China Flavors and Fragrances Company Limited
中國香精香料有限公司

(Incorporated in the Cayman lslands with limited liability)

(Stock Code: 3318)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

The board of directors (the "Board" or the "Directors") of China Flavors and Fragrances Company Limited (the "Company") are pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2005**	2004
Sales	*1*	**221,667**	158,539
Cost of goods sold	*2*	**(80,348)**	(54,795)
Gross profit		**141,319**	103,744
Other gains-net	*1*	**3,978**	447
Selling and marketing expenses	*2*	**(35,694)**	(28,455)
Administrative expenses	*2*	**(33,620)**	(25,351)
Operating profit		**75,983**	50,385
Finance costs	*3*	**(3,242)**	(3,570)
Profit before income tax		**72,741**	46,815
Income tax expense	*4*	**(12,978)**	(4,338)
Profit attributable to equity holders of the Company		**59,763**	42,477
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	*5*	**0.20**	0.14
Dividends	*6*	**–**	39,430

CONSOLIDATED BALANCE SHEET
(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment		**50,982**	49,334
Land use right		**2,048**	2,092
		53,030	51,426
Current assets			
Inventories		**26,671**	25,146
Trade and other receivables	*7*	**98,772**	71,418
Cash and cash equivalents		**152,800**	21,283
		278,243	117,847
Total assets		**331,273**	169,273
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**41,600**	2,080
Other reserves		**115,546**	47,968
Retained earnings		**85,524**	25,761
Total equity		**242,670**	75,809
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	40
Deferred grants		**1,630**	2,037
		1,630	2,077
Current liabilities			
Trade and other payables	*8*	**35,908**	29,713
Current income tax liabilities		**5,701**	3,079
Borrowings		**45,364**	58,595
		86,973	91,387
Total liabilities		**88,603**	93,464
Total equity and liabilities		**331,273**	169,273
Net current assets		**191,270**	26,460
Total assets less current liabilities		**244,300**	77,886

Notes:

1. Turnover and other gains

The Group is principally engaged in manufacturing and sale of flavours and fragrances. Turnover and other gains recognised during the year are as follows:

	2005	2004
Turnover		
Sales of goods	**221,667**	158,539
Other gains – net		
Interest income	**922**	44
Government grants	**2,828**	291
Sales of raw materials	**228**	112
	3,978	447
	225,645	158,986

The Group's turnover and profit are generated from manufacturing and sale of flavours and fragrances in the People's Republic of China (the "PRC"), no segment information is therefore presented.

2. Expenses by nature

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

	2005	2004
Depreciation and amortisation	**6,293**	3,899
Employee benefit expenses, excluding amount included in research and development costs	**22,318**	16,831
Changes in inventories of finished goods and work in progress	**541**	1,847
Raw materials used	**70,064**	46,890
Impairment charge for bad and doubtful debts*	**753**	2,291
Lease expenses	**2,996**	2,211
Transportation	**10,855**	5,099
Advertising costs	**2,993**	2,264
Auditors' remuneration	**832**	13
Research and development costs		
– Employee benefit expenses	**4,784**	4,510
– Others	**1,090**	793
Other expenses	**26,143**	21,953
Total	**149,662**	108,601

* The Group recognised impairment charge for bad and doubtful debts in administrative expenses in the income statement.

3. Finance costs

	2005	2004
Interest expense:		
– Bank loans	**3,116**	3,224
– Others	**126**	346
	3,242	3,570

4. Income tax expense

The amount of taxation charged to the consolidated income statement represents:

	2005	2004
Current taxation:		
– PRC income tax	**12,978**	4,338

(a) The Company's subsidiary, Shenzhen Guanlida Boton Spice Co., Ltd. ("Guanlida Boton") was established in the Shenzhen Special Economic Zone and is subject to PRC income tax rate of 15%. In 2002, Guanlida Boton was recognised as a high technology enterprise by the Shenzhen Science and Technology Bureau, and entitled to a 50% tax reduction for three years commencing from 2002. Income tax has been provided at the rate of 7.5% for the year ended 31 December 2004 and at the rate of 15% for the year ended 31 December 2005.

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

(c) As of 31 December 2004 and 2005, there was no material unprovided deferred taxation.

(d) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the PRC taxation rate of Guanlida Boton as follows:

	2005	2004
Profit before taxation	**72,741**	46,815
Calculated at a taxation rate of 15%	**10,911**	7,022
Effect of preferential tax treatment	**–**	(3,511)
Expenses not deductible for taxation purposes	**2,067**	827
Taxation charge	**12,978**	4,338

5. Earnings per share

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.

	2005	2004
Profit attributable to equity holders of the Company	**59,763**	42,477
Weighted average number of ordinary shares in issue* (thousand shares)	**306,027**	300,000
Basic earnings per share (RMB per share)	**0.20**	0.14

* In determining the number of shares in issue, 300,000,000 shares issued on the incorporation of the Company and the reorganisation of the Group were deemed to have been in issue since 1 January 2004.

Diluted earrings per share is not presented as there were no potential dilutive ordinary shares.

6. Dividends

No dividend has been declared by the Company since its incorporation. The dividends disclosed in 2004 represent dividends declared by Guanlida Boton, the major operating subsidiary of the Company, to its then shareholders.

7. Trade and other receivables

	Note	**2005**	2004
Trade receivables	*(b)*	**71,560**	50,141
Less: provision for impairment		**(2,152)**	(1,506)
Trade receivables – net		**69,408**	48,635
Bills receivable	*(c)*	**4,071**	7,530
Prepayments		**7,177**	4,177
Advances to staff		**7,581**	6,956
Staff benefit payments		**4,854**	3,460
Other receivables		**5,681**	660
		98,772	71,418

Notes:

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

(b) The credit period generally granted to customers is 90 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	2005	2004
0 – 30 days	**31,804**	17,900
31 – 60 days	**13,152**	8,902
61 – 180 days	**21,434**	19,184
181 – 360 days	**3,631**	2,863
Over 360 days	**1,539**	1,292
	71,560	50,141

(c) Bills receivable are with maturity between 30 and 180 days.

8. Trade and other payables

	Note	**2005**	2004
Trade payables	*(a)*	**19,293**	10,250
Other tax payables		**4,184**	2,269
Accrued expenses		**3,722**	4,026
Dividend payable		**–**	6,147
Other payables		**8,709**	7,021
		35,908	29,713

Notes:

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

	2005	2004
0 – 30 days	**5,307**	7,914
31 – 60 days	**7,776**	1,277
61 – 180 days	**4,541**	26
181 – 360 days	**411**	391
Over 360 days	**1,258**	642
	19,293	10,250

GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavours and fragrances in the PRC. The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation"), on 29 October 2004, CFF Holdings Limited ("CFF Holdings") acquired the entire capital of Shenzhen Guanlida Boton Spice Co., Ltd. ("Guanlida Boton") for a cash consideration from its owners. Subsequently, on 25 November 2005, the Company acquired the entire issued share capital of CFF Holdings, through a share exchange with Creative China Limited ("Creative China"), the owner of CFF Holdings and the holding company of the Company. Consequently, the Company became the holding company of the Group and CFF Holdings acts as an intermediate company of another company, Guanlida Boton, comprising the Group.

The Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2004 and 2005.

On 9 December 2005, shares of the Company were listed on The Stock Exchange of Hong Kong Limited.

Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention.

The preparation of the accounts 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 Company's accounting policies.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the research and development, manufacture and sale of flavours and fragrances, which are provided to the Group's customers for making addition or improvement of flavours or fragrances in the customers' manufactured tobacco, food and daily consumer goods.

Turnover

For the financial year ended 31 December 2005, the Group recorded a turnover of approximately RMB221.7 million (2004: RMB158.5 million), representing an increase of approximately 40% in comparison to the previous financial year. The increase in turnover was attributable to (i) the increasing demand by the customers of flavour enhancer as a result of the continuous merging tobacco factories in 2005; (ii) the introduction of new flavour enhancer products by the Group; (iii) the improvement of the existing flavour enhancer products by the Group; and (iv) the increase in sales of food flavouring and fine fragrances as a result of successful marketing strategy and increasing exhibition activities of the Group.

Gross Profit

The gross profit of the Group increased by 36% from approximately RMB103.7 million in the previous year to approximately RMB141.3 million in the current year. The gross profit margin was decreased from approximately 65% for the year ended 31 December 2004 to 64% for the year ended 31 December 2005. The slight reduction in gross profit margin was due to the Company's sales expansion to the fine fragrances in which economies of scale of production has not yet achieved.

Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2005 was approximately RMB59.8 million (2004: RMB42.5 million), approximately 41% more than that in 2004. Net profit margin for the year ended 31 December 2005 remained quite stable at approximately 27% (2004: 27%).

Expenses

Selling and marketing expenses amounted to approximately RMB35.7 million (2004: RMB28.5 million), representing approximately 16% (2004: 18%) of turnover for the year ended 31 December 2005. Selling and marketing expenses increased by 25% in comparison with that of 2004. It was mainly attributable to the Group's increasing effort on the marketing of its products.

Administrative expenses amounted to approximately RMB33.6 million (2004: RMB25.4 million), representing approximately 15% (2004: 16%) of turnover for the year ended 31 December 2005. Administrative expenses increased by approximately 33% when compared with that of 2004. It was mainly due to the increase in R&D expenses of approximately 11% and the increase in depreciation expenses of approximately 84% as a result of purchasing the properties in Union Square in Shenzhen by the Group for office use in October 2004.

Finance costs of approximately RMB3.2 million (2004: RMB3.6 million). Decrease in amount was due to the relatively lower interest rate for bank borrowings in the earlier part of the year.

Dividends

The Directors do not recommend the payment of final dividend for the year ended 31 December 2005.

FUTURE PLANS AND PROSPECTS

The demand for consumer products utilising flavours and fragrances has been stimulated and broadened by changing social habits resulting from various factors such as increases in personal income, employment of women, teenage population, leisure time, health concerns and urbanisation and by the continued growth in the PRC's population. In the fragrance field, these developments have expanded the market for hair care products, candles, air-care products, deodorant and personal wash products with finer fragrance quality, as well as the market for colognes, toilet waters, men's toiletries and other products beyond traditional luxury items such as perfumes. In the flavouring field, similar market characteristics have stimulated the demand for products such as convenience food, soft drinks and low cholesterol and low-fat food products that must conform to expected tastes.

In order to cope with the increasing demand of food flavouring and fine fragrances as a result of the improvement in the PRC's living standard, the Group will, at its best efforts, capture such business opportunities by expanding its sales network in some of the provinces in PRC, including but not limited to Hebei, Qingdao and Shanghai.

The growth of the PRC economy has resulted in an improvement in the living standard of the people in the PRC. As a result, the Group is of the view that people in the PRC will have higher demands for consumer products of better quality. In the contemplation of the increase in demand for consumer products of better quality and the full utilisation of the current production capacity, the Group plans to invest approximately HK$30 million to expand its production facilities, especially for the design and development of fine fragrances.

The Group is well aware that better quality products must be supported by research and development. The Group will continue to expand its research and development by recruiting more experienced flavourists and perfumers.

FUNDING AND TREASURY POLICIES

The Board confirm that the Group's funding and treasury policies are mainly based on its cash flow forecast and budgetary system to monitor and control the sources and applications of funds.

The objectives of the Group's funding and treasury policies are to prevent the unreasonable utilisation of funding, enhance the effectiveness on the utilisation of working capital, ensure the punctual repayment of the Group's liabilities upon the relevant maturity date and ensure liquidity of the working capital, so as to optimise the Group's net cash flow position.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had net current assets and total assets less current liabilities of approximately RMB191.3 million (2004: RMB26.5 million) and RMB244.3 million (2004: RMB77.9 million), respectively. The Group maintains a strong position by financing its operations with internally generated resources. The Group has cash and cash equivalents of approximately RMB152.8 million (2004: RMB21.3 million). The current ratio of the Group was approximately 3.2 (2004: 1.3).

Shareholders' fund of the Group as at 31 December 2005 was approximately RMB242.7 million (2004: RMB75.8 million). The total bank borrowings of the Group for the year ended 31 December 2005, repayable within 12 months from the balance sheet, were donominated in RMB, and amounted to RMB45.4 million (2004: RMB58.6 million), together giving a gross debt gearing of approximately 37% (2004: 123%).

The financial health of the Group was sound in 2005 as indicated by the above figures.

FINANCING

As at 31 December 2005, the total banking and loan facilities of the Group amounted to about RMB60 million (2004: RMB58.6 million), of which, RMB45.4 million (2004: RMB58.6 million) has been utilised. The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, after deduction of related expenses, amounted to approximately HK$115.6 million. These proceeds were to be substantially applied in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 30 November 2005 (the "Prospectus"):

– approximately HK$30 million for the expansion in the Group's sales and distribution network;

– approximately HK$30 million for the expansion in the Group's current production facilities;

- approximately HK$25 million for the expansion of the Group's product development to cope with the ever-changing market demand;

- approximately HK$10 million for strengthening R&D capabilities by expanding the Group's R&D department and cooperating with SAAT and CAU in R&D on new products and new technology; and

- the balance of approximately HK$20.6 million to be used as general working capital of the Group.

The net proceeds as at 31 December 2005 were placed with banks in PRC and Hong Kong as deposits. The Board is of the opinion that the remaining proceeds will be applied in the future for their intended uses as set out in the Prospectus.

CAPITAL STRUCTURE

For the year ended 31 December 2005, the share capital of the Company comprises ordinary shares.

For the year ended 31 December 2005, the Group had gearing ratio (which is defined as total debts net of payables under ordinary course of business over total assets) of approximately 16% (2004: approximately 38%), while the net debt to total equity ratio during the period were approximately negative 41% (2004: 56%). Net debt is defined to include total debts net of payables under ordinary course of business and cash and cash equivalents.

The Directors have confirmed that the Group has financed its operations principally from cash generated from its business operations and has not experienced any liquidity problem for the year ended 31 December 2005.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

For the year ended 31 December 2005, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of the transactions of the Group were denominated in Renminbi. Hence, no financial instrument for hedging was employed.

All bank borrowings of the Group were denominated in Renminbi and Hong Kong dollars, respectively, and at fixed interest rate. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

CHARGE ON GROUP'S ASSET

As at 31 December 2005, the building of RMB27.2 million and the land use right of RMB2 million is pledged for bank borrowing of RMB30 million.

CAPITAL EXPENDITURE

During the year, the Group invested approximately RMB6.9 million (2004: RMB9.2 million) in fixed assets, of which RMB2.7 million (2004: RMB0.5 million) was used for purchase of plant and machinery.

For the year ended 31 December 2005, the Group had capital commitments of approximately RMB2.9 million (2004: RMB5.9 million) in respect of fixed assets, which are to be funded by internal resources.

STAFF POLICY

The Group had 371 employees in the PRC and 2 employees in Hong Kong as at 31 December 2005. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

For the year ended 31 December 2005, the Group had no material investment. Details of future plans for material investments or capital assets has been disclosed in the Prospectus.

CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange of Hong Kong Limited ("HKEx") introduced appendix 14 "Code on Corporate Governance Practices, (the "Code Provisions") of Rules Governing the Listing of Securities on the HKEx and appendix 23 "Corporate Governance Report"" which has become effective for accounting periods commencing on or after 1 January 2005.

The Board recognises the importance of and is committed to maintaining good standards of corporate governance so as to enhance corporate transparency and protect the interests of the Company's shareholders.

On 25 November 2005, the Board adopted the Code Provisions as its own code of corporate governance practices. To ensure compliance with the new Code on Corporate Governance Practices (the "New CG Codes") the Board has undertaken to review and propose the necessary amendments to the Bye-laws of the Company to bring the constitution of the Company in alignment with certain provisions of the New CG codes. Annual General Meeting of the Company will hold to amend the Bye-laws of the Company so that any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment rather than the Company's next following annual general meeting after the appointment.

The report describes the corporate governance practices of the Company, with reference to the Principles set out in the Code Provisions on Corporate Governance Practices prescribed by the HKEx.

DIRECTORS' SECURITIES TRANSACTIONS

On 25 November 2005, the Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code regarding Directors' Securities Transactions.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee, Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong, has reviewed with management and the Group's external auditors, Messrs. PricewaterhouseCooper, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the consolidated accounts.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday 2 May 2006 to Thursday, 4 May 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to entitle to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 28 April 2006.

By Order of the Board
Wong Ming Bun
Chairman

As at date of this announcement, the executive Directors are Mr. Wong Ming Bun, Mr. Wang Ming Fan and Mr. Li Qing Long; the independent non-executive Directors are Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong.

Hong Kong, 3 April, 2006

"Please also refer to the published version of this announcement in The Standard"