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

(Incorporated in Bermuda with limited liability)

(Stock Code: 336)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2008

FINANCIAL HIGHLIGHTS

- Sales increased by approximately 40% to HKD1,419,137,000
- Gross profit increased by approximately 51% to HKD1,063,148,000
- Profit attributable to the equity holders of the Company increased by approximately 52% to HKD862,145,000
- Basic earnings per share increased by approximately 41% to HK28.13 cents
- Final dividend per share increased by approximately 58% to HK6.0 cents

The Group has achieved outstanding results in the past three years.

- Realized rapid growth in sales with a 3 years' compound annual growth rate ("CAGR") of 35.0%
- Realized rapid growth in gross profit with a 3 years' CAGR of 70.0%
- Delivered dramatically lift in results with over twice increase during the last 3 years
- Generated significant returns for shareholders with a 3 years' CAGR of diluted earnings per share of 70.3%
- Strong cash flow, no borrowing from financial institution; with CAGR of net cash generated from operating activities of 65.1% in the past 3 years

	For the year ended 31 March		
	2008	2007	Growth
	HK$'000	*HK$'000*	
Sales	**1,419,137**	1,013,229	+40.1%
Gross profit	**1,063,148**	704,146	+51.0%
Operating profit	**889,901**	574,992	+54.8%
Profit after tax	**869,616**	577,227	+50.7%
Profit attributable to the equity holders of the Company	**862,145**	567,031	+52.0%
Net cash generated from operating activities	**871,964**	635,795	+37.1%
	HK cents	*HK cents*	
Earnings per share			
– Basic	**28.13**	19.91	+41.3%
– Diluted	**27.65**	18.66	+48.2%
Final dividend per share	**6.0**	3.8	+57.9%

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company") is pleased to announce the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2008 with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 March 2008 HK$'000	2007 HK$'000 (Restated)
Sales	3	**1,419,137**	1,013,229
Cost of goods sold	4	**(355,989)**	(309,083)
Gross profit		**1,063,148**	704,146
Other income – net	5	**40,548**	10,713
Selling and marketing expenses	4	**(58,348)**	(44,331)
Administrative expenses	4	**(155,447)**	(95,536)
Operating profit		**889,901**	574,992
Finance income		**14,411**	5,939
Finance costs		**–**	(2,441)
Finance income – net	6	**14,411**	3,498
Share of (loss)/profit of an associate	7	**(312)**	172
Profit before income tax		**904,000**	578,662
Income tax expense	8	**(34,384)**	(1,435)
Profit for the year		**869,616**	577,227
Attributable to:			
Equity holders of the Company		**862,145**	567,031
Minority interest		**7,471**	10,196
		869,616	577,227
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in HK cents per share)*			
– Basic	9(a)	**28.13**	19.91
– Diluted	9(b)	**27.65**	18.66
Dividends	10	**254,726**	171,172

CONSOLIDATED BALANCE SHEET

	Note	As at 31 March 2008 HK$'000	2007 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**198,878**	155,171
Leasehold land and land use rights		**24,887**	14,318
Intangible assets		**699,959**	11,992
Investment in an associate	*7*	**3,663**	3,975
Deferred income tax assets	*11*	**12,345**	26,022
		939,732	211,478
Current assets			
Inventories		**136,862**	61,871
Trade and other receivables	*12*	**429,192**	331,148
Cash and cash equivalents		**971,595**	858,494
		1,537,649	1,251,513
Total assets		**2,477,381**	1,462,991
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**306,911**	306,269
Reserves		**130,748**	(116,910)
Retained earnings			
– Proposed final dividend		**184,147**	116,397
– Others		**1,330,425**	774,233
		1,952,231	1,079,989
Minority interest		**69,746**	60,915
Total equity		**2,021,977**	1,140,904
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*11*	**30,701**	–
Current liabilities			
Trade and other payables	*13*	**419,587**	311,156
Current income tax liabilities		**5,116**	10,931
		424,703	322,087
Total liabilities		**455,404**	322,087
Total equity and liabilities		**2,477,381**	1,462,991
Net current assets		**1,112,946**	929,426
Total assets less current liabilities		**2,052,678**	1,140,904

Notes:

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

2. BASIC 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.

(a) Application of merger accounting

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

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

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

HKFRS 7	'Financial Instruments: Disclosures'
Amendment to HKAS 1	'Presentation of Financial Statements – capital disclosures'
HK(IFRIC)-Int 8	'Scope of HKFRS 2'
HK(IFRIC)-Int 10	'Interim Financial Reporting and Impairment'
HK(IFRIC)-Int 11	'Scope of HKFRS 2 – Group and Treasury Share Transaction'

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

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

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

HKAS 1 (Revised)	'Presentation of Financial Statements' (effective from 1 January 2009)
HKAS 23 (Amendment)	'Borrowing Costs' (effective from 1 January 2009)
HKFRS 8	'Operating Segments' (effective from 1 January 2009)
HKAS 27 (Revised)	'Consolidated and Separate Financial Statements' (effective from 1 July 2009)
HKFRS 3 (Revised)	'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009)
HKFRS 2 (Amendment)	'Share-based Payment Vesting Conditions and Cancellations' (effective from 1 January 2009)

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

HK(IFRIC)-Int 12	'Service concession arrangements' (effective from 1 January 2008)
HK(IFRIC)-Int 13	'Customer Loyalty Programmes' (effective from 1 July 2008)
HK(IFRIC)-Int 14	'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective from 1 January 2008)

3. TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format – business segments

As at 31 March 2008, the Group is organized into three main business segments:

(1) Production and sale of tobacco flavours;

(2) Production and sale of food flavours; and

(3) Trading of fine chemicals products.

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

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

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

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

	Year ended 31 March 2007				
	Tobacco flavours *HK$'000*	Food flavours *HK$'000*	Fine chemicals products *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total turnover	900,576	103,684	11,366	4,378	1,020,004
Inter-segment sales	(67)	(2,768)	–	(3,940)	(6,775)
Net turnover	900,509	100,916	11,366	438	1,013,229
Operating profit/Segment result	600,544	13,957	(1,042)	(38,467)	574,992
Finance income					5,939
Finance cost					(2,441)
Finance income – net					3,498
Share of profit of an associate					172
Profit before income tax					578,662
Income tax expense					(1,435)
Profit for the year					577,227
Segment assets	1,235,714	154,795	5,318	67,164	1,462,991
Segment liabilities	291,236	27,841	2,467	543	322,087
Other segment items					
Capital expenditure	15,253	1,702	32	157	17,144
Depreciation	12,141	508	14	666	13,329
Amortization	412	928	–	–	1,340
Reversal of impairment provision for trade receivables *(note 4)*	(1,963)	–	–	–	(1,963)

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

Segment liabilities comprise operating liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

(b) Secondary reporting format – geographical segments

More than 99% of the Group's activities are carried out in the PRC and more than 90% of the Group's assets and liabilities are located and incurred in the PRC, respectively. Accordingly, no additional information on geographical segment is presented.

4. 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	
	2008	2007
	HK$'000	*HK$'000*
Depreciation, excluding amounts included in research and development	**15,942**	9,889
Amortization	**13,923**	1,340
Changes in inventories of finished goods and work in progress	**(6,699)**	18,567
Raw materials and consumables used	**356,472**	284,383
Provision for/(Reversal of) impairment for trade receivables	**1,217**	(1,963)
Lease rentals	**4,965**	3,830
Auditors' remuneration	**5,542**	3,753
Travelling expenses	**15,764**	10,559
Entertainment expenses	**14,331**	9,744
Employee benefit expenses, excluding share option compensation expenses and amounts included in research and development	**55,985**	28,471
Share option compensation expenses	**32,047**	28,199
Research and development		
– Employee benefit expenses	**18,416**	9,303
– Depreciation	**3,153**	3,440
– Others	**9,529**	8,069

5. OTHER INCOME – NET

		Year ended 31 March	
	Note	**2008**	2007
		HK$'000	*HK$'000*
Sales of raw materials		**32**	98
Government grants	*5(a)*	**7,170**	1,687
Waive of other payables		**5,787**	–
Exchange gain – net		**27,299**	6,683
Others		**260**	2,245
		40,548	10,713

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

6. FINANCE INCOME AND FINANCE COST

		Year ended 31 March	
	Note	**2008**	2007
		HK$'000	*HK$'000*
Interest income on bank deposits		**14,411**	5,939
Interest expense on liability component of preference shares	*9(b)*	**–**	(2,441)
Finance income – net		**14,411**	3,498

7. INVESTMENT IN AN ASSOCIATE

	Year ended 31 March	
	2008	2007
	HK$'000	*HK$'000*
Beginning of the year	**3,975**	3,924
Share of (loss)/profit of an associate	**(312)**	172
Exchange differences	**–**	(121)
End of the year	**3,663**	3,975

8. INCOME TAX EXPENSE

		Year ended 31 March	
	Note	**2008**	2007
		HK$'000	*HK$'000*
Current income tax			
– Hong Kong profits tax	*8(a)*	**–**	132
– PRC enterprise income tax	*8(b)*	**20,923**	24,910
Deferred income tax assets	*11*	**15,305**	(23,607)
Deferred income tax liabilities	*11*	**(1,844)**	–
		34,384	1,435

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

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

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

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

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

9. EARNINGS PER SHARE

(a) Basic

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

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

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been converted. For the year ended 31 March 2008, the Company has one type of dilutive potential ordinary shares (i.e. share options).

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

		Year ended 31 March	
	Note	**2008**	2007
Profit attributable to equity holders of the Company *(HK$'000)*		**862,145**	567,031
Interest expense on liability component of preference shares *(HK$'000)*	*6*	**–**	2,441
Profit used to calculate diluted earnings per share *(HK$'000)*		**862,145**	569,472
Weighted average number of ordinary shares used to calculate basic earnings per share *('000)*		**3,064,711**	2,847,930
Adjustments for:			
– conversion of original convertible preference shares *('000)*		**–**	179,002
– exercise of warrants *('000)*		**–**	15,911
– exercise of share options *('000)*		**53,340**	8,770
Weighted average number of ordinary shares for diluted earnings per share *('000)*		**3,118,051**	3,051,613
Diluted earnings per share *(HK cents per share)*		**27.65**	18.66

10. DIVIDENDS

	Year ended 31 March	
	2008	2007
	HK$'000	*HK$'000*
Interim dividend paid of HK2.3 cents (2007: HK1.8 cents) per share	**70,579**	54,775
Proposed final dividend of HK6.0 cents (2007: HK3.8 cents) per share	**184,147**	116,397
	254,726	171,172

During the year ended 31 March 2008, an interim dividend of approximately HKD70,579,000 (HK2.3 cents per share) (2007: HK1.8 cents per share) has been paid by the Company. A final dividend of HK6.0 cents per share (2007: HK3.8 cents per share), HKD184,147,000 in aggregate (2007: HKD116,397,000), is proposed at the meeting of the Board held on 18 June 2008 which is subject to the shareholders' approval in the forthcoming annual general meeting. These consolidated financial statements do not reflect this dividend payable.

11. DEFERRED INCOME TAX ASSETS/LIABILITIES

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**	**Revaluation surplus of assets and recognition of intangible assets**
		HK$'000	*HK$'000*
At 1 April 2006		1,735	–
Recognized in the income statement	*8*	23,607	–
Exchange differences		680	–
At 31 March 2007		26,022	–
Combination of Win New Group		–	29,854
Recognized in the income statement	*8*	(15,305)	(1,844)
Exchange differences		1,628	2,691
At 31 March 2008		**12,345**	**30,701**

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

Deferred income tax liabilities were originally presented in the consolidated financial statements of Win New Group arising from the revaluation surplus of property, plant and equipment, leasehold land and land use right, as well as recognition of intangible assets as a result of various acquisitions before the combination of Win New Group with the Company. As at 31 March 2008, deferred income tax liabilities of approximately HK$2,013,000 are expected to be settled within 12 months from the balance sheet date.

12. TRADE AND OTHER RECEIVABLES

	Note	As at 31 March 2008 HK$'000	2007 HK$'000
Trade receivables	*12(b)*	**377,554**	272,954
Less: Provision for impairment of receivables		**(2,100)**	(905)
Trade receivables – net		**375,454**	272,049
Bills receivables		**40,471**	47,452
Prepayments and other receivables		**2,832**	2,579
Advances to staff		**3,973**	1,731
Others		**6,462**	7,337
		429,192	331,148

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

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

	As at 31 March 2008 HK$'000	2007 HK$'000
0 – 90 days	**337,591**	244,312
91 – 180 days	**24,074**	23,379
181 – 360 days	**12,256**	3,773
Over 360 days	**3,633**	1,490
	377,554	272,954

13. TRADE AND OTHER PAYABLES

	Note	As at 31 March 2008 HK$'000	2007 HK$'000
Trade payables	*13(a)*	**162,295**	80,329
Due to related parties	*13(b)*	**174,319**	174,441
Wages payable		**3,572**	2,834
Other taxes payable		**37,442**	37,052
Accrued expenses		**4,319**	3,142
Amounts due to the then minority shareholders	*13(c)*	**22,117**	–
Other payables		**15,523**	13,358
		419,587	311,156

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

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

	As at 31 March	
	2008	2007
	HK$'000	*HK$'000*
0 – 90 days	**123,148**	77,660
91 – 180 days	**37,755**	1,876
181 – 360 days	**381**	793
Over 360 days	**1,011**	–
	162,295	80,329

(b) Due to related parties

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

(c) Amounts due to the then minority shareholders

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of the tobacco flavours business

1. Review of results

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

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

2. *Recent development in tobacco industry*

China is the largest cigarette consumption country, accounting for approximately one-third of the total consumption in the world. China consumes over 2 trillion cigarettes each year. In recent years, China's tobacco industry has been growing steadily, with around 4.6% CAGR in sales volume. In 2007, the sales of cigarettes in the industry amounted to 2,141 billion cigarettes, representing an increase of approximately 5.9% over the same period last year. The tobacco industry continuous to play a significant role in China's national economy, contributing approximately RMB388 billion tax revenues in 2007, which was about 7.65% of the state's fiscal revenue and represented an increase of 33.8% compared with approximately RMB290 billion last year.

- *Increasing concentration in the tobacco industry*

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

- *Tobacco industry appeared a trend for high-end product*

  The tobacco industry in China appeared a development trend for high-end product, as mainly reflected by the increasing average price. From 2002 to 2006, the CAGR of sales revenue in tobacco industry was about 7.7%, which was higher than the CAGR in the sale volume of tobacco industry of about 4.6% in recent years. In 2007, the top ten brands accounted for approximately 41.2% in total sales, which exceeds the proportion it took in the sales volume of approximately 37.8%. The production of low-end tobacco products is declining constantly. The total production volume of the low-end tobacco cigarettes amounted to approximately 700 billion cigarettes, decreased by approximately 7.6% than that in 2006. High-end or super high-end cigarettes have been growing rapidly in the recent years. Tobacco flavour plays a very important role in the trend of high-end brand, the management believes that China's tobacco industry will expedite the high-end trend in the later stage of industry consolidation, bringing more room for the growth of the tobacco flavour segment.

- *Development trend of healthier Chinese style cigarettes*

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

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

3. Development strategy of tobacco flavours

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

- Utilize the technical advantages to capture new opportunities brought from the trend of high-end brand, healthier product in China tobacco industry; to develop new products with larger market potential and to further expand the sales revenue.

- With regard to raw materials, actively develop natural extraction technologies to further enhance the competitiveness of the products.

- Establish technological exchange and cooperation with the leading players in the tobacco industry and increasingly promote the application of tobacco flavours in cigarette production.

- Consolidate flavours companies via mergers and acquisitions ("M&As") so as to maintain the Group's strategic position in the sector.

- Develop overseas markets and launch competitive products into the international market, especially Southeast Asia; allocate more resources to the research of overseas tobacco markets to follow the overseas development strategy of the Chinese tobacco companies.

Review of the food flavours business

1. Review of results

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

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

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

2. *Recent development in the food and beverage industry*

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

(1) Continuous increase in total consumption

According to 'Euromonitor International', the sales of packaged food in China has increased from approximately RMB364.5 billion in 2001 to approximately RMB578.2 billion in 2006, representing a CAGR of approximately 9.7%.

(2) Continuous increase in diversity and improvement in tailor-made products

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

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

- Sustained rapid growth of total consumption

- Further development of tailor-made, localized tastes and diversified styles of products, especially the traditional Chinese food mainly in savoury taste

- Increasing concern about food safety

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

3. *Development strategy of food flavours*

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

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

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

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

- *In respect of research and development ("R&D"):* bring product R&D in line with international technologies. Introduce world calibre researchers and developers, give full play to the knowledge of China's native technical staff about taste of Chinese customers and the China market, and integrate with international technologies.

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

- *In respect of M&As:* be attentive to industry development, keep close eye on the flavours and fragrances industry, and duly acquire and merge enterprises whose products and market are complementary with the Group, thereby achieving rapid growth.

Development of fragrances business

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

1. *An overview of the daily chemical industry in China*

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

2. *The value of Amber to the Group*

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

3. *Development strategy of fragrances*

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

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

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

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

Review on research and development

The corporate technical centre of the Group, which has been granted as the only State-recognized technical centre in the China's flavours and fragrances industry since 2003, represents the most advanced technical research and development in the domestic industry. In January 2007, the R&D centre in Germany commenced operation, enabling the research level of the Group to be directly converged with the international advanced technological level and further strengthening our R&D capabilities and product competitiveness. The R&D strategy of the Group has always been market-driven to closely trace the latest industry trends globally and to accelerate to master the key raw material technology. Moreover, the Group developed products and technologies that suits the market demand, provided a comprehensive technical service for customers, and devoted in creating more value for clients.

Future prospects

Economic development of China maintains a strong growth momentum

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

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

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

Development Strategy

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

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

Growth of the existing businesses

- Tobacco flavours: Leverage on the strengths in products and technologies, further strengthen the cooperation with market leaders in tobacco industry, further expand its market share in leading tobacco companies and in famous and quality brands, and keep identifying new applications of tobacco flavours

- Food flavours: step up the development of savoury flavours, develop new products, and expand direct sales

- Fragrances: speed up the integration of Amber to make it bigger and stronger

- Upstream raw materials: Develop its unique advantages in raw materials to further enhance its core competitiveness of the products

Aggressively seek the opportunities for M&As

- Tobacco flavours: Further strengthen the strategic position in the industry through M&As

- Food flavours: Further enhance industry leadership through M&As

- Fragrances: Further enlarge the scale through M&As

Further progress globalization

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

FINANCIAL REVIEW

Analysis of consolidated results for the year ended 31 March 2008

Sales

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

Cost of sales

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

Gross profit and gross profit margin

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

Other income

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

Selling and marketing expenses

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

Administrative expenses

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

Operating profit

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

Income tax expenses

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

Net current assets and financial resources

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

The Group had no outstanding bank loans.

Investing activities

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

Financing activities

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

Debtors' turnover period

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

Creditors' turnover period

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

Inventory and inventory turnover period

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

Foreign exchange and exchange rate risk

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

Contingent liabilities

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions under the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules during the year ended 31 March 2008 except for the deviations from the following code provisions:

- A.2.1, recommends the separation of roles of chairman and chief executive officer ("CEO"). However, in view of good corporate governance practices, the Company has separated the roles of chairman and CEO with effect from 9 April 2008. The division of responsibilities between the chairman and CEO were clearly established as well; and

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors and relevant employees (as defined in the Listing Rules) of the Company. Having made specific enquiry to all directors and relevant employees, all directors and relevant employees confirmed that they have complied with the required standard as set out in the Model Code throughout the current year.

Further explanations are set out in the Corporate Governance Report as contained in the Company's annual report.

FINAL DIVIDENDS

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

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 29 July 2008 to 1 August 2008, both days inclusive, during which no transfer of shares will be effected. All transfers of shares accompanied by relevant share certificate must be lodged with the Company's Branch Share Registrars, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road, Wanchai, Hong Kong not later than 4:00 p.m. on 28 July 2008 in order to qualify for the final dividend.

EMPLOYEES AND REMUNERATION POLICY

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

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

To bring the Group to world heights in both 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 and other fringe benefits, and grants awards to the employees based on their performance. The Group is also executing a share option scheme to reward employees (including directors) who have made significant contributions to the business development of the Group. The Group granted a total of 17,500,000 share options again to 16 persons, including a director, senior executives, technicians and business executives. Including the share options granted in last year, the Group has granted a total of 145,100,000 share options to 78 employees (including directors). The Group endeavours to provide its employees with good work and policy environment for their better growth and development, guide them towards common values, encourage innovation and cooperation among them, and provide them with diversified trainings to improve their qualifications, thereby achieving mutual growth of both the employees and the Group.

DIRECTORS' BUSINESSES COMPETING WITH THOSE OF THE COMPANY

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

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.

AUDIT COMMITTEE

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

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the Group's audited annual results for the year ended 31 March 2008.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Stock Exchange (www.hkex.com.hk) as well as the website of the Company (www.huabao.com.hk). The 2007-08 annual report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu (Chairman), Mr. LAU Chi Tak (CEO), Mr. POON Chiu Kwok, Mr. WANG Guang Yu, Mr. XIA Li Qun, Mr. XIONG Qing, and three independent non-executive directors, namely Mr. MAK Kin Kwong, Peter, Ms. MA Yun Yan and Mr. LEE Luk Shiu.

By Order of the Board
CHU Lam Yiu
Chairman

18 June 2008

* *For identification purpose only*