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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 47% to RMB428.8 million
- Gross profit increased by approximately 41% to RMB258 million
- Profit attributable to equity holders of the Company increased by approximately 25% to RMB93.9 million
- Basic earnings per share increased by approximately 11% to RMB0.20
- Final dividend per share increased by approximately 22% to HK8.3 cents

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors & Fragrances Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007, together with the comparative figures in 2006.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Notes	Year ended 31 December 2007	2006
Revenue	*3*	**428,762**	292,580
Cost of sales	*4*	**(170,812)**	(109,890)
Gross profit		**257,950**	182,690
Selling and marketing expenses	*4*	**(50,114)**	(39,067)
Administrative expenses	*4*	**(78,779)**	(52,470)
Other gains – net	*3*	**2,851**	2,811
Operating profit		**131,908**	93,964
Finance income	*5*	**4,777**	4,040
Finance costs	*5*	**(7,250)**	(6,238)
Finance costs – net		**(2,473)**	(2,198)
Share of profit of an associate		**193**	–
Profit before income tax		**129,628**	91,766
Income tax expense		**(29,074)**	(16,382)
Profit for the year		**100,554**	75,384
Attributable to			
Equity holders of the Company		**93,871**	75,384
Minority interest		**6,683**	–
		100,554	75,384
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic	*7*	**0.20**	0.18
– diluted	*7*	**0.20**	0.18
Dividends	*8*	**37,792**	33,366

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

	Notes	As at 31 December **2007**	2006
ASSETS			
Non-current assets			
Land use rights		**76,963**	2,001
Property, plant and equipment		**133,343**	68,486
Intangible assets		**183,176**	24,313
Investment in an associate		**1,133**	–
Deferred income tax assets	*6*	**1,284**	–
		395,899	94,800
Current assets			
Inventories		**58,788**	30,646
Trade and other receivables	*9*	**234,817**	128,459
Cash and cash equivalents		**258,286**	268,634
		551,891	427,739
Total assets		**947,790**	522,539
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**50,055**	46,230
Other reserves		**445,230**	247,897
Retained earnings			
– Proposed final and special dividend	*8*	**37,792**	33,366
– Others		**164,323**	118,735
		697,400	446,228
Minority interest in equity		**74,777**	–
Total equity		**772,177**	446,228
LIABILITIES			
Non-current liabilities			
Deferred grants		**1,323**	854
Deferred income tax liabilities	*6*	**41,339**	–
		42,662	854
Current liabilities			
Trade and other payables	*10*	**90,592**	42,670
Current income tax liabilities		**18,932**	5,787
Borrowings		**23,427**	27,000
		132,951	75,457
Total liabilities		**175,613**	76,311
Total equity and liabilities		**947,790**	522,539
Net current assets		**418,940**	352,282
Total assets less current liabilities		**814,839**	447,082

NOTES:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. APPLICATION OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation 8	Scope of HKFRS 2
HK(IFRIC)-Interpretation 10	Interim Financial Reporting and Impairment

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations:

HK(IFRIC)-Interpretation 7	Applying the restatement approach under HKAS29, Financial reporting in hyper-inflationary economies
HK(IFRIC)-Interpretation 9	Re-assessment of embedded derivatives

The following new standards, amendments and interpretations have been issued but are not effective and have not been early adopted:

HKFRS 8	Operating Segments
HKAS 23 (Amendment)	Borrowing Costs
HK(IFRIC)-Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Segment information

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.

Intangible assets

Intangible assets, primarily trademarks, customer relationships and technology acquired as part of a business combination are capitalized separately from goodwill and are carried at cost less accumulated amortization and accumulated impairment losses save for the trademarks which are subject to infinite useful period. Amortization is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful lives, which range from 3 to 20 years.

3. REVENUE AND OTHER GAIN

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

	2007	2006
Revenue		
Sales of goods	**428,762**	292,580
Other gains		
Government grants	**1,131**	2,465
Sales of raw materials	**437**	346
Others	**1,283**	–
	2,851	2,811

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

4. EXPENSES BY NATURE

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

	2007	2006
Depreciation and amortisation	**17,705**	7,998
Employee benefit expenses, excluding amount included in research and development costs	**42,810**	32,031
Changes in inventories of finished goods and work in progress	**710**	(4,660)
Raw materials used	**146,863**	100,834
Impairment charge for bad and doubtful debts	**4,721**	230
Lease expenses	**4,244**	2,334
Transportation and travelling	**19,790**	15,281
Advertising costs	**5,908**	3,051
Auditors' remuneration	**2,156**	1,400
Research and development costs		
– Employee benefit expenses	**3,862**	4,248
– Others	**2,035**	1,009
Entertainment	**21,315**	16,196
Office expenses	**10,372**	9,012
Other expenses	**17,214**	12,463
Cost of sales, selling and marketing expenses and administrative expenses	**299,705**	201,427

5. FINANCIAL INCOME AND COST

	2007	2006
Finance income		
– Interest income	**4,777**	4,040
Finance cost		
Interest expenses		
– Bank loans	**(1,156)**	(1,941)
– Others	**(747)**	(116)
Exchange loss	**(5,347)**	(4,181)
	(7,250)	(6,238)
Finance costs – net	**(2,473)**	(2,198)

6. DEFERRED INCOME TAX LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. There are no offset amounts at the year end.

	2007	2006
Deferred tax assets:		
– to be recovered after more than 12 months	**1,284**	–
Deferred tax liabilities:		
– to be settled after more than 12 months	**(40,024)**	–
– to be settled within 12 months	**(1,315)**	–
	(41,339)	–

The gross movements of the deferred income tax account were as follows:

	2007	2006
At 1 January 2007	**–**	–
Acquisition of subsidiary	**(42,166)**	–
Credited to the income statement	**2,111**	–
At 31 December 2007	**(40,055)**	–

The movement in deferred tax assets and liabilities during the year is as follows:

	Deferred tax assets			**Deferred tax liabilities**			
	Accelerated amortization of intangible assets	**Provision for impairment losses of trade receivables**	**Total**	**Fair value gain on land use right arose from business acquisition**	**Fair value gain on intangible assets arose from business acquisition**	**Fair value gain on property, plant and equipment arose from business acquisition**	**Total**
At 1 January 2007	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	(4,392)	(32,416)	(5,358)	(42,166)
Credited to the income statement	604	680	1,284	69	521	237	827
At 31 December 2007	**604**	**680**	**1,284**	**(4,323)**	**(31,895)**	**(5,121)**	**(41,339)**

7. 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.

	2007	2006
Profit attributable to equity holders of the Company	**93,871**	75,384
Weighted average number of ordinary shares in issue (thousand shares)	**462,566**	426,042
Basic earnings per share (RMB per share)	**0.20**	0.18

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has just one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to 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.

	2007	2006
Profit attributable to equity holders of the Company	**93,871**	75,384
Weighted average number of ordinary shares in issue (thousands)	**462,566**	426,042
Adjustments for – share options (thousands)	**20**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**462,586**	426,042
Diluted earnings per share (RMB per share)	**0.20**	0.18

8. DIVIDEND

A final dividend of RMB37.8 million (equivalent to HKD40.2 million at the exchange rate of 0.94) was proposed for the year ended 31 December 2007 pursuant to a resolution passed by the Board on 8 April 2008 and subject to the approval of the shareholders in the coming annual general meeting, thus resulting in HKD0.083 (2006: HKD0.068) per share and no special dividend in respect of the year ended 31 December 2007 (2006: HKD0.007) per ordinary share was proposed. These financial statements do not reflect this dividend payable.

	2007	2006
Proposed final dividend of HKD0.083 (2006: HKD0.068) per ordinary share	**37,792**	30,363
Proposed special dividend is Nil (2006: HKD0.007) per ordinary share	**–**	3,003
	37,792	33,366

9. TRADE AND OTHER RECEIVABLES

	Notes	**2007**	2006
Trade receivables	*(b)*	**158,428**	86,560
Less: provision for impairment	*(c)*	**(6,975)**	(2,265)
Trade receivables – net		**151,453**	84,295
Bills receivable	*(d)*	**39,843**	21,539
Prepayments		**23,501**	500
Advances to staff		**3,056**	8,288
Staff benefit payments		**5,192**	5,864
Due from associate	*(e)*	**2,900**	–
Other receivables		**8,872**	7,973
		234,817	128,459

(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:

	2007	2006
0 – 30 days	**63,777**	36,143
31 – 60 days	**27,392**	16,012
61 – 90 days	**21,081**	8,632
91 – 180 days	**21,476**	11,528
181 – 360 days	**19,214**	10,342
Over 360 days	**5,488**	4,002
	158,428	86,560

(c) Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
At 1 January	**(2,265)**	(2,151)
Provision for receivable impairment	**(4,721)**	(230)
Receivables written off during the year as uncollectible	**11**	116
At 31 December	**(6,975)**	(2,265)

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

(e) Amounts due from associate are unsecured, interest-free and repayable on demand.

10. TRADE AND OTHER PAYABLES

	Notes	**2007**	2006
Trade payables	*(a)*	**55,510**	30,560
Bills payable		**5,100**	–
Other tax payables		**7,718**	2,838
Accrued expenses		**6,486**	1,970
Other payables		**15,778**	7,302
		90,592	42,670

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

	2007	2006
0 – 30 days	**30,039**	19,569
31 – 60 days	**16,569**	6,137
61 – 180 days	**6,692**	3,704
181 – 360 days	**1,396**	70
Over 360 days	**814**	1,080
	55,510	30,560

GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell extracts, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company obtained an expected results for the year despite a very difficult market condition of rising labor costs and raw materials prices in PRC. The Company will continue to adhere to the established development plan, including the organic growth and external acquisition opportunities.

For 2007, the Group has successfully obtained the use right of the land located at Nanshan Shuguang Cang Chu District Zong Di No. T505-0059, Nanshan District, Shenzhen (the "Land"). The phase I of the construction of the office building and the research centre (the "Premises") will commence in the second half of 2008 and is expected to be completed by the end of first half of 2009. The Group's total production capacity will increased by approximately 87% from 4600 tons in the financial year of 2008 to a maximum of 8,600 tons when all production equipment have been completely installed. The Premises will be 80,167.47 sq meter. The acquisition of the Land will not only be regarded as a milestone in the business development of the Group, but also provide an superior research and development environment to attract the best quality research and development people to join us.

Save for the above, the Group has also moved away from the traditional "sourcing for cost savings" to "sourcing for value and competitive advantage" to enhance our supply chain efficiency and cost competitiveness, which forms a highly integrated business model for the Group. As such, the above strategy has been actually carried out by the Group in the acquisition of Citiwell International Group Limited, which holds 50% shareholding interest of Wutong Aroma Chemicals Company Limited ("Wutong"), a leading manufacturer of aroma compounds in PRC and our existing supplier. It is foreseeable that the combination of the research and development resources of us and Wutong will certainly shorten the period of our research and development resources in formulating our products.

In 2008, our focus in increasing our market share in PRC is clear and has been set as the ultimate goal for the management for their execution in the forthcoming year. Under such circumstances, continuing to maintain the growth of our core business and seeking merger and acquisition opportunities is the unanimous objective of our management.

Operational and Financial Review

Turnover

The Group recorded a turnover of approximately RMB428.8 million (2006: RMB292.6 million) for the financial year ended 31 December 2007, an increase of about 47% from that of last year.

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

The performance of the Group for the financial year continues encouraging. The turnover of the year has reached the amount of RMB358.6 million for the Group's existing business representing an increase of about 23% over that of last year whereas the newly acquired subsidiary has contributed RMB70.2 million to the turnover of the Group.

Gross Profit

The Group's gross profit has increased by 41% to approximately RMB257.9 million, however gross profit margin reduced slightly to 60% (2006: 62%) as a consequence of the rising labour cost and raw material prices.

Net Profit

The Group's net profit attributable to shareholders for the financial year ended 31 December 2007 was approximately RMB93.9 million (2006: RMB75.4 million), approximately 25% more than in 2006. With the reduction in gross profit margin during the year the net profit margin for the year ended 31 December 2007 reduced to approximately 24% (2006: 26%).

Expenses

Selling and distribution expenses amounted to approximately RMB50.1 million (2006: RMB39.1 million), representing approximately 12% (2006: 13%) of turnover for the year ended 31 December 2007. The reduction in percentage of turnover was due to more stringent control has been exercised on the marketing and promotional expenses during the year. Travelling and entertainment expenses continued to be the major component and accounted for 51% (2006: 61%) of the total selling and distribution expenses.

Administrative expenses amounted to approximately RMB78.8 million (2006: RMB52.5 million), representing approximately 18% (2006: 18%) of turnover for the year ended 31 December 2006. Administrative expenses increased by approximately 50% when compared with that of 2006. It was mainly due to the overall expansion in the Group's operation during the year.

Loss from Revaluation of Foreign Currency Positions

The Group reported a net exchange loss of RMB5.3 million (2006: RMB4.2 million) which was attributable to its revaluation of its net foreign exchange positions in 2007. The foreign currency proceeds from the placement were HK$182.3 million which increased the Group's foreign currency position.

Dividend

The Board recommends the payment of a final dividend of HK$0.083 per ordinary share in respect of the year, to shareholder whose names appear on the register of member on 30 April 2008, if approved at the forthcoming annual general meeting.

Future Plans & Prospects

Our future plan is to capture the growth of China's economy despite the rising labor costs and raw material prices in People's Republic of China ("PRC"), by adhering to the strategy of developing our core business and seeking external acquisitions.

Effort in strengthening the Group's leading position in the PRC market

The Group has successfully obtained the use right of the land located at Nanshan Shuguang Cang Chu District Zong Di No. T505-0059, Nanshan District, Shenzhen (the "Land"). The phase I of the construction of the office building and the research centre (the "Premises") will be commenced in second half of 2008 and expected to be completed by the end of the first half of 2009. The Group's production capacity will be increased by approximately 87% from 4,600 tons in the financial year of 2008 to 8,600 tons when all production equipments are completely installed. The Premises will be 80,167.47 sq meter. The acquisition of the Land will not only be regarded as a milestone in the business development of the Group, but also provide an international research and development environment to attract the best research and development people to join us.

Enhancement of our supply chain

The Group has moved away from the traditional "sourcing for cost savings" to "sourcing for value and competitive advantage" to enhance our supply chain efficiency and cost competitiveness. As such, the above strategy has been actually carried out by the Group in the acquisition of Citiwell International Group Limited, which holds 50% shareholding interest of Wutong Aroma Chemicals Company Limited ("Wutong"), a leading manufacturer of aroma compounds in PRC and our existing supplier. Save for the profit contribution from Wutong as result of its profit guarantee, it is foreseeable that the combination of the research and development resources of us and Wutong will certainly shorten the period of our research and development resources in formulating our products.

Save for the above, our focus in increasing our market share in PRC is clear and has been set as the ultimate goal for the management for their execution in the forthcoming year. Under such circumstances, continuing to maintain the growth of our core business and seeking merger and acquisition opportunities is the unanimous objective of our management.

Liquidity and Financial Resources

As at 31 December 2007, the Group had net current assets and total assets less current liabilities of approximately RMB418.9 million (2006: RMB352.3 million) and RMB814.8 million (2006: RMB447.1 million), respectively. The Group maintains a strong financial position by financing its operation with internally generated resources and placement at 12 July 2007. As at 31 December 2007, the Group had cash and bank deposits of approximately RMB258.3 million (2006: RMB268.6 million). The current ratio of the Group was approximately 4.2 (2006: 5.7).

Shareholders' fund of the Group as at 31 December 2007 was approximately RMB697.4 million (2006: RMB446.2 million).

The financial health of the Group has been strong throughout the year as indicated by the above figures.

Financing

As at 31 December 2007, the Group does not have any banking and loan facilities, whereas as at 31 December 2006 total banking and loan facilities of the Group amounted to about RMB40 million, all has been repaid by the end of year.

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.

Charge on Group's Assets

The Group did not have any pledge or charge on assets as at 31 December 2007.

Staff Policy

The Group had 471 employees in the PRC and 12 employees in Hong Kong as at 31 December 2007. 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.

Contingent Liabilities

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30 April 2008 to 9 May 2008, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming Annual General Meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, 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 29 April 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 to the Listing Rules throughout the Current Year, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and that the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company currently has complied with Code Provision A.2.1 as the Company considers that through the supervision of its Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

AUDIT COMMITTEE

The audited annual results of the Group for the year ended 31 December 2007 have been reviewed by the audit committee of the Company.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

A copy of annual report containing all information required by relevant paragraphs of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.chinaffl.com) in due course.

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, 8 April 2008

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.