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

(Incorporated in the Cayman Islands with limited liability)
Website: http://www.chinaffl.com
(Stock Code: 3318)

ANNUAL RESULTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

HIGHLIGHTS

- Turnover amounted to RMB292.6 million, an increase of 32%
- Profit attributable to equity holders amounted to RMB75.4 million
- Basic earnings per share was 18 RMB cents
- Final dividend of 6.8 RMB cents and a special dividend of 0.7 RMB cents per ordinary share

The board of directors of China Flavors & Fragrances Company Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

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CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2006**	2005
Sales	*2*	**292,580**	221,667
Cost of goods sold	*3*	**(109,890)**	(80,348)
Gross profit		**182,690**	141,319
Other gains – net	*2*	**2,811**	3,056
Selling and marketing expenses	*3*	**(39,067)**	(35,694)
Administrative expenses	*3*	**(52,470)**	(33,620)
Operating profit		**93,964**	75,061
Finance income	*4*	**4,040**	922
Finance costs	*4*	**(6,238)**	(3,242)
Finance costs-net		**(2,198)**	(2,320)
Profit before income tax		**91,766**	72,741
Income tax expense	*5*	**(16,382)**	(12,978)
Profit attributable to equity holders of the Company		**75,384**	59,763
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic and diluted	*6*	**0.18**	0.20
Dividends	*7*	**33,366**	–

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

	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment		**68,486**	50,982
Land use rights		**2,001**	2,048
Intangible assets		**24,313**	–
		94,800	53,030
Current assets			
Inventories		**30,646**	26,671
Trade and other receivables	*8*	**128,459**	98,772
Cash and cash equivalents		**268,634**	152,800
		427,739	278,243
Total assets		**522,539**	331,273
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**46,230**	41,600
Other reserves		**247,897**	115,546
Retained earnings			
– Proposed final and special dividends		**33,366**	–
– Others		**118,735**	85,524
Total equity		**446,228**	242,670
LIABILITIES			
Non-current liabilities			
Deferred grants		**854**	1,630
Current liabilities			
Trade and other payables	*9*	**42,670**	35,908
Current income tax liabilities		**5,787**	5,701
Borrowings		**27,000**	45,364
		75,457	86,973
Total liabilities		**76,311**	88,603
Total equity and liabilities		**522,539**	331,273
Net current assets		**352,282**	191,270
Total assets less current liabilities		**447,082**	244,300

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements 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.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but which the Group has not early adopted, as follows:

- HK(IFRIC)-Interpretation 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Interpretation 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Interpretation 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;
- HK(IFRIC)-Interpretation 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Interpretation 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;
- HKFRS 7, Financial instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 January 2007; and
- HKAS 1 Amendment – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). This HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance. The Group will apply HKAS 1 Amendment from 1 January 2007.

2. TURNOVER AND OTHER GAIN

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

	2006	2005
Turnover		
Sales of goods	**292,580**	221,667
Other gains		
Government grants	**2,465**	2,828
Sales of raw materials	**346**	228
	2,811	3,056

The Group's turnover and profit are generated from manufacturing and sale of flavors and fragrances in the PRC, no segment information is therefore presented.

3. EXPENSES BY NATURE

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

	2006	2005
Depreciation and amortisation	**7,998**	6,293
Employee benefit expenses, excluding amount included in research and development costs	**32,031**	22,318
Changes in inventories of finished goods and work in progress	**(4,660)**	541
Raw materials used	**100,834**	70,064
Impairment charge for bad and doubtful debts	**230**	753
Lease expenses	**2,334**	2,996
Transportation and travelling	**15,281**	10,855
Advertising costs	**3,051**	2,993
Auditors' remuneration	**1,400**	832
Research and development costs		
– Employee benefit expenses	**4,248**	4,784
– Others	**1,009**	1,090
Entertainment	**16,196**	11,042
Office expenses	**9,012**	5,005
Other expenses	**12,463**	10,096
Total	**201,427**	149,662

4. FINANCE INCOME AND COSTS

	2006	2005
Interest expense:		
– Bank loans	**(1,941)**	(3,116)
– Others	**(116)**	(126)
Exchange loss	**(4,181)**	–
	(6,238)	(3,242)
Finance income - interest income on cash and cash equivalents	**4,040**	922
Finance costs - net	**(2,198)**	(2,320)

5. INCOME TAX EXPENSE

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

	2006	2005
Current taxation:		
– PRC income tax	**16,382**	12,978

(a) Shenzhen Boton Spice Co., Ltd. ("Shenzhen Boton"), a subsidiary of the Company, was established in the Shenzhen Special Economic Zone and is subject to PRC income tax rate of 15%. The major operation of the Group is conducted by Shenzhen Boton.

(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 2005 and 2006, 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 Shenzhen Boton as follows:

	2006	2005
Profit before taxation	**91,766**	72,741
Calculated at a taxation rate of 15% (2005: 15%)	**13,765**	10,911
Expenses not deductible for taxation purposes	**2,617**	2,067
Taxation charge	**16,382**	12,978

6. 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.

	2006	2005
Profit attributable to equity holders of the Company	**75,384**	59,763
Weighted average number of ordinary shares in issue* (thousand shares)	**426,042**	306,027
Basic earnings per share (RMB per share)	**0.18**	0.20

* 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 2005.

(b) Diluted

Share options outstanding as at 31 December 2006 have no dilutive effect as the average market price of the company's ordinary shares during the period from the date when options were granted to 31 December 2006 is below the exercise price of the options. As there were no dilutive potential ordinary shares, the Group's basic and diluted earnings per share are the same during the year.

7. DIVIDEND

No dividend has been paid by the Company in the years ended 31 December 2005 and 2006.

At a meeting held on 29 March 2007, the directors proposed a final dividend of HK$0.068 (equivalent to RMB0.068 per ordinary share and a special dividend of HK$0.007 (equivalent to RMB0.007 per ordinary share, totalling HK$0.075 (equivalent to RMB0.075) per ordinary share. Such dividends represented an aggregate amount of approximately HK$33,366,000 (equivalent to RMB33,366,000) for the 444,885,000 shares issued and outstanding as at 31 December 2006. These proposed dividends are not reflected as dividend payable in these financial statements.

8. TRADE AND OTHER RECEIVABLES

		Group		**Company**	
	Note	**2006**	2005	**2006**	2005
Trade receivables	*(b)*	**86,560**	71,560	**–**	–
Less: provision for impairment		**(2,265)**	(2,152)	**–**	–
Trade receivables – net		**84,295**	69,408	**–**	–
Bills receivable	*(c)*	**21,539**	4,071	**–**	–
Prepayments		**500**	7,177	**–**	–
Advances to staff		**8,288**	7,581	**–**	–
Staff benefit payments		**5,864**	4,854	**–**	–
Due from subsidiaries	*(d)*	**–**	–	**104,122**	312
Other receivables		**7,973**	5,681	**213**	267
		128,459	98,772	**104,335**	579

(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:

	2006	2005
0 – 30 days	**36,143**	31,804
31 – 60 days	**16,012**	13,152
61 – 90 days	**8,632**	9,177
91 – 180 days	**11,528**	12,257
181 – 360 days	**10,243**	3,631
Over 360 days	**4,002**	1,539
	86,560	71,560

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

(d) Amounts due from a subsidiary are unsecured, interest-free and repayable on demand.

9. TRADE AND OTHER PAYABLE

		Group		Company	
	Note	**2006**	2005	**2006**	2005
Trade payables	*(a)*	**30,560**	19,293	**–**	–
Other tax payables		**2,838**	4,184	**–**	–
Accrued expenses		**1,970**	3,722	**–**	–
Due to a subsidiary	*(b)*	**–**	–	**4,293**	2,116
Other payables		**7,302**	8,709	**1,554**	4,984
		42,670	35,908	**5,847**	7,100

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

	2006	2005
0 – 30 days	**19,569**	5,307
31 – 60 days	**6,137**	7,776
61 – 180 days	**3,704**	4,541
181 – 360 days	**70**	411
Over 360 days	**1,080**	1,258
	30,560	19,293

(b) Amounts due to a subsidiary are unsecured, interest free and repayable on demand.

GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavors and fragrances in the People's Republic of China (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.

BUSINESS REVIEW

For the financial year ended 31 December 2006, China Flavor achieved remarkable results by leveraging on its established strengths, experience and foresight. The Group attained many achievements within this year.

In an attempt to benefit from the anticipated increase in market demand for the Group's products, and grasp the opportunities arising from the robust development of the flavour industry of the People's Republic of China ("PRC"), the Group is at the final stage of negotiation for the use right of the land located at 南山曙光倉儲區宗地號 T505-0059 (the "Land"). The Group intends to construct office building and research centre on the land, further announcement will be made in relation to this project as and when appropriate. The phase I of the construction of the office building and the research centre will be commenced in July 2007 and expected to be completed by the end of 2008. The Group's production capacity is expected to be increased by approximately 139% from 3,600 tons in the financial year of 2006 to 8,600 tons in 2008. The Land will be 80,000 sq meter. The acquisition of the Land will not only be regarded as a milestone in the business development of the Group, but also create numerous business development opportunities for the Group.

Save for the above, the Group has also secured considerable orders of flavour enhancer. The growth in sale of fine fragrances and food flavour are 164.4% and 33.4% respectively as compared to year 2005. All these positive outcomes are the results of the dedicated hardwork of the management of the Group.

The listing of the Group has increased its publicity and allowed the Group to face the international market, including the business opportunity and the challenge from the international market, e.g., the foreign exchange risk. The Group reported a net exchange loss of RMB4.2 million which was attributable to its revaluation of its net foreign exchange positions in 2006. The foreign currency proceeds from the IPO and the placement were HK$115.6 million and HK$108 million respectively, which increased the Group's foreign currency position. Although the above foreign exchange loss is not an operational mistake and would not affect the actual future growth in turnover of the Group, the foreign exchange loss gave the management of the Group a very impressive lesson. As a result, the Group will not only manage its net foreign currency position in 2007 by formulating foreign currency control policy and strategy in order to reduce its foreign currency risk in 2007 but will actively be aware the challenge from the international market in future.

Looking forward, the business growth of the Group is expected to accelerate in the future. We will maintain growth through horizontal integration. We will continue to deploy resources to enhance market promotion, strengthen the product development team, and to increase the variety of products and expand distribution network in the PRC and overseas market.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Review

Turnover

The Group recorded an encouraging turnover of approximately RMB292.6 million (2005: RMB221.7 million) for the financial year ended 31 December 2006, an increase of about 32% from that of last year.

The Group's turnover for the year was mainly derived from operations in the mainland of PRC.

Gross Profit

The overall gross profit margin for the year was stable at about 62.4%.

Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2006 was approximately RMB75.4 million (2005: RMB59.8 million), approximately 26% more than in previous year. Net profit margin for the year ended 31 December 2006 was approximately 26% (2005: 27%).

Expenses

Selling and distribution expenses amounted to approximately RMB39.1 million (2005: RMB35.7 million), representing approximately 13% (2005: 16%) of turnover for the year ended 31 December 2006. The slight decrease in percentage of turnover was due to the success of the control of selling and distribution expenses.

Administrative expenses amounted to approximately RMB52.5 million (2005: RMB33.6 million), representing approximately 18% (2005: 15%) of turnover for the year ended 31 December 2006. Administrative expenses increased by approximately 56% when compared with that of 2005. It was mainly due to the increase of the salary of the directors of the Company, the administrative cost of the Company and the increase of employees of 56.

Loss from revaluation of foreign currency positions

The Group reported a net exchange loss of RMB4.2 million which was attributable to its revaluation of its net foreign exchange positions in 2006. The foreign currency proceeds from the IPO and the placement were HK$115.6 million and HK$108 million respectively, which increased the Group's foreign currency position. In view of the above, the Group will actively manage its net foreign currency position in 2007 by formulating foreign currency control policy and strategy in order to reduce its foreign currency risk in 2007.

Ageing Analysis of account receivable

The ageing of the account receivable of flavour enhancer is stable. The ageing of food flavour and fine fragrances in 2006 is from 90 to 180 days, which the management of the Group allows the flexibility of the credit policy for the customers of food flavour and fine fragrances in view of the integration into the PRC market of food flavour and fine fragrances. As the customers of food flavour and fine fragrances are the current market participants, the management of the Group is able to obtain the information of the customers gathered from the market, including but not limited to the financial position, potential growth and the credibility of the customers prior to the decision of allowing a longer credit period to them.

The management of the Group is well aware of the credit risk from the market of food flavour and fine fragrances and will closely monitor the credibility of the customers from both segments by way of regular visit of their factories and effective communication with them.

Although the Group has formulated its strategy in the development of the segments of food flavour and fine fragrances, they are well aware that it is necessary to strike the balance between the growth of business and the credit policy of the customers. They are of the view that both segments will have significant growth in 2007 and credit policy of the customers from both segments will be gradually well developed by the Group.

Dividend

The Board recommends the payment of a final dividend of RMB0.068 and special dividend of RMB0.007 per ordinary share in respect of the year, to shareholder whose names appear on the register of member on 23 April 2007 at 4:00 p.m. If approved at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 April 2007 to 30 April 2007 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend and Special Dividend for the year ended 31 December 2006 and for attending the Annual General Meeting of the Company to be held on 2 May 2007, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 23 April 2007.

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.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER

The Company has complied throughout the year ended 31 December 2006 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have compiled with the required standard set out in the model code throughout the year ended 31 December 2006.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company set up an audit committee (the "Committee") on 16 August 2003. The Committee was established with written terms of reference and has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Committee now comprises three members, all being independent non-executive directors of the Company. The Group's audited financial statements, including the supplementary consolidated information, for the year, have been reviewed by the Committee.

The figures in respect of the preliminary announcement of the Group's results for the year have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year 2006. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website at www.hkex.com.hk and the Group's website www.chinaffl.com.

On behalf of the Board
中國香精香料有限公司
China Flavors & Fragrances Co., Ltd.
WONG Ming Bun
Chairman

Hong Kong, 29 March 2007

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

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