and volatility, to the BS Model is made by the directors (Note 16).

The total fair value of options granted during the year ended 31 March 2009 determined using the BS Model was approximately HKD17,862,000, of which HKD10,615,000 was recorded as part of employee benefit expenses for the year ended 31 March 2009.

(c) Dividends policy of subsidiaries

On 16 March 2007, National People's Congress approved the Corporate Income Tax Laws of the PRC (hereinafter "the New CIT Laws") which was effective from 1 January 2008. According to the relevant regulations of the new CIT Laws, when a foreign investment enterprise distributes dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, it is subject to corporate income tax. The applicable corporate income tax rate varies with the origin of the overseas investors.

The Group's PRC subsidiaries have distributed significant amount of their distributable profits earned from 1 January 2008, therefore the directors of the Company believe that the Company does not require its PRC subsidiaries to declare further dividends out of the profits earned from 1 January 2008 to 31 March 2009 in the foreseeable future. Accordingly, the Group has not provided deferred tax liabilities for such undistributed profits. The directors of the Company will regularly review the dividend distribution policy of its subsidiaries from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

As at 31 March 2009, the Group is organized into three main business segments:

(1) Production and sale of tobacco flavours;

(2) Production and sale of food flavours; and

(3) Production and sale of fragrances.

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

The segment information for the year ended 31 March 2009 is presented below:

	Year ended 31 March 2009				
	Tobacco flavours	Food flavours	Fragrances	Unallocated	Total
Total turnover	1,654,436	233,531	55,748	22,939	1,966,654
Inter-segment sales	(80)	(14,268)	–	(13,863)	(28,211)
Net turnover	1,654,356	219,263	55,748	9,076	1,938,443
Segment result	1,183,461	24,799	13,413	(21,848)	1,199,825
Finance income					19,551
Finance costs					(7,934)
Finance income – net					11,617
Share of profit of associates					426
Profit before income tax					1,211,868
Income tax expense					(82,157)
Profit for the year					1,129,711
Segment assets	3,300,723	281,949	135,610	33,298	3,751,580
Segment liabilities	685,160	52,437	26,945	52,846	817,388
Other segment items					
Capital expenditure (Notes 6, 7 and 8)	832,081	16,248	92,794	106	941,229
Depreciation (Note 6)	21,495	4,739	766	820	27,820
Amortization (Notes 7 and 8)	24,030	2,379	678	–	27,087
Reversal of impairment provision for trade receivables (Note 13)	(62)	–	–	–	(62)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT INFORMATION *(Continued)*

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

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

	Year ended 31 March 2008				
	Tobacco flavours	Food flavours	Fragrances	Unallocated	Total
Total turnover	1,239,958	175,536	–	23,850	1,439,344
Inter-segment sales	(75)	(4,435)	–	(15,697)	(20,207)
Net turnover	1,239,883	171,101	–	8,153	1,419,137
Segment result	900,295	20,303	–	(30,697)	889,901
Finance income					14,411
Share of loss of an associate					(312)
Profit before income tax					904,000
Income tax expense					(34,384)
Profit for the year					869,616
Segment assets	2,150,908	260,632	–	65,841	2,477,381
Segment liabilities	387,999	59,873	–	7,532	455,404
Other segment items					
Capital expenditure (Notes 6, 7 and 8)	650,311	44,811	–	1,138	696,260
Depreciation (Note 6)	14,215	3,544	–	1,336	19,095
Amortization (Notes 7 and 8)	8,592	5,331	–	–	13,923
Impairment provision for trade receivables (Note 13)	–	1,217	–	–	1,217

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

Segment liabilities comprise operating liabilities and deferred income tax liabilities.

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

(b) Secondary reporting format – geographical segments

The revenue is mainly derived in the PRC, and the principal assets are located in the PRC. Accordingly, no additional information on geographical segment is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 2007								
Cost		125,819	37,976	22,298	38,663	3,519	345	228,620
Accumulated depreciation		(30,877)	(8,232)	(11,854)	(21,118)	(1,368)	–	(73,449)
Net book amount		94,942	29,744	10,444	17,545	2,151	345	155,171
Year ended 31 March 2008								
Opening net book amount		94,942	29,744	10,444	17,545	2,151	345	155,171
Additions		36	3,980	2,123	8,093	1,524	14,733	30,489
Transfers		–	4,407	–	139	–	(4,546)	–
Combination of Win New Group		7,011	8,187	110	192	–	–	15,500
Disposals		–	(101)	(236)	(30)	–	–	(367)
Depreciation	21	(6,382)	(4,540)	(2,749)	(4,757)	(667)	–	(19,095)
Exchange differences		13,102	175	985	2,010	269	639	17,180
Closing net book amount		108,709	41,852	10,677	23,192	3,277	11,171	198,878
At 31 March 2008								
Cost		155,701	65,119	26,498	52,366	4,884	11,171	315,739
Accumulated depreciation		(46,992)	(23,267)	(15,821)	(29,174)	(1,607)	–	(116,861)
Net book amount		108,709	41,852	10,677	23,192	3,277	11,171	198,878
Year ended 31 March 2009								
Opening net book amount		**108,709**	**41,852**	**10,677**	**23,192**	**3,277**	**11,171**	**198,878**
Additions		**2,406**	**13,135**	**1,932**	**4,922**	**468**	**12,273**	**35,136**
Transfers		**26,378**	**7,551**	**–**	**8,089**	**15**	**(42,033)**	**–**
Combination of Wealthy King Group		**34,540**	**5,613**	**2,740**	**1,290**	**–**	**–**	**44,183**
Acquisition of Profit Fortune Group	28	**–**	**797**	**–**	**–**	**–**	**22,770**	**23,567**
Disposals		**–**	**(368)**	**(59)**	**(57)**	**–**	**–**	**(484)**
Depreciation	21	**(9,128)**	**(7,901)**	**(3,620)**	**(6,234)**	**(937)**	**–**	**(27,820)**
Exchange differences		**3,681**	**1,089**	**273**	**174**	**50**	**3**	**5,270**
Closing net book amount		**166,586**	**61,768**	**11,943**	**31,376**	**2,873**	**4,184**	**278,730**
At 31 March 2009								
Cost		**224,276**	**91,637**	**32,798**	**68,366**	**5,453**	**4,184**	**426,714**
Accumulated depreciation		**(57,690)**	**(29,869)**	**(20,855)**	**(36,990)**	**(2,580)**	**–**	**(147,984)**
Net book amount		**166,586**	**61,768**	**11,943**	**31,376**	**2,873**	**4,184**	**278,730**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

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

Depreciation was expensed in the following categories:

	Note	Year ended 31 March 2009	2008
Manufacturing overhead		**8,758**	6,216
Selling and marketing expenses		**1,145**	793
Administrative expenses		**17,917**	12,086
Total depreciation	21	**27,820**	19,095

7 LAND USE RIGHTS – GROUP

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

	As at 31 March 2009	2008
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**58,210**	24,887

	Note	Year ended 31 March 2009	2008
Beginning of the year		**24,887**	14,318
Additions		**2,027**	–
Combination of Win New Group		**–**	9,145
Combination of Wealthy King Group		**26,965**	–
Acquisition of Profit Fortune Group	28	**5,710**	–
Amortization		**(1,384)**	(771)
Exchange differences		**5**	2,195
End of the year		**58,210**	24,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

8 INTANGIBLE ASSETS – GROUP

	Note	Goodwill (b)	Trademarks (c)	Customer relationships and non-competition agreement	Computer Software	Patents	Total
At 1 April 2007							
Cost		3,746	9,414	–	198	–	13,358
Accumulated amortization		–	(1,333)	–	(33)	–	(1,366)
Net book amount		3,746	8,081	–	165	–	11,992
Year ended 31 March 2008							
Opening net book amount		3,746	8,081	–	165	–	11,992
Additions		–	–	–	213	–	213
Combination of Win New Group		514,472	6,192	120,249	–	–	640,913
Amortization		–	(1,268)	(11,827)	(57)	–	(13,152)
Exchange differences		47,966	1,285	10,653	89	–	59,993
Closing net book amount		566,184	14,290	119,075	410	–	699,959
At 31 March 2008							
Cost		566,184	17,097	131,605	523	–	715,409
Accumulated amortization		–	(2,807)	(12,530)	(113)	–	(15,450)
Net book amount		566,184	14,290	119,075	410	–	699,959
Year ended 31 March 2009							
Opening net book amount		**566,184**	**14,290**	**119,075**	**410**	**–**	**699,959**
Additions		**–**	**–**	**–**	**87**	**236**	**323**
Combination of Wealthy King Group	(a)	**648,164**	**–**	**99,628**	**3**	**–**	**747,795**
Acquisition of Profit Fortune Group	28	**49,618**	**–**	**5,905**	**–**	**–**	**55,523**
Amortization		**–**	**(1,400)**	**(24,188)**	**(100)**	**(15)**	**(25,703)**
Exchange differences		**26,282**	**320**	**2,642**	**10**	**–**	**29,254**
Closing net book amount		**1,290,248**	**13,210**	**203,062**	**410**	**221**	**1,507,151**
At 31 March 2009							
Cost		**1,290,248**	**17,483**	**240,109**	**625**	**236**	**1,548,701**
Accumulated amortization		**–**	**(4,273)**	**(37,047)**	**(215)**	**(15)**	**(41,550)**
Net book amount		**1,290,248**	**13,210**	**203,062**	**410**	**221**	**1,507,151**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

8 INTANGIBLE ASSETS – GROUP *(Continued)*

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

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

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

The goodwill is allocated as follows:

	As at 31 March							
	2009				2008			
	Tobacco flavours	**Food flavours**	**Fragrances**	**Total**	Tobacco flavours	Food flavours	Fragrances	Total
Goodwill	**1,234,611**	**5,677**	**49,960**	**1,290,248**	560,633	5,551	–	566,184

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period (2008: ten-year period). Cash flows beyond the ten-year period are extrapolated using the estimated growth rates below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

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

	As at 31 March					
	2009			2008		
	Tobacco flavours	**Food flavours**	**Fragrances**	Tobacco flavours	Food flavours	Fragrances
Gross margin	**75%**	**34%**	**40%**	75%	27%	–
Growth rate	**3%-5%**	**8%**	**5%**	5%	8%	–
Discount rate	**13.5%**	**13.5%**	**13.5%**	13.5%	13.5%	–

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

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

After assessing the cash flow projections of the various CGUs, the directors considered that there was no impairment of the goodwill as at 31 March 2009 and 2008.

(c) Trademarks represent the Peacock and Xinghu trademarks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

9 INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	As at 31 March	
	2009	2008
Investments at cost – unlisted shares	**1,245,083**	1,245,083

(b) Balances with subsidiaries

	As at 31 March	
	2009	2008
Amounts due from subsidiaries		
Winning Right Limited	**654,867**	–
Win New Group Limited	**103,663**	76,337
Bright Joy Enterprises Limited	**62,184**	–
Chemactive Investments Limited	**32,373**	545,547
Spanby Industrial Limited	**20,000**	–
Huabao Investment Company Limited	**6,450**	88,314
Hero Ace Limited	**5,135**	1,489
Huabao Industrial & Trading Development (HK) Limited	**3,831**	51
Huabao Flavours & Fragrances (HK) Limited	**1,300**	8,500
Rich Success Investment Development Limited	**36**	30
Sino Prospect Holdings Limited	**10**	10
Power Success International Development Limited	**–**	36
Central Link Inc. Limited	**–**	36
Wisdom Bright International Investment Limited	**–**	36
	889,849	720,386

	As at 31 March	
	2009	2008
Amounts due to subsidiaries		
Smart Sino International Limited	**54,979**	24,395
Rich Million Investments Limited	**29,800**	–
Huabao Investment Company Limited	**14,022**	–
Delight Zone International Limited	**10,238**	288
Wisdom Bright International Investment Limited	**6,384**	–
Power Success International Development Limited	**2,730**	–
Pacific Top Enterprises Limited	**1,695**	–
Central Link Inc. Limited	**1,388**	–
Future Dragon International Limited	**474**	–
Nocton International Limited	**244**	–
Sino Top Trading Limited	**101**	101
Symhope Investment Limited	**40**	40
	122,095	24,824

The balances with subsidiaries are unsecured, interest-free and repayable on demand. Details of the principal subsidiaries are set out in Note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES

	Year ended 31 March 2009	2008
Beginning of the year	**3,663**	3,975
Share of profit/(loss) of associates	**426**	(312)
Combination of Wealthy King Group	**5,913**	–
Dividends declared	**(679)**	–
Exchange differences	**(90)**	–
End of the year	**9,233**	3,663

The Group's investments in associates as at 31 March 2009 are as follows:

Name	Country of incorporation	Paid-up capital	Assets	Liabilities	Revenues	Net profit for the year	% Interests indirectly held	Principal activities
Weihai Huayuan Green Industry Company Limited ('Weihai Huayuan')	The PRC	United States Dollar ("USD") 2,700,000	RMB 18,994,000	RMB 317,000	RMB 1,815,000	RMB 871,000	20%	Production and sale of flavours and fragrances
Henan Jinrui Flavours Co. Ltd. ("Henan Jinrui")	The PRC	RMB 10,000,000	RMB 36,852,000	RMB 14,780,000	RMB 15,582,000	RMB 1,217,000	25%	Production and sale of tobacco flavours and fragrances and fine chemicals products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

11 DEFERRED INCOME TAX ASSETS/LIABILITIES – GROUP

The movement in the deferred income tax is as follows:

		Deferred income tax assets	Deferred income tax liabilities		
	Note	Unrealized profits arising from intra-group sales	Valuation surplus of assets and recognition of intangible assets	Withholding income tax on dividends expected to be remitted from group entities incorporated in the PRC	Total
At 1 April 2007		26,022	–	–	–
Combination of Win New Group		–	29,854	–	29,854
Recognized in the income statement	24	(15,305)	(1,844)	–	(1,844)
Exchange differences		1,628	2,691	–	2,691
At 31 March 2008		**12,345**	**30,701**	**–**	**30,701**
Combination of Wealthy King Group		**3,614**	**30,939**	**–**	**30,939**
Acquisition of Profit Fortune Group	28	**–**	**1,551**	**–**	**1,551**
Recognized in the income statement	24	**14,709**	**(4,890)**	**34,828**	**29,938**
Exchange differences		**387**	**684**	**–**	**684**
At 31 March 2009		**31,055**	**58,985**	**34,828**	**93,813**

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

Deferred income tax liabilities arosed from the valuation surplus of property, plant and equipment and land use rights and recognition of intangible assets as a result of acquisition/combination of subsidiaries; and withholding income tax on dividends expected to be remitted aboard by group entities incorporated in the PRC.

Pursuant to the New CIT Laws, a 10% withholding tax is levied on dividends remitted from the PRC entities to overseas investors with effect from 1 January 2008. A lower withholding tax rate is applied to Hong Kong investors as there is a tax treaty arrangement between the PRC and Hong Kong. The directors of the Company estimated that a portion of profits generated by the PRC subsidiaries would be distributed to their Hong Kong immediate parent companies in 2009. Therefore, deferred income tax liabilities had been provided based on 5% of the estimated profits to be remitted to Hong Kong. The directors of the Company will review the fund requirements of the Group from time to time and revise the dividend distribution policy of its subsidiaries as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

12 INVENTORIES – GROUP

	As at 31 March	
	2009	2008
At cost:		
Raw materials	**170,964**	117,494
Work in progress	**6,135**	1,221
Finished goods	**38,554**	18,147
	215,653	136,862

The cost of inventories recognized as expense and included in cost of goods sold for the year ended 31 March 2009 amounted to approximately HKD438,832,000 (2008: HKD349,773,000).

13 TRADE AND OTHER RECEIVABLES

		As at 31 March			
		Group		Company	
	Note	**2009**	2008	**2009**	2008
Trade receivables	(b)	**409,285**	377,554	**–**	–
Less: Provision for impairment of receivables		**(1,989)**	(2,100)	**–**	–
Trade receivables – net		**407,296**	375,454	**–**	–
Note receivables		**85,766**	40,471	**–**	–
Prepayments and other receivables		**19,671**	2,832	**478**	470
Advances to staff		**4,439**	3,973	**–**	–
Others		**9,138**	6,462	**–**	–
		526,310	429,192	**478**	470

(a) All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of the Group's and the Company's trade and other receivables approximate to their carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

13 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 March Group	
	2009	2008
0 – 90 days	**339,187**	337,591
91 – 180 days	**49,836**	24,074
181 – 360 days	**10,644**	12,256
Over 360 days	**9,618**	3,633
	409,285	377,554

As at 31 March 2009, trade receivables of HKD407,296,000 (2008: HKD375,454,000) were fully performing.

After considering the credit period, trade receivables that are less than 180 days past due are assessed for impairment. As at 31 March 2009, trade receivables of HKD18,273,000 (2008: HKD13,789,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these past due trade receivables is as follows:

	As at 31 March Group	
	2009	2008
Pass due up to 180 days	**10,644**	12,256
Pass due over 180 days	**9,618**	3,633
	20,262	15,889

As at 31 March 2009, trade receivables of HKD1,989,000 (2008: HKD2,100,000) were impaired and fully provided. The individually impaired receivables mainly relate to customers which had ceased cooperation with the Group and were not in a position for repayment. These receivables are all aged over one year.

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

	As at 31 March Group	
	2009	2008
USD	**583**	1,047
RMB	**408,702**	376,507
	409,285	377,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

13 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) *(Continued)*

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

	Note	Year ended 31 March Group 2009	2008
Beginning of the year		**2,100**	905
(Reversal of)/Provision for impairment for trade receivables	21	**(62)**	1,217
Recoveries		**–**	(173)
Exchange differences		**(49)**	151
End of the year		**1,989**	2,100

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

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

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

14 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	As at 31 March Group 2009	 2008	 Company 2009	 2008
Cash at bank and on hand	**1,125,238**	971,595	**11,809**	12,352

Cash at bank and on hand is denominated in the following currencies:

	As at 31 March Group 2009	 2008	 Company 2009	 2008
RMB	**1,103,240**	923,380	**–**	–
HKD	**17,916**	42,684	**11,809**	12,352
USD	**2,764**	3,728	**–**	–
Euro and others	**1,318**	1,803	**–**	–
	1,125,238	971,595	**11,809**	12,352

As at 31 March 2009, the Group's and the Company's maximum exposure to credit risk of cash and cash equivalents is their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

15 SHARE CAPITAL – GROUP AND COMPANY

	Note	Ordinary shares of HKD0.10 each		Convertible cumulative non-voting preference shares of HKD1.00 each		Convertible cumulative non-voting preference shares of HKD0.10 each		Total
		Number of shares	*HKD'000*	*Number of shares*	*HKD'000*	*Number of shares*	*HKD'000*	*HKD'000*
Authorized:								
At 1 April 2007, 31 March 2008 and 31 March 2009		5,000,000,000	500,000	50,000,000	50,000	3,376,900	337,690	887,690
Issued and fully paid:								
At 1 April 2007		3,062,690,961	306,269	–	–	–	–	306,269
Exercise of share options	16	6,420,000	642	–	–	–	–	642
At 31 March 2008		3,069,110,961	306,911	–	–	–	–	306,911
At 1 April 2008		3,069,110,961	306,911	–	–	–	–	306,911
Exercise of share options	16	15,695,000	1,569	–	–	–	–	1,569
At 31 March 2009		3,084,805,961	308,480	–	–	–	–	308,480

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(All amounts in HK dollar thousands unless otherwise stated)

16 SHARE OPTION SCHEME

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

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

		Year ended 31 March			
		2009		2008	
	Note	Weighted average exercise price in HKD per share	Number of share options ('000)	Weighted average exercise price in HKD per share	Number of share options ('000)
Beginning of the year		**3.63**	**115,730**	3.09	107,850
Granted		**6.39**	**10,400**	6.65	17,500
Exercised	(a)	**3.09**	**(15,695)**	3.09	(6,420)
Forfeited	(b)	**3.09**	**(2,000)**	3.09	(3,200)
End of the year		**3.98**	**108,435**	3.63	115,730

(a) The weighted average share price immediately before the share option exercised dates was HKD6.05 (2008: HKD7.40) per share.

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

Share options outstanding as at 31 March 2009 are analyzed as follows:

Grantee	Exercise price in HKD per share	Number of share options ('000)	Expiry date
Directors	3.09	17,150	24 October 2016
	6.65	3,600	16 October 2017
	6.39	10,400	13 April 2018
Employees	3.09	58,135	9 October 2016
	3.09	5,250	24 October 2016
	6.65	13,900	16 October 2017
At 31 March 2009		108,435	

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(All amounts in HK dollar thousands unless otherwise stated)

16 SHARE OPTION SCHEME *(Continued)*

Out of the 108,435,000 (2008: 115,730,000) share options outstanding as at 31 March 2009, 62,385,000 (2008: 34,430,000) share options are currently exercisable.

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

	Options granted in the year ended 31 March 2009	2008
Exercise price	**HKD6.39**	HKD6.65
Share price at date of grant	**HKD6.34**	HKD6.47
Volatility	**48.78% – 60.95%**	44.317% – 50.763%
Dividend yield	**1.73% – 2.51%**	0.95%
Risk free interest rate	**0.84% – 1.65%**	3.75% – 3.995%
Expected lives from date of grant	**0.5 to 3.5 years**	0.8 to 3.8 years

17 RESERVES

		Group							
	Note	Contributed surplus	Merger reserve	Share premium	Capital reserve	Share-based compensation reserve	Exchange reserve	Other reserves	Total
At 1 April 2007		288,191	(592,734)	68,285	1,677	18,966	37,502	61,203	(116,910)
Combination of Win New Group		–	(4,833)	–	–	–	–	–	(4,833)
Appropriations from net profit		–	–	–	–	–	–	51,227	51,227
Purchase of additional interests in a subsidiary from minority shareholders		–	–	–	–	–	–	9,823	9,823
Employee share option scheme									
– Value of employee services	22	–	–	–	–	32,047	–	–	32,047
– Exercise of share options		–	–	22,196	–	(3,000)	–	–	19,196
Exchange differences		–	–	–	–	–	140,198	–	140,198
At 31 March 2008		288,191	(597,567)	90,481	1,677	48,013	177,700	122,253	130,748
At 1 April 2008		**288,191**	**(597,567)**	**90,481**	**1,677**	**48,013**	**177,700**	**122,253**	**130,748**
Combination of Wealthy King Group	2	**–**	**(15,382)**	**–**	**–**	**–**	**–**	**–**	**(15,382)**
Appropriations from net profit		**–**	**–**	**–**	**–**	**–**	**–**	**5,432**	**5,432**
Employee share option scheme									
– Value of employee services	22	**–**	**–**	**–**	**–**	**30,889**	**–**	**–**	**30,889**
– Exercise of share options		**–**	**–**	**54,721**	**–**	**(7,793)**	**–**	**–**	**46,928**
Exchange differences		**–**	**–**	**–**	**–**	**–**	**48,115**	**–**	**48,115**
At 31 March 2009		**288,191**	**(612,949)**	**145,202**	**1,677**	**71,109**	**225,815**	**127,685**	**246,730**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

17. RESERVES *(Continued)*

		Company				
	Note	Contributed surplus	Share premium	Capital reserve	Share-based compensation reserve	Total
At 1 April 2007		288,191	68,285	1,677	18,966	377,119
Employee share option scheme						
– Value of employee services	22	–	–	–	32,047	32,047
– Exercise of share options		–	22,196	–	(3,000)	19,196
At 31 March 2008		288,191	90,481	1,677	48,013	428,362
At 1 April 2008		**288,191**	**90,481**	**1,677**	**48,013**	**428,362**
Employee share option scheme						
– Value of employee services	22	**–**	**–**	**–**	**30,889**	**30,889**
– Exercise of share options		**–**	**54,721**	**–**	**(7,793)**	**46,928**
At 31 March 2009		**288,191**	**145,202**	**1,677**	**71,109**	**506,179**

18 RETAINED EARNINGS

	Year ended 31 March			
	Group		Company	
	2009	2008	**2009**	2008
Beginning of the year	**1,514,572**	890,630	**1,217,784**	31,733
Profit for the year	**1,114,693**	862,145	**329,240**	1,373,027
Appropriations from net profit to reserve fund	**(5,432)**	(51,227)	**–**	–
Final dividend for the year ended 31 March 2007	**–**	(116,397)	**–**	(116,397)
Interim dividend for the six months ended 30 September 2007	**–**	(70,579)	**–**	(70,579)
Final dividend for the year ended 31 March 2008	**(184,540)**	–	**(184,540)**	–
Interim dividend for the six months ended 30 September 2008	**(154,100)**	–	**(154,100)**	–
End of the year	**2,285,193**	1,514,572	**1,208,384**	1,217,784

The Company's profit for the year ended 31 March 2009 included approximately HKD366,034,000 (2008: HKD1,407,496,000) which was dividend income from subsidiaries and eliminated on consolidation.

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19 TRADE AND OTHER PAYABLES

		As at 31 March			
		Group		Company	
	Note	2009	2008	2009	2008
Trade payables	(a)	160,835	162,295	–	–
Due to related parties	31(c)	460,905	174,319	–	–
Wages payable		7,671	3,572	–	–
Other taxes payable		10,954	37,442	–	–
Accrued expenses		5,280	4,319	–	–
Amounts due to the then minority shareholders		–	22,117	–	–
Customer advance payment		10,860	2,086	–	–
Other payables		27,076	13,437	2,081	410
		683,581	419,587	2,081	410

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

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

	As at 31 March	
	Group	
	2009	2008
0 – 90 days	122,427	123,148
91 – 180 days	19,232	37,755
181 – 360 days	6,532	381
Over 360 days	12,644	1,011
	160,835	162,295

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	As at 31 March	
	Group	
	2009	2008
EUR	453	–
USD	15,929	2,425
RMB	144,453	159,870
	160,835	162,295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

20 OTHER INCOME – NET

	Year ended 31 March	
	2009	2008
Sales of raw materials	**761**	32
Government grants	**20,295**	7,170
Exchange gain – net	**17,286**	27,299
Others	**1,315**	6,047
	39,657	40,548

21 EXPENSES BY NATURE

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

		Year ended 31 March	
	Note	**2009**	2008
Depreciation, excluding amounts included in research and development	6	**22,660**	15,942
Amortization	7,8	**27,087**	13,923
Changes in inventories of finished goods and work in progress		**(25,321)**	(6,699)
Raw materials and consumables used		**464,153**	356,472
(Reversal of)/Provision for impairment for trade receivables	13(b)	**(62)**	1,217
Lease rentals		**4,954**	4,965
Auditor's remuneration		**6,269**	5,542
Travelling expenses		**18,562**	15,764
Entertainment expenses		**17,176**	14,331
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	22	**82,454**	55,985
Share option compensation expenses	22	**30,889**	32,047
Research and development			
– Employee benefit expenses	22	**31,234**	18,416
– Depreciation	6	**5,160**	3,153
– Others		**15,274**	9,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

22 EMPLOYMENT BENEFIT EXPENSES

	Note	Year ended 31 March 2009	2008
Wages and salaries		**79,351**	58,216
Pension costs – defined contribution plans	(a)	**12,355**	7,603
Share options granted to directors and employees	21	**30,889**	32,047
Others		**21,982**	8,582
		144,577	106,448

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

22 EMPLOYMENT BENEFIT EXPENSES *(Continued)*

(b) Directors' emoluments

The remuneration of each director for the year ended 31 March 2009 is set out below:

	2009					2008				
Name of director	Fees	Salaries	Employer's contribution to pension scheme	Share options granted to directors	Total	Fees	Salaries	Employer's contribution to pension scheme	Share options granted to directors	Total
Executive director:										
Ms. Chu Lam Yiu	–	–	–	–	–	–	–	–	–	–
Mr. Lau Chi Tak (i)	–	1,438	12	7,145	8,595	–	–	–	–	–
Mr. Chen Yong Chang (ii)	–	–	–	–	–	–	348	17	1,038	1,403
Mr. Poon Chiu Kwok	–	1,501	12	440	1,953	–	1,501	12	1,122	2,635
Mr. Wang Guang Yu	–	358	43	440	841	–	328	34	1,122	1,484
Mr. Xia Li Qun	–	441	22	440	903	–	403	20	1,122	1,545
Mr. Xiong Qing (iii)	–	1,430	12	5,992	7,434	–	220	2	709	931
Independent non-executive directors:										
Mr. Lee Luk Shiu	180	–	–	50	230	120	–	–	128	248
Ms. Ma Yun Yan	180	–	–	50	230	96	–	–	128	224
Mr. Mak Kin Kwong, Peter	180	–	–	50	230	120	–	–	128	248
					20,416					8,718

Notes:

(i) Appointed on 9 April 2008.

(ii) Resigned on 11 February 2008.

(iii) Appointed on 11 February 2008.

No directors waived any emoluments during the years ended 31 March 2009 and 2008.

During the years ended 31 March 2009 and 2008, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

22 EMPLOYMENT BENEFIT EXPENSES *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2008: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining 2 (2008: 3) individuals during the year are as follows:

	Year ended 31 March	
	2009	2008
Basic salaries and allowances	**4,260**	5,116
Contributions to the retirement scheme	**120**	126
Share options granted	**1,675**	2,553
	6,055	7,795

The emoluments fell within the following bands:

	Number of employees	
	2009	2008
Emolument bands		
HKD1,500,001– HKD2,000,000	**–**	1
HKD2,000,001– HKD2,500,000	**1**	1
HKD3,500,001– HKD4,000,000	**1**	1

23 FINANCE INCOME AND FINANCE COSTS

	Year ended 31 March	
	2009	2008
Interest income on bank deposits	**19,551**	14,411
Finance costs (Note 31 (c) (i))	**(7,934)**	–
Finance income – net	**11,617**	14,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

24 INCOME TAX EXPENSE

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

	Note	Year ended 31 March 2009	2008
Current income tax			
– Hong Kong profits tax		–	–
– PRC corporate income tax	(a)	**66,928**	20,923
Deferred income tax assets	11	**(14,709)**	15,305
Deferred income tax liabilities	11	**29,938**	(1,844)
		82,157	34,384

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

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

	Note	April to December 2007	January to December 2008	January to March 2009
Huabao Food Flavours & Fragrances (Shanghai) Company Limited	(v)	18%	15%	15%
Shanghai H&K Flavours & Fragrances Company Limited	(iii)	9%	12.5%	12.5%
Huabao Xianghua Keji Fazhan (Shanghai) Company Limited	(i)	33%	25%	25%
Wuxi Fuhua Flavour & Fragrance Company Limited	(iii)	7.5%	12.5%	12.5%
Wuxi Jiahua Flavour & Fragrance Company Limited	(iii)	7.5%	12.5%	12.5%
Qingdao Huabao Flavors & Fragrances Company Limited	(iii)	0%	0%	0%
Yunnan Tianhong Flavor & Fragrance Company Limited	(iv)	10%	15%	15%
Hua Fang Tobacco Flavors Limited	(ii)	15%	18%	20%
Guangzhou Huasheng Qinghua Limited	(i)	33%	25%	25%
Shanghai Zhezhan Trading Limited	(i)	33%	25%	25%
Shenzhen Dongjiang Chuangzhan Trading Limited	(ii)	15%	18%	20%
Guangdong Zhaoqing Fragrances Limited	(i)	0%	25%	25%
Tai Cang Wen Hua Enterprise Company Limited	(iii)	0%	0%	12.5%
Huashun Flavour (Shanghai) Limited	(iii)	0%	0%	12.5%
Wuxi Hua Xin Flavour & Fragrance Company Limited	(iii)	0%	0%	12.5%
Shanghai Yinghua Flavours & Fragrances Limited	(iii)	0%	0%	12.5%
Guangzhou Huabao Flavour & Fragrance Company Limited	(i)	Not applicable	25%	25%
Wuxi Hua Hai Flavour Company Limited	(iii)	Not applicable	0%	0%
Xiamen Amber Fragrances Co Ltd	(ii)	Not applicable	18%	20%
Fejia Chuangye Additive (Shenzhen) Limited	(iii)	Not applicable	0%	0%
Owada Flavours Technology (Guangzhou) Limited	(i)	Not applicable	25%	25%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

24 INCOME TAX EXPENSE *(Continued)*

(b) *(Continued)*

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

(i) The New CIT Laws stipulates the applicable income tax rate at 25% for domestic enterprises in the PRC.

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

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

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

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

(v) The New CIT Laws also stipulates that the corporate income tax shall be levied at the reduced rate of 15% for High/New Tech Enterprises that are specifically supported by the State.

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

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

	Year ended 31 March	
	2009	2008
Profit before income tax	**1,211,868**	904,000
(Less)/Add:Share of (profit)/loss of associates	**(426)**	312
	1,211,442	904,312
Tax calculated at tax rate applicable to respective group companies	**316,660**	239,581
Effect of tax holiday	**(272,615)**	(208,353)
Tax impact of expenses not deductible for tax purposes	**2,690**	2,630
Utilization of previously unrecognized tax losses	**(2,306)**	(1,700)
Withholding income tax on the dividends anticipated to be remitted by subsidiaries	**34,828**	–
Tax losses for which no deferred income tax assets were recognized	**2,900**	2,226
Income tax expense	**82,157**	34,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

24 INCOME TAX EXPENSE *(Continued)*

Deferred taxation from the tax losses of certain subsidiaries of the Group as at 31 March 2009 amounting to HKD14,813,000 (2008:HKD 6,049,000) are not recognized as the directors consider that there will be no sufficient future taxable profits generated by these subsidiaries to utilize the tax losses in the foreseeable future.

25 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 March 2009 is dealt with in the financial statements of the Company to the extent of approximately HKD329,240,000 (2008: HKD1,373,027,000).

26 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 March	
	2009	2008
Profit attributable to equity holders of the Company	**1,114,693**	862,145
Weighted average number of ordinary shares in issue ('000)	**3,077,276**	3,064,711
Basic earnings per share (HK cents per share)	**36.22**	28.13

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. For the year ended 31 March 2009, the Company has one type of dilutive potential ordinary shares, i.e. share options.

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

	Year ended 31 March	
	2009	2008
Profit attributable to equity holders of the Company	**1,114,693**	862,145
Weighted average number of ordinary shares used to calculate basic earnings per share ('000)	**3,077,276**	3,064,711
Adjustment for:		
– exercise of share options ('000)	**40,105**	53,340
Weighted average number of ordinary shares for diluted earnings per share ('000)	**3,117,381**	3,118,051
Diluted earnings per share (HK cents per share)	**35.76**	27.65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

27 DIVIDENDS

	Year ended 31 March 2009	2008
Interim dividend paid of HK5.0 cents (2008: HK 2.3 cents) per share	**154,100**	70,579
Proposed final dividend of HK 5.8 cents (2008: HK 6.0 cents) per share	**178,919**	184,540
	333,019	255,119
Proposed special dividend of HK 3.0 cents (2008: nil) per share	**92,544**	–
	425,563	255,119

During the year ended 31 March 2009, an interim dividend of approximately HKD154,100,000 (HK5.0 cents per share) (2008: HK2.3 cents per share) has been paid by the Company. A final dividend of HK5.8 cents per share (2008: HK6.0 cents per share), HKD 178,919,000 (2008: HKD184,540,000) in aggregate, together with a special dividend HK3.0 cents per share (2008: nil), HKD 92,544,000 in aggregate, are proposed at the meeting of the Board held on 18 June 2009 which is subject to the shareholders' approval in the forthcoming annual general meeting. These consolidated financial statements do not reflect these dividends payable.

28 BUSINESS COMBINATIONS

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

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

The acquired business contributed revenue of HKD55,748,000 and net profit of HKD10,592,000 to the Group for the period from May 2008 to 31 March 2009.

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

Details of net assets acquired and goodwill are as follows:

	Total
Purchase consideration:	
Consideration – cash paid	61,558
Direct expenses relating to the acquisition	578
Total purchase consideration	62,136
Fair value of identifiable net assets acquired – shown below	(12,518)
Goodwill (Note 8)	49,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

28 BUSINESS COMBINATIONS *(Continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

29 CASH GENERATED FROM OPERATIONS

	Note	Year ended 31 March 2009	2008
Profit before income tax		**1,211,869**	904,000
Adjustments for:			
– Depreciation	6	**27,820**	19,095
– Amortization	7,8	**27,087**	13,923
– Interest expenses	23	**7,934**	–
– Interest income	23	**(19,551)**	(14,411)
– Share of (profit)/loss of associates	10	**(426)**	312
– (Reversal of)/Provision for impairment for trade receivables	21	**(62)**	1,217
– Loss on disposal of property, plant and equipment		**30**	67
– Share option compensation expenses	22	**30,889**	32,047
– Exchange gain-net	20	**(17,286)**	(27,299)
Changes in working capital:			
– Inventories		**(31,668)**	(46,802)
– Trade and other receivables		**10,797**	26,032
– Trade and other payables		**(95,420)**	(8,799)
Net cash generated from operations		**1,152,013**	899,382

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

	Note	Year ended 31 March 2009	2008
Net book amount	6	**484**	367
Loss on disposal of property, plant and equipment		**(30)**	(67)
Proceeds from disposal of property, plant and equipment		**454**	300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

30 COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet dates but not yet incurred are as follows:

	As at 31 March	
	2009	2008
Property, plant and equipment:		
Contracted but not provided for	**5,671**	13,550

(b) Operating lease commitments

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

	As at 31 March	
	2009	2008
Land and buildings:		
Not later than 1 year	**5,778**	4,980
Later than 1 year and not later than 5 years	**3,393**	5,580
	9,171	10,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

31 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Ms. Chu	The ultimate controlling shareholder of the Company
Owada International Flavours & Fragrances (Guangzhou) Limited ("Owada International")	A company controlled by Ms. Chu
Henan Jinrui	An associate indirectly held by the Company
Weihai Huayuan	An associate indirectly held by the Company
F&G (Botswana) (Proprietary) Limited ("F&G")	A company controlled by Ms. Chu

(b) Transactions with related parties

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

	Year ended 31 March	
	2009	2008
Sales of goods, net of value-added tax, to:		
– Henan Jinrui	**550**	–
– Weihai Huayuan	**42**	9,286
	592	9,286
Purchase of raw materials from:		
– F&G	**12,362**	–
– Owada International	**3,565**	–
– Weihai Huayuan	**52**	10,572
	15,979	10,572
Interest expense to:		
– Ms. Chu	**7,869**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

31 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

	Note	As at 31 March 2009	2008
Balances due from related parties:			
Included in trade receivables			
– Henan Jinrui		**150**	–
– Weihai Huayuan		**80**	9,233
		230	9,233
Balances due to related parties:			
Included in trade payables			
– F&G		**9,635**	–
– Owada International	(ii)	**16,606**	–
– Weihai Huayuan		**37**	8,003
		26,278	8,003
Included in non-trade payables			
– Ms. Chu	19, 31(i)	**460,905**	174,319

(i) All the balances with related parties were unsecured, interest-free and repayable on demand, except for the remaining consideration payable to Ms. Chu of approximately HKD299,050,000, which is interest bearing at 9-month HIBOR per annum and due for payment by 30 June 2009, and this amount is related to the Acquisition of Wealthy King Group at a consideration of HKD870,550,000 as mentioned in Note 1.

(ii) The balances represent payables to Owada International by Wealthy King Group for purchasing inventory from Owada International before the Acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

32 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Aromascape Development Centre GmbH	Germany	EUR25,000	–	100	Research and development of flavours & fragrances
Bright Joy Enterprises Limited[C1]	British Virgin Islands	USD1	100	–	Investment holding
Central Link Inc. Limited[C1, X1]	Hong Kong	HKD1	–	100	Investment holding
Chemactive Investments Limited[C1]	British Virgin Islands	USD2	100	–	Investment holding
Delight Zone International Limited[C1]	Hong Kong	HKD1	–	100	Investment holding
Feijia Chuangye Additive (Shenzhen) Limited	PRC*	HKD1,000,000	–	100	Technical research & development, distribution, import & export of flavours & fragrances & related business
Future Dragon International Limited[C1]	British Virgin Islands	USD1	–	100	Investment holding
Guangdong Zhaoqing Fragrances Limited	PRC*	RMB11, 000,000	–	100	Manufacturing & sales of food flavours & fragrances
Guangzhou Huabao Flavour & Fragrances Company Limited[L1, X1, X2]	PRC*	RMB10, 000,000	–	100	Research, development, manufacturing & sales of flavours & fragrances
Hero Ace Limited[C1]	Hong Kong	HKD1	100	–	Provision of management services
Hua Fang Tobacco Flavors Limited[C1, W1]	PRC*	USD4,000,000	–	51	Manufacturing & sales of tobacco flavours & fragrances
Huabao Flavours & Fragrances (HK) Limited[C1]	Hong Kong	HKD3,000,000	–	100	Research, development, manufacturing & sales of flavours & fragrances
Huabao Food Flavours & Fragrances (Shanghai) Company Limited[W1, X1, X2]	PRC*	USD10,000,000	–	100	Manufacturing & sales of tobacco flavours & fragrances
Huabao Industrial & Trading Development (HK) Limited[C1, X1]	Hong Kong	HKD10,000	–	100	Investment holding
Huabao Investment Company Limited[C1]	British Virgin Islands	USD1	100	–	Investment holding
Huabao Xianghua Keji Fazhan (Shanghai) Company Limited[C1, W1, W2, X1]	PRC*	USD2,100,000	–	100	Research and development of flavours & fragrances
Huashun Flavour (Shanghai) Limited[W1, W2, X1]	PRC*	USD1,000,000	–	100	Manufacture and sale of fine chemicals
Nocton International Limited[C1]	British Virgin Islands	USD1	–	100	Investment holding
Owada Flavour Technology (Guangzhou) Limited	PRC*	HKD60,000,000	–	100	Research, development, production and sale of tobacco flavours & fragrances

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

32 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation	Nominal value of issued/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Pacific Top Enterprises Limited[C1]	Hong Kong	HKD1	–	100	Investment holding
Power Success International Development Limited[C1, X1]	Hong Kong	HKD1	–	100	Investment holding
Profit Fortune Holdings Limited	British Virgin Islands	USD2	–	100	Investment holding
Rich Million Investments Limited[C1]	Hong Kong	HKD1	–	100	Investment holding
Rich Success Investment Development Limited[C1, X1]	Hong Kong	HKD1	–	100	Investment holding
Shanghai H&K Flavours & Fragrances Company Limited[L1, L2, W1, X1]	PRC*	RMB100,000,000	–	100	Manufacturing & sales of food flavours & fragrances
Shanghai Yinghua Flavours & Fragrances Limited	PRC*	HKD1,000,000	–	100	Sales of tobacco flavours & fragrances
Sino Prospect Holdings Limited[C1]	British Virgin Islands	USD1	–	100	Investment holding
Sino Top Trading Limited[C1]	Hong Kong	HKD100	–	100	Trading of fine chemicals
Smart Sino International Limited[C1, X1]	Hong Kong	HKD10,000	–	100	Investment holding
Spanby Industrial Limited[C1]	British Virgin Islands	USD1,195	–	100	Investment holding
Symhope Investment Limited[C1]	British Virgin Islands	USD100	–	100	Investment holding
Tai Cang Wen Hua Enterprise Company Limited[W1, X1, X2]	PRC*	USD 1,200,000	–	100	Production and sale of tobacco flavours & fragrances
Winning Right Limited[C1]	British Virgin Islands	USD1	100	–	Investment holding
Wisdom Bright International Investment Limited[C1, X1]	Hong Kong	HKD1	–	100	Investment holding
Wuxi Fuhua Flavour & Fragrance Company Limited.[W1, W2, X1]	PRC*	USD 7,000,000	–	100	Production and sale of tobacco flavours & fragrances
Wuxi Hua Hai Flavour Company Limited[W1, W2, X1]	PRC*	USD650,000	–	100	Production and sale of tobacco flavours & fragrances
Wuxi Hua Xin Flavour & Fragrance Company Limited[W1,X1,X2]	PRC*	USD1,000,000	–	100	Production and sale of tobacco flavours & fragrances
Wuxi Jiahua Flavour & Fragrance Company Limited[W1, W2, X1]	PRC*	RMB60, 000,000	–	100	Production and sale of tobacco flavours & fragrances
Xiamen Amber Fragrances Co., Ltd.[L1, L2]	PRC*	RMB10, 000,000	–	51	Research, development, production and sale of fragrances
Yunnan Tianhong Flavor & Fragrance Company Limited[C1, C2]	PRC*	USD2,250,000	–	60	Production and sale of tobacco flavours & fragrances

* All entities incorporated in PRC are identified as "Limited Liability Company".

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				
	2005	2006	2007	2008	**2009**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	***HKD'000***
Turnover	730,173	779,018	1,013,229	1,419,137	**1,938,443**
Gross profit	179,707	368,482	704,146	1,063,148	**1,460,971**
Profit before income tax	113,441	300,025	578,662	904,000	**1,211,868**
Income tax expenses	(11,060)	(9,968)	(1,435)	(34,384)	**(82,157)**
Profit for the year	102,381	290,057	577,227	869,616	**1,129,711**

ASSETS AND LIABILITIES

	As at 31 March				
	2005	2006	2007	2008	**2009**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*	***HKD'000***
Total assets	769,983	875,748	1,462,991	2,477,381	**3,751,580**
Total liabilities	(344,138)	(423,810)	(322,087)	(455,404)	**(817,388)**
Shareholders' funds	425,845	451,938	1,140,904	2,021,977	**2,934,192**

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

GLOSSARY

ACIS	Member of Institute of Chartered Secretaries and Administrators
ACS	Member of Hong Kong Institute of Chartered Secretaries
AGM	Annual general meeting
Amber	Xiamen Amber Perfumery Co., Ltd
Aromascape R&D Centre	Aromascape Devlopment Centre GmbH
Board	Board of the Company
Bye-laws	Bye-laws of the Company
CAFFCI	China Association of Fragrance Flavour and Cosmetic Industry
CAGR	Compound Annual Growth Rate
Case	Every master case contains 50,000 cigarettes of cigarettes
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG Code	Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
CG Report	Corporate Governance Report as set out on pages 36 to 43 of this annual report
Chemactive Investments	Chemactive Investments Limited
China or Mainland	Mainland of the PRC
Company or Huabao	Huabao International Holdings Limited
Director(s)	Director(s) of the Company
EPS	Earnings per share
FCCA	Fellow member of Association of Chartered Certified Accountants
FCPA	Fellow member of Hong Kong Institute of Certified Public Accountants
Fejia Chuangye	Fejia Chuangye Additive (Shenzhen) Limited
F&G	F&G (Botswana) (Proprietary) Limited
Group or Huabao Group	the Company and its subsidiaries
Guangdong Zhaoqing	Guangdong Zhaoqing Fragrances Limited
Guangzhou Huabao	Guangzhou Huabao Flavours & Fragrances Co Ltd.
Guangzhou Huafang	Hua Fang Tobacco Flavors Ltd.
HKAS	Hong Kong Accounting Standards
HKD	Hong Kong dollars
HKFRS	Hong Kong Financial Reporting Standard
HK(IFRIC)-Int	Hong Kong (IFRIC) Interpretations
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
Hongta Tobacco Group	Hongta Tobacco (Group) Limited Liability Company
Huabao Hong Kong	Huabao Flavours & Fragrances (HK) Ltd.
Huabao Keji	Huabao Xianghua Keji Fazhan (Shanghai) Co. Ltd.
Huabao Shanghai	Huabao Food Flavours & Fragrances (Shanghai) Co Ltd.
Huabao Kongque	Shanghai H&K Flavours & Fragrances Co Ltd.
Huashun Shanghai	Huashun Flavour (Shanghai) Limited
INED(s)	Independent Non-executive Director(s) of the Company

Glossary

KPI	key performance indicators
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
M&A	Merger and acquisition
mg	milligram
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
Owada	Owada Flavours Technology (Guangzhou) Limited
PRC	The People's Republic of China
Qingdao Huabao	Qingdao Huabao Flavours & Fragrances Co Ltd.#
RMB	Renminbi
R&D	Research and development
Scheme Mandate Limit	The maximum number of Shares in respect of which share options may be granted under the Share Option Scheme and any other share option scheme(s) of the Company
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance of the Laws of HKSAR
SGM	Special general meeting
Shanghai Yinghua	Shanghai Yinghua Flavours & Fragrances Ltd.
Shareholder(s)	Shareholder(s) of the Company
Share(s)	Ordinary share(s) of HKD0.10 each of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
Taicang Wenhua	Tai Cang Wen Hua Enterprises Co Ltd.
USD	US dollars
Wealthy King Group	Wealthy King Investments Limited and its subsidiaries
Win New Group	Win New Group Limited and its subsidiaries
Wuxi Fuhua	Wuxi Fuhua Flavour & Fragrance Co Ltd.
Wuxi Huahai	Wuxi Hua Hai Flavour Co Ltd.
Wuxi Huaxin	Wuxi Hua Xin Flavour & Fragrance Co Ltd.
Wuxi Jiahua	Wuxi Jiahua Flavour & Fragrance Co Ltd.
Yunnan Tianhong	Yunnan Tianhong Flavour & Fragrance Co Ltd.

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