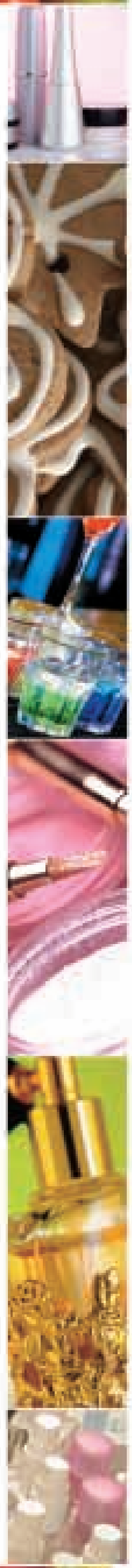

China Flavors and Fragrances Company Limited

中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL REPORT 2007

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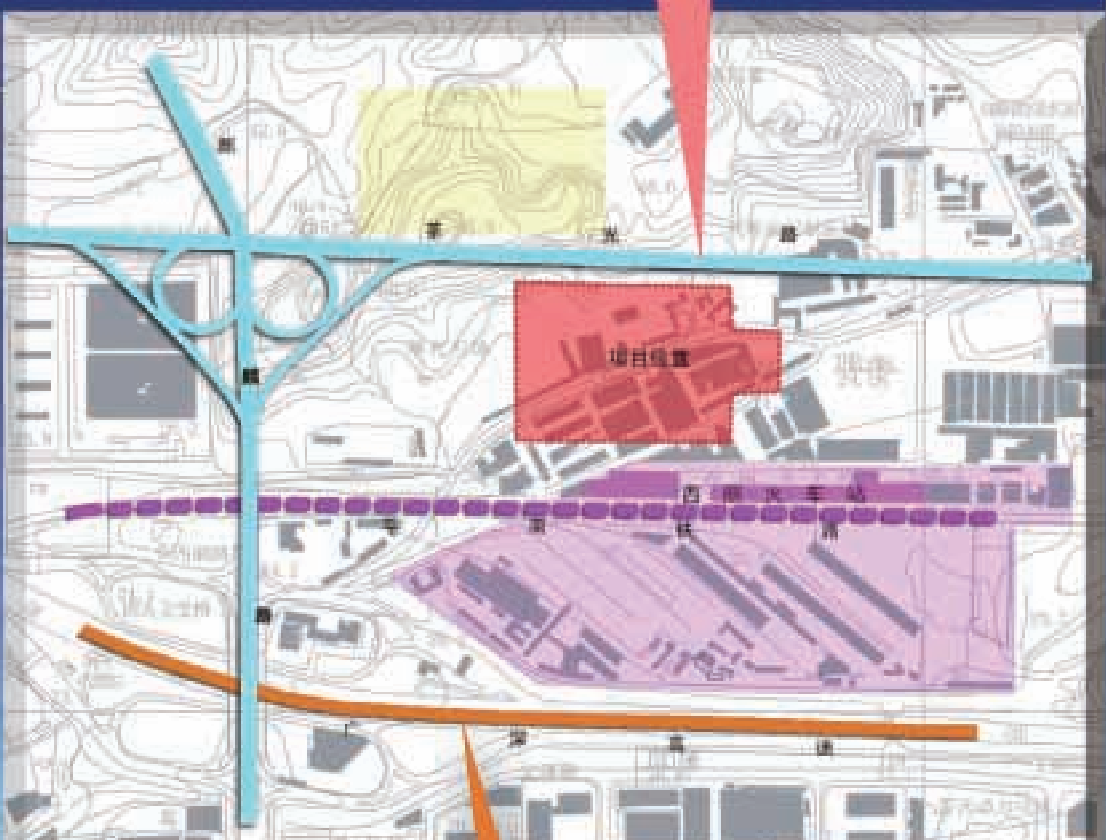
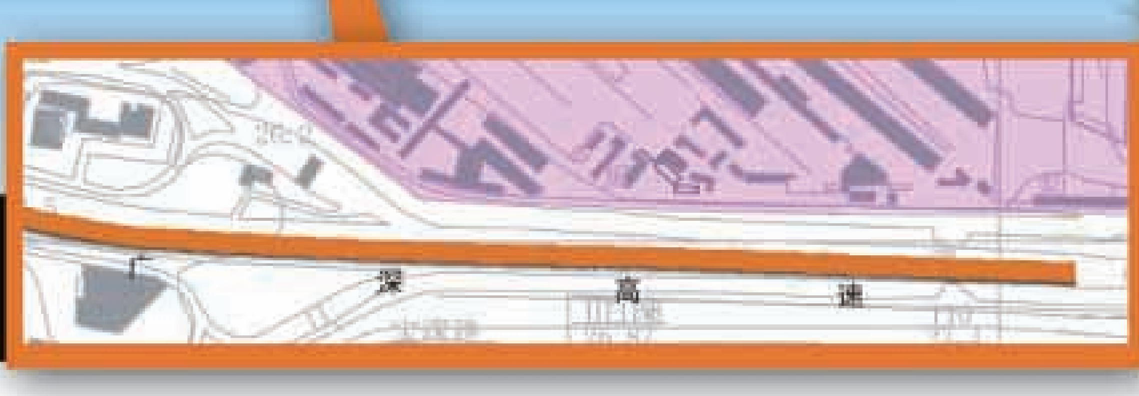
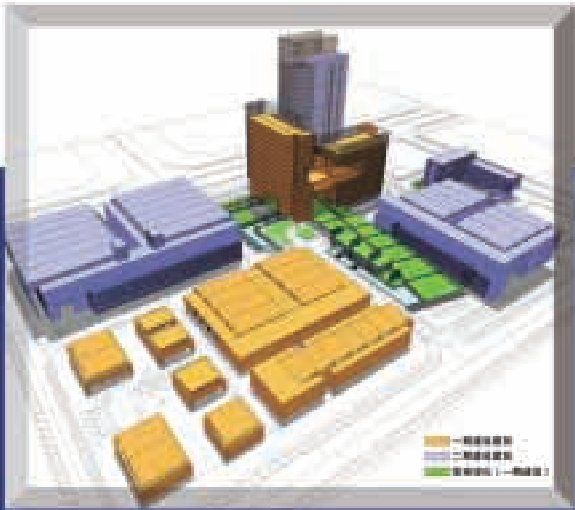


区位交通现状





NEW R&D & PRODUCTION PLANT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Wong Ming Bun *(Chairman)*
Mr. Wang Ming Fan *(Chief Executive Officer)*
Mr. Wang Ming You
Mr. Li Qing Long
Mr. Qian Wu
Mr. Goh Gen Cheung*
Mr. Leung Wai Man, Roger*
Mr. Zhou Xiao Xiong*

* *Independent non executive director*

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Standard Chartered Bank
DBS Bank (Hong Kong) Limited
Bank of China – Shenzhen Branch

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Offices 4-5, 15/F
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock code: 3318)

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited ("China Flavor" or the "Company") and its subsidiaries (collectively the "Group"), I am pleased to report that the Group recorded the growth in both revenue and earnings with revenue rising from approximately RMB292,580,000 to RMB428,762,000 and profit attributable to equity holders of the Company increasing from approximately RMB75,384,000 to RMB93,871,000.

DIVIDENDS

The Board recommend the payment of a final dividend of HKD0.083 per share for the year.

BUSINESS REVIEW

As the Chairman of the Company, my mission is to ensure the business of the Company and its subsidiaries (the "Group") will grow in accordance with our development plan. We have experienced a very difficult year in order to achieve a remarkable result despite the rising labor costs and raw material prices in the People's Republic of China ("PRC"). I am committed to ensure the Company will adhere to its future development plan, including the organic growth and external acquisition made by the Group.

For 2007, the Group has successfully obtained the use right of the land located at 深圳南山區南山曙光倉儲區宗地號T505-0059 Nanshan Shuguang Cang Chu District Zong Di No. T505-0059, Nanshan District, Shenzhen (the "Land"). The phase I of the construction of the factory, office building and the research centre (the "Premises") will be commenced in the second half of 2008 in which the office building and the research centre will be expected to be completed by the end of first half of 2009. The Group's total production capacity will be ultimately increased by approximately 87% from 4,600 tons in the financial year of 2008 to a maximum of 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 a 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 the Group and Wutong will certainly shorten the time spent on the research and development 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.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to take this opportunity to express my appreciation to our management team and staff for their hard work and contribution to the Group. I am also very thankful to my fellow directors, our business partners, customers, suppliers, bankers and shareholders for their continuing support.

Wong Ming Bun
Chairman

Hong Kong
8 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For 2007, the Group has successfully obtained the use right of the land located at 深圳南山區南山曙光倉儲區宗地號T505-0059 (Nanshan Shuguang Cang Chu District Zong Di No. T505-0059, Nanshan District, Shenzhen (the "Land")). The phase I of the construction of the factory, office building and the research centre (the "Premises") will be commenced in the second half of 2008, in which the office building and the research centre will be expected to be completed by the end of first half of 2009. The Group's total production capacity will be ultimately increased by approximately 87% from 4,600 tons in the financial year of 2008 to a maximum of 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 a superior research and development environment to attract the best quality research and development people to join us.

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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

Revenue

The Group recorded a revenue 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 revenue 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 revenue 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 profit attributable to equity holders of the Company 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 marketing expenses amounted to approximately RMB50.1 million (2006: RMB39.1 million), representing approximately 12% (2006: 13%) of revenue for the year ended 31 December 2007. The reduction in percentage of revenue 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 marketing expenses.

Administrative expenses amounted to approximately RMB78.8 million (2006: RMB52.5 million), representing approximately 18% (2006: 18%) of revenue 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 HKD182.3 million which increased the Group's foreign currency position.

Dividends

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

Our future plan is to capture the growth of China's economy despite for 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 深圳南山區南山曙光倉儲區宗地號T505-0059 (Nanshan Shuguang Cang Chu District Zong Di No. T505-0059, Nanshan District, Shenzhen (the "Land")). The phase I of the construction of the factory, office building and the research centre (the "Premises") will be commenced in the second half of 2008, in which the office building and the research centre will be expected to be completed by the end of the first half of 2009. The Group's total production capacity will be ultimately 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 a superior research and development environment to attract the best quality 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 the Group and Wutong will certainly shorten the time spent on the research and development 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 has 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 has 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).

MANAGEMENT DISCUSSION AND ANALYSIS

Shareholders' fund of the Group as at 31 December 2007 excluding minority interest in equity 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.

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 expanses, amounted to approximately HKD115.6 million. These proceeds were applied up to 31 December 2007 in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 30 November 2005:

– as to approximately HKD30 million for the expansion in the Group's sales and distribution network;

– as to approximately HKD12 million for the expansion in the Group's current production facilities;

– as to approximately HKD25 million for the expansion of the Group's product development to cope with market demand; and

– as to approximately HKD4 million for strengthening R&D capabilities by expanding the Group's R&D department and co-operating with SAAT and CAU in R&D on new products and new technology.

The remaining net proceeds as at 31 December 2007 were placed with banks in PRC 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

The share capital of the Company comprises ordinary shares for the year ended 31 December 2007.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group has net exchange loss of RMB5.3 million in 2007 (2006: RMB4.2 million). Please refer to note 3(a) to the consolidated financial statements for the analysis of foreign exchange risk. Hence, no financial instrument for hedging was employed.

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

CHARGE ON GROUP'S ASSETS

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

CAPITAL EXPENDITURE

During the year, the Group invested approximately RMB25.7 million (2006: RMB24.8 million) in property, plant and equipment, of which RMB19.8 million (2006: RMB17.7 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2007, the Group had capital commitments of approximately RMB17.6 million (2006: RMB4.1 million) in respect of property, plant and equipment, which are to be funded by internal resources.

STAFF POLICY

The Group has 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.

MATERIAL INVESTMENT

For the year ended 31 December 2007, the Group has material investments in the land use rights of RMB58.6 million.

CONTINGENT LIABILITIES

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

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. WONG Ming Bun (王明均), aged 49, is the chairman of the Company and one of the founders of the Group. Mr. Wong has approximately 20 years of corporate management and administration experience in the flavour and fragrance industry. Mr. Wong is responsible for formulating the overall corporate strategy of the Group. Mr. Wong is an entrepreneur with an extensive experience for corporate management of enterprises engaged in a variety of industries, which include flavours and fragrances, food, electronic, biotechnology and packaging. Mr. Wong Ming Bun is the brother of Mr. Wang Ming Qing, Mr. Wang Ming Fan and Mr. Wang Ming You. Mr. Wong was appointed as an executive director in April 2005. Mr. Wong joined the Group since March 1991.

Mr. WANG Ming Fan (王明凡), aged 41, is an executive director and chief executive officer responsible for the daily operation of the Group. Mr. Wang has approximately 20 years of corporate management experience in the flavour and fragrance industry. Mr. Wang joined the Group in 1996 as a general manager. Mr. Wang Ming Fan is the brother of Mr. Wang Ming Qing, Mr. Wong Ming Bun and Mr. Wang Ming You. He is now a member of 中國人民政治協商會議廣東省深圳市委員會 (the Standing of Committee of Chinese People's Political Consultative Conference of Shenzhen), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Flavours and Fragrances Cosmetic Industry) and the vice chairman of 中國食品添加劑生產應用工業協會 (China Food Additive Production Application Industry Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (Federation of Industry and Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Youth Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang was appointed as an executive director in April 2005.

Mr. WANG Ming You (王明優), aged 54, established 電白縣東山罐頭廠 (Dianbai Province Dongshan Canned Food Factory) and was the chief officer thereof from 1976 to 1982. In 1982, Mr. Wang also established 電白縣遠香料化工廠 (Dianbai Province Yuan Fragrance Chemical Factory) and had been the chief officer of the factory till 1992. Mr. Wang had been a director of 深圳波頓香精香料有限公司 (Shenzhen Boton Flavors and Fragrances Company Limited ("Shenzhen Boton")) from 1992 to 1996. Mr. Wang founded and was the Chairman and General Manager of 廣東省茂名市金基房地產有限公司 (Guangdong Province Mao Ming City Jinji Real Estate Company Limited), he was also the Chairman and General Manager of 海南省海口市金海藻食品科技有限公司 (Hainan Province Haikou City Jin Seaweed Food Technology Company Limited) from 1996 to 2006. Mr. Wang has valuable experience in relation to corporate management, property industry and food manufacturing industry. Mr. Wang is the brother of Mr. Wang Ming Bun (Chairman and executive director of the Company) and Mr. Wang Ming Fan (the Chief Executive Officer and executive director of the Company). Mr. Wang was appointed as an executive director on 15 March 2007.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. LI Qing Long (李慶龍), aged 47, is an executive director. Mr. Li has more than 20 years of R&D and production experience in the flavour and fragrance industry. Mr. Li joined the Group in March 1991 and served as the deputy general administration manager. Mr. Li is responsible for the R&D and production of flavours and fragrances of the Group. He graduated from 上海輕工業專科學校 (Shanghai Light Industry Professional School) in 1982 with a major in 有機合成工藝 (organic synthesis process). Prior to joining the Group, he worked in 上海日用香精廠 (Shanghai Flavor and Fragrance Factory) for approximately 8 years. Mr. Li was appointed as an executive director in April 2005.

Mr. QIAN Wu (錢武), aged 43, is the deputy general manager of Shenzhen Boton, an indirect wholly owned subsidiary of the Company. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Company and its subsidiaries (the Group"). He graduated from 中國安徽機電學院 (Anhai Institute of Mechanical and Electrical Engineering) in 1990, with a major in industrial corporate management. Mr. Qian has approximately 20 years of research and development experience in the flavor and fragrance industry. Prior to joining the Group, Mr. Qian had worked in Wuhu Tobacco Factory for 12 years. Mr. Qian was appointed as an executive director in 15 March 2007.

Independent non-executive Directors

Mr. GOH Gen Cheung (葛根祥), aged 61, is an independent non-executive director and the chairman of the Audit Committee. Mr. Goh has over 30 years of experience in the field of treasury, finance and banking in Hong Kong and the Asia Pacific region. Mr. Goh had been serving the treasury department of Standard Chartered Bank (Hong Kong) Limited for more than 30 years. Mr. Goh is an associate member of the Institute of Bankers and obtained a master's degree in business administration from the University of East Asia in Macau in 1987. Apart from the Group, Mr. Goh also serves as an independent non-executive director and a member of the audit committee of four other listed companies in Hong Kong, namely, Shinhint Acoustic Link Holdings Limited, Peaktop International Holdings Limited, Karce International Holdings Company Limited and CEC International Holdings Limited. Shinhint Acoustic Link Holdings Limited is a vertically integrated manufacturing services provider for some leading consumer electronics brands. Peaktop International Holdings Limited is principally engaged in the design, manufacture and sale of home, garden and plastic decorative products. Karce International Holdings Company Limited is principally engaged in the manufacture and trading of electronic products, conductive silicon rubber keypads, printed circuit boards and telecommunication products whereas CEC International Holdings Limited is principally engaged in the design and manufacture of coils, ferrite materials, inductors, transformers, line fitters and capacitors. Mr. Goh was appointed as an independent non-executive director in November 2005.

Mr. Goh does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Goh did not hold other directorship in any public listed companies in the last 3 years.

Mr. Goh has a 2 years contract with the Company, commencing from 9 December 2007 and will receive an annual director's fee of HKD150,000. Save and except for the director's fee, Mr. Goh will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. LEUNG Wai Man, Roger (梁偉民), aged 51, is an independent non-executive director and a member of the Audit Committee. Mr. Leung obtained a bachelor's degree of laws from The University of Hong Kong in 1981. Mr. Leung also obtained a bachelor's degree of laws from The University of Western Ontario, Canada in 1990. He has been a practising solicitor in Hong Kong since 1984 and is now a partner of a law firm. Mr. Leung is admitted as a solicitor in England and Wales and Ontario, Canada. Mr. Leung has over 20 years of working experience in the legal field. He has been serving as a member of the Board of Review (Inland Revenue Ordinance) from 1997 to 2005 and as an appointed Attesting Officer in the PRC since January 2003. Mr. Leung is currently an independent non-executive director and a member of the audit committee of Hi Sun Technology (China) Limited, the shares of which are listed on the Stock Exchange. Hi Sun Technology (China) Limited is principally engaged in the sale of designated information technology products, provision of information system consultancy, and integration services, and information technology value-added services. Mr. Leung was appointed as an independent non-executive director in November 2005.

Mr. Leung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Leung did not hold other directorship in any public listed companies in the last 3 years. Mr. Leung has a 2 years contract with the Company, commencing from 9 December 2007 and will receive an annual director's fee of HKD150,000. Save and except for the director's fee, Mr. Leung will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. ZHOU Xiao Xiong (周小雄), aged 47, is an independent non-executive director and a member of the Audit Committee. Mr. Zhou obtained a bachelor's degree in 經濟信息管理系 (Economic Information Management) and a master's degree in 世界經濟 (World Economics) from the 中國人民大學 (Renmin University of China) in 1983 and 1998, respectively. Mr. Zhou had worked as a senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited) and 中山證券有限責任有限公司 (Zhongshan Securities Company Limited), and had approximately 20 years of experience in the fields of financial services and investment banking. Mr. Zhou was appointed as an independent non-executive director in November 2005.

Mr. Zhou does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Zhou did not hold other directorship in any public listed companies in the last 3 years. Mr. Zhou has a 2 years contract with the Company, commencing from 9 December 2007 and will receive an annual director's fee of HKD150,000. Save and except for the director's fee, Mr. Zhou will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

SENIOR MANAGEMENT

Mr. XUE You Hui (薛有輝), aged 47, is the assistant to the general manager and sales director of Shenzhen Boton and is the chief supervisor for sales and marketing of the Group's food flavours. He obtained a tertiary qualification from 中國北京商學院 (Beijing College of Commerce) in 1990, with a major in corporate management. Mr. Xue has approximately 20 years of sales and marketing experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Xue had worked in (Sugar Wine Company of Shaodong County) in Hunan Province for 15 years. Mr. Xue joined the Group in October 1993.

Mr. QIU Jing (邱京), aged 31, is the head of sales and marketing department for fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has approximately 5 years of sales and marketing experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Qiu had worked in Shell Company for 4 years.

Mr. LAM Chi Ming, Francis (林志明), aged 49, is the financial controller of the Group. He is responsible for the Group's overall financial planning and management of the Group. He is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and Association of Certified Public Accountants. He obtained a bachelor's degree of arts in economic and social studies from the University of Manchester in the United Kingdom in 1982. Mr. Lam has over 20 years of experience in the field of accounting and financial management. He worked with the Group since March 2004.

Mr. MA Man Wai (馬文威), aged 38, is the company secretary of the Company. Mr. Ma obtained a bachelor's degree in business (accountancy) from Queensland University of Technology, Australia in 1993. He is a member of the Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of CPA Australia. Before working with the Group in September 2005, Mr. Ma has over 13 years of accounting related experience from accounting firms and international companies.

Ms. XU Jing Fang (徐靜芳), aged 66, is the assistant to the general manager of Shenzhen Boton. Ms. Xu is the head of quality control department and is responsible for the management of various production processes and quality testing of the Group. She obtained a tertiary qualification from 上海輕工業專科大學 (Shanghai Light Industry Professional School) in 1962, with a major in organic synthesis. Ms. Xu has approximately 40 years of quality control experience in the flavour and fragrance industry. She joined the Group in April 1993. Prior to joining the Group, Ms. Xu had worked in 孔雀香精香料有限公司 (Kongque Flavours and Fragrances Company Limited) for more than 34 years.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. XU Zhong Wei (徐仲偉), aged 43, is the chief technology officer of food flavour products of Shenzhen Boton. He joined the Group in March 2001 and is responsible for marketing and promotion of the Group's applied technology and service for product technology. He obtained a master's degree from 中國西南農業大學 (Southwest Agricultural University of the PRC) in 1988, with a major in agriculture. Mr. Xu has 18 years of technology development experience in the food industry. He is now the council member of 中國飲料工業協會 (China Beverage Industry Association) and the council member of 中國食品添加劑協會 (China Food Additive Association). Prior to joining the Group, Mr. Xu had worked as chief engineer of 深圳新產業投資有限公司 (Shenzhen New Industry Investment Company Limited) under 國家計劃委員會 (the State Planning Commission) for 8 years. He received the Science Technology Second Class Award from the 中國人民共和國農業部 (Agricultural Department of the PRC) in 1990, the Advanced Worker Award from 中國甜菊協會 (the China Stevia Association) in 1999 and the "Four New" Distinguished Product Achievement Award from 廣東省輕工業廳 (the Light Industry Department of Guangdong Province) in 1994.

Mr. XIAO You Jian (肖友檢), aged 65, is the senior engineer of food flavour products of Shenzhen Boton. He joined the Group in March 2002 and he is the chief technology researcher who is responsible for technology development of the Group's food flavours. He graduated from the 中國湖南大學 (Hunan University of the PRC) in 1965, with a major in chemistry. Mr. Xiao has over 40 years of engineering experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Xiao had worked in 國家輕工業部香料工業科研究所 (Research Institute of Fragrance & Flavour Industry of the State's Light Industry Ministry) for 37 years. He received the National Technology Progress Second Class Award from 中國國家科學技術工業委員會 (the State Commission of Science, Technology and Industry of the PRC) in 1986, the Technology Progress Second Class Award from 國家輕工業部 (the State's Light Industry Ministry) in 1985.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange of Hong Kong Limited ("HKEx") introduced Appendix 14 "Code on Corporate Governance Practices (the "CG Code") to 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 of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company") recognizes the importance of and is committed to maintain good standards of corporate governance so as to enhance corporate transparency and protect the interests of the Company's shareholders. These include a board comprising high caliber members, board committees and effective internal systems and controls.

Throughout the year ended 31 December 2007, the Company has, as far as possible, complied with the Code Provisions as set out in Appendix 14 to the Listing Rules. This 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors, Following specific enquiry, all directors confirmed in writing their compliance with the required standard set out in the Model Code regarding Directors' Securities Transactions during the year under review.

CORPORATE GOVERNANCE REPORT

BOARD

(a) Board Composition

The Board comprises five executive Directors and three independent non-executive Directors during the year under review.

The Board members for the year ended 31 December, 2007 were:

Executive Directors

Mr. Wong Ming Bun, *(Chairman)*
Mr. Wang Ming Fan, *(Chief Executive Officer)*
Mr. Li Qing Long
Mr. Wang Ming You (Appointed on 15 March 2007)
Mr. Qian Wu (Appointed on 15 March 2007)

Independent Non-executive Directors

Mr. Goh Gen Cheung
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

To the best knowledge of the Company, there is no financial, business and family relationship among our directors except that Mr. Wang Ming Fan, the Chief Executive Officer of the Company and Mr. Wang Ming You, the Executive Director of the Company, is the brother of Mr. Wong Ming Bun, the Chairman of the Company.

All Directors (including Independent Non-executive Directors) are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association. Any Director appointed as an addition to the Board or to fill a casual vacancy on the Board shall hold office until the first general meeting after their appointment and shall then be eligible for re-election.

The Board will constantly examines its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The composition of the Board will be reviewed on a half-yearly basis by the Nomination Committee to ensure that the Board has the appropriate mix of expertise and experience.

On 13 March 2007, two additional executive directors (Messrs Wang Ming You and Qian Wu) were appointed as Executive Directors. Key information regarding the Directors' academic and professional qualifications and other appointments is set out on pages 12 to 14 of this annual report.

(b) Role and Function

Prior to their respective appointments to the Board, each of the Directors was given an orientation on the Company's business strategies and operations. The Directors will receive, from time to time, further relevant training, particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentations and meetings.

The Board effectively leads and controls the long-term vision and strategic direction of the Group. Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group and approves the Group's corporate and strategic directions. The Board is also responsible for implementing policies in relation to financial matters, which include risk management and internal controls and compliance, if applicable. In addition, the Board reviews the financial performance of the Group, approves investment proposals, and approves nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly or through Board Committees such as Audit Committee, Nomination Committee and Remuneration Committee. In the appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Group's expenses, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration function of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the Group. Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Formal Board meetings will be held at least four times a year at approximately quarterly intervals to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Bye-laws allow a Board meeting to be conducted by way of teleconference and videoconference.

(c) Accountability and Audit

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board. The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Directors consider that the accounts have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 36.

(d) Supply of and Access to Information

Board papers will be circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant shall attend all formal Board meetings to advise on corporate governance, risk management, statutory compliance, accounting and financial matters when necessary. The management has the obligation to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Company's senior management to make further enquires if necessary.

Directors shall have full access to information on the Group. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

(e) Meeting Records

The Board shall meet at least four times a year at approximately quarterly intervals. There were formal meetings held in the financial year ended 31 December 2007 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	4/4
Mr. Wang Ming Fan	4/4
Mr. Li Qing Long	4/4
Mr. Wang Ming You	4/4
Mr. Qian Wu	4/4
Mr. Goh Gen Cheung	4/4
Mr. Leung Wai Man, Roger	4/4
Mr. Zhou Xiao Xiong	4/4

(f) Independent Non-executive Directors

The independent non-executive directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the board ensure that strong independent views and judgement are brought in the board's deliberations and that such views and judgement carry weight in the board's decision-making process. Their presence and participation also enable the board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries. The Company confirmed in writing with all Independent Non-executive Directors as to their independence with reference to the factors as set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and Chief Executive Officer of the Company are Mr. Wong Ming Bun and Mr. Wang Ming Fan respectively. The Board recognizes power should not be concentrated in any one in respect of the management of the board and the day-to-day management of the Group's business. In order to meet this aim, the responsibilities between the Chairman and Chief Executive Officer are separate. The Chairman is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is responsible for running the Group's Business, and implementation of the Group's strategy in achieving the overall commercial objectives. There are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence.

REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee with terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Remuneration Committee comprises Mr. Wong Ming Bun, an Executive Director and the three Independent Non-executive Directors, namely Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Wong Ming Bun is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package. The Remuneration Committee shall meet at least twice a year.

The role and functions of the Remuneration Committee under its terms of reference are mainly to support and advise the Board in fulfilling the Board's responsibility to the shareholders of the Company as follows:

- Recommending to the Board a framework of remuneration for the Board and the key executives of the Group and on the establishment of a formal and transparent procedure for developing policy of such remuneration;
- Determining the specific remuneration packages of all executive directors and senior management;
- Reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- Reviewing and approving the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment;
- Reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct; and
- Recommending to the shareholders how to vote the service agreements of Directors in accordance with Rule 13.68 of the Listing Rules.

All Executive and Independent Non-executive Directors have service agreements for a term of 3 years and 2 years respectively. The remuneration of the Independent Non-executive Directors is in the form of a fixed fee while the remuneration of Executive Directors consists of salary, commission, housing reimbursement and allowances, bonus and performance awards that are dependent on the performance of the Group and Directors.

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has adopted a Share Option Scheme in 2005. Such incentive scheme enables the eligible persons to obtain an ownership interest in the Company and thus to rewards to the participants who contribute to the success of the Group's operations. Details of the amount of Directors' and senior management's emoluments are set out in note 21 to the accounts.

For the year under review, the committee discussed the remuneration related matters and set the policy on staff option that grant of share option should be approved by Remuneration Committee. As recommended, the remuneration of all directors would remain unchanged for the year 2007.

There were 2 meetings held in the financial year ended 31 December 2007 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	2/2
Mr. Goh Gen Cheung	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

NOMINATION OF DIRECTORS

The Company established a Nomination Committee with written terms of reference. The Nomination Committee comprises Mr. Wong Ming Bun, an Executive Director and the three Independent Non-executive Directors, namely Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Wong Ming Bun is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

The role and functions of the nomination committee are mainly as follows:

- Proposing a nomination policy to the Board and implementation;
- Reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- Identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
- Assessing the independence of Independent Non-executive Directors; and
- Recommending to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

The committee identified suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which their appointments will result on the constitution of a strong and diversified Board.

For the year under review, the committee reviewed the responsibility of the board of directors and senior management.

There were 2 meetings held in the financial year ended 31 December 2007 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	2/2
Mr. Goh Gen Cheung	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs PricewaterhouseCoopers, is set out as follows:

	Fee paid/payable RMB'000
Services rendered	
Audit services	
Annual audit of accounts	2,156
Non-audit services	–
	2,156

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the Code on Corporate Practices as set out in Appendix 14 of the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Goh Gen Cheung is the Chairman of the Audit Committee. Each members of the Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is interested. The Audit Committee shall meet at least twice a year.

The role and functions of the audit committee are mainly as follows:

- Recommending to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- Developing and implementing policy on the engagement of an external auditor to supply non-audit services;
- Monitoring integrity of financial statements and reviewing significant financial reporting judgments contained in them;
- Reviewing the Group's financial controls, internal control and risk management systems;
- Discussing with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- Considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- Where an internal audit function exists, to ensure coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- Reviewing the group's financial and accounting policies and practices;
- Reviewing the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

- Ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

- Other functions as required by the law or the Code.

The Audit Committee shall have full discretion to invite any Director or Executive Officer to attend its meetings. In addition, the Audit Committee shall have independent access to external auditors without the presence of management at least once a year.

For the year under review, the committee discharged its responsibilities by:

- Making recommendations to the Board on the reappointment of the external auditor;

- Reviewing, and monitoring the integrity of, the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;

- Reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

- Coordinating with the internal auditors to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

- Reviewing the Company's financial and accounting policies and practices;

- Reviewing the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries;

- Reporting to the board on the matters set out in the Code on Corporate Governance Practices on the audit committee.

There were 2 meetings held in the financial year ended 31 December 2007 with full minutes kept by the company secretary.

	Attendance
Mr. Goh Gen Cheung	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

INTERNAL CONTROLS

Proper internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the group. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Board acknowledges that it is responsible for the Company's overall internal control framework and will continue to review its effectiveness on a regular basis.

Dominic K. F. Chan & Co., Certified Public Accountants has been appointed as the Company's internal auditor since June 2006 for the purpose of reviewing the effectiveness of the Company's material internal controls. On-going assessment on internal control had conducted by Dominic K. F. Chan & Co. periodically to determine the Company's risk management, control and governance practices as designed and represented by management.

As the internal control system is designed to manage the Company's risks within an acceptable risk profile, rather than to eliminate the risk of failure, and to achieve the business objectives of the Company, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.

COMMUNICATION WITH SHAREHOLDERS

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via *HKExNET* announcements and news releases. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Rules of the Stock Exchange of Hong Kong Limited. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have fair access to the information.

All shareholders of the Company will receive the annual report and the notice of the AGM. The notice is made available on *HKExNET* and the website of the Company at www.chinaffl.com. The Company encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to Directors, including the chairperson of each of the Board Committees. The Company ensures that there are separate resolutions at general meetings on each distinct issue.

The Company's Bye-laws allow a member of the Company to appoint one or two proxies to attend and vote at general meetings. The external auditors are also present to assist the Directors in addressing any relevant queries from the shareholders.

AGM will be held on 13 May 2008.

VOTING BY POLL

The Company informs the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures. In accordance with article 66 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(a) by the Chairman of such Meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being and entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the rules of the designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 8 to the accounts.

RESULTS AND APPROPRIATIONS

Details of the Group's result for the year ended 31 December 2007 are set out in the consolidated income statement on page 40.

Final dividend of HKD0.083 per share is recommended by the Directors (2006: HK$0.068) and there is no special dividend (2006: HKD0.007) per share.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 6 to the accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 13 to the accounts.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 14 to the accounts and the consolidated statement of changes in equity respectively.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Wong Ming Bun	
Mr. Wang Ming Fan	
Mr. Li Qing Long	
Mr. Wang Ming You	(Appointed on 15 March 2007)
Mr. Qian Wu	(Appointed on 15 March 2007)

Independent non-executive directors

Mr. Goh Gen Cheung
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

In accordance with Articles 86(3) of the Articles of Association of the Company, Mr. Li Qing Long and Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Messrs. Li Qing Long entered into service contract with Company for an initial term of three years with the commencement date from 9 December 2005, and subject to re-election by the Shareholders at a general meetings of the Company, will continue thereafter until terminated by not less than 3 months' notice in writing served by either party on the other or in accordance with other terms of the service contracts.

Each of the independent non-executive directors entered into services agreements with Company for a term of two years and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of one month in writing before its expiration.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in note 21 to the accounts respectively.

DIRECTORS' INTEREST IN SECURITIES

At 31 December 2007, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein, or will be required pursuant to the Model Code for Securities Transactions by Directors or Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange as follows:

Long positions

(i) Beneficial interest in the Shares

Name of Director	Capacity/Nature of Interest	Number of Shares	Percentage of issued Shares
Mr. Wong Ming Bun	Interest in a controlled corporation (Note 2)	250,059,000	51.62

Notes:

1. The letter "L" denotes a long position in the Shares.

2. By virtue of the SFO, Mr. Wong Ming Bun is deemed to be interested in all the 248,577,000 Shares held by Creative China in which 52.45% of its issued share capital is owned by Mr. Wong Ming Bun.

(ii) Beneficial interests in the shares of Creative China, an associated corporation (defined in the SFO) of the Company

Name of director	Class and number of shares held in associated corporation	Percentage of issued shares
Mr. Wong Ming Bun	5,245 ordinary shares	52.45%
Mr. Wang Ming Fan	1,593 ordinary shares	15.93%
Mr. Li Qing Long	731 ordinary shares	7.31%

Save as disclosed above, none of the Directors or chief executive of the Company aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 31 December 2007.

DIRECTORS' SERVICE CONTRACT

Each of the Directors has entered into a service contract with the Company for an initial term of 36 months commencing on 9 December 2006. These contracts are only determinable by the Company upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Other than disclosed above, none of the Directors of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that they are independent under Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

At no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section of the SFO shows that other than the interests disclosed in the section headed "Directors' interest in securities" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares

Name of Director	Capacity/Nature of interest	Number of Shares	Percentage of issued Shares
Creative China (Note 2)	Interest in a controlled corporation (Note 2)	248,577,000(L)	51.32%

Notes:

1. The letter "L" denotes a long position in the Shares.

2. Creative China is owned as to 52.45% by Mr. Wong Ming Bun, as to 15.93% by Mr. Wang Ming Fan, as to 14.26% by Mr. Wang Ming Qing, as to 10.05% by Mr. Wang Ming You and as to 7.31% by Mr. Li Qing Long.

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2007.

SHARE OPTIONS

The following table disclosed movements in the Company's share options during the year:

Directors	Date of grant	No. of Share Options granted	Exercise period	Exercise price	Closing price before the date of grant	Exercised during the year	Lapsed during the year	Outstanding at 31.12.07
				HKD	*HKD*			
Employees	17/04/07	2,170,000	6 months	3.35	3.35	2,170,000	nil	nil
Employees	18/05/07	400,000	6 months	4.00	3.80	nil	400,000	nil
Granted Total						2,170,000	400,000	nil

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 24.2% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 8.2% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 35.8% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 11.9% of the Group's total purchase.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2007 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors confirmation of his independence and the Company considers that each of them to be independence and the Company considers that each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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 2007.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company, The Board confirms that there has been no change in auditors of the Company since 9 March 2005, date of incorporation.

On behalf of the Board

Wong Ming Bun
Chairman

Hong Kong
8 April 2008

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the shareholders of China Flavors and Fragrances Company Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 89, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 April 2008

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Land use rights	5	**76,963**	2,001
Property, plant and equipment	6	**133,343**	68,486
Intangible assets	7	**183,176**	24,313
Investment in an associate	9	**1,133**	–
Deferred income tax assets	18	**1,284**	–
		395,899	94,800
Current assets			
Inventories	10	**58,788**	30,646
Trade and other receivables	11	**234,817**	128,459
Cash and cash equivalents	12	**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	13	**50,055**	46,230
Other reserves	14	**445,230**	247,897
Retained earnings			
– Proposed final and special dividend	26	**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	15	**1,323**	854
Deferred income tax liabilities	18	**41,339**	–
		42,662	854
Current liabilities			
Trade and other payables	16	**90,592**	42,670
Current income tax liabilities		**18,932**	5,787
Borrowings	17	**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

Wong Ming Bun
Director

Wang Ming Fan
Director

The notes on pages 43 to 89 are an integral part of these consolidated financial statements.

BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	**154**	218
Investments in subsidiaries	8	**154,031**	153,536
		154,185	153,754
Current assets			
Trade and other receivables	11	**283,904**	104,335
Cash and cash equivalents	12	**46,672**	65,829
		330,576	170,164
Total assets		**484,761**	323,918
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**50,055**	46,230
Other reserves	14	**473,859**	287,754
Accumulated losses			
– Proposed final and special dividend	26	**37,792**	33,366
– Others		**(83,304)**	(49,279)
Total equity		**478,402**	318,071
LIABILITIES			
Current liabilities			
Trade and other payables	16	**6,359**	5,847
Total equity and liabilities		**484,761**	323,918
Net current assets		**324,217**	164,317
Total assets less current liabilities		**478,402**	318,071

Wong Ming Bun
Director

Wang Ming Fan
Director

The notes on pages 43 to 89 are an integral part of this financial statement.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Revenue	19	**428,762**	292,580
Cost of sales	20	**(170,812)**	(109,890)
Gross profit		**257,950**	182,690
Selling and marketing expenses	20	**(50,114)**	(39,067)
Administrative expenses	20	**(78,779)**	(52,470)
Other gains – net	19	**2,851**	2,811
Operating profit		**131,908**	93,964
Finance income	22	**4,777**	4,040
Finance costs	22	**(7,250)**	(6,238)
Finance costs – net		**(2,473)**	(2,198)
Share of profit of an associate	9	**193**	–
Profit before income tax		**129,628**	91,766
Income tax expenses	23	**(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 during the year (expressed in RMB per share)			
– basic	25	**0.20**	0.18
– diluted	25	**0.20**	0.18
Dividends	26	**37,792**	33,366

The notes on pages 43 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital (Note 13)	**Other reserves** (Note 14)	**Retained earnings**	**Minority interest**	**Total equity**
Balance at 1 January 2006	41,600	115,546	85,524	–	242,670
Profit for the year	–	–	75,384	–	75,384
Total recognised income and expense for 2006	–	–	75,384	–	75,384
Employee share option scheme:					
– value of employee services	–	3,238	–	–	3,238
– proceeds from shares issued	43	1,226	–	–	1,269
Issue of shares	4,587	123,727	–	–	128,314
Share issuance costs	–	(4,647)	–	–	(4,647)
Appropriated to reserve	–	8,807	(8,807)	–	–
Balance at 31 December 2006	46,230	247,897	152,101	–	446,228
Balance at 1 January 2007	46,230	247,897	152,101	–	446,228
Profit for the year	–	–	93,871	6,683	100,554
Total recognised income and expense for 2007	–	–	93,871	6,683	100,554
Employee share option scheme:					
– value of employee services	–	495	–	–	495
– proceeds from shares issued	211	6,862	–	–	7,073
Issue of shares	3,614	184,307	–	–	187,921
Share issuance costs	–	(5,559)	–	–	(5,559)
Acquisition of a subsidiary (Note 29)	–	–	–	68,094	68,094
Appropriated to reserve	–	11,228	(11,228)	–	–
Dividends related to 2006	–	–	(32,629)	–	(32,629)
Balance at 31 December 2007	**50,055**	**445,230**	**202,115**	**74,777**	**772,177**

The notes on pages 43 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Cash flows from operating activities			
Cash generated from operations	27	**80,459**	71,456
Interest paid		**(1,707)**	(2,057)
Income tax paid		**(22,030)**	(16,296)
Net cash generated from operating activities		**56,722**	53,103
Cash flows from investing activities			
Acquisition of subsidiary – net of cash acquired	29	**(112,378)**	–
Purchase of property, plant and equipment		**(25,673)**	(25,781)
Purchases of land use rights		**(58,597)**	–
Purchase of intangible assets		**(91)**	(22,100)
Loan repayments received from an associate	30	**3,200**	–
Interest received		**4,777**	4,040
Net cash used in investing activities		**(188,762)**	(43,841)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**194,994**	129,583
Payments for share issuance costs		**(5,559)**	(4,647)
Proceeds from borrowings		**45,246**	27,000
Repayment of borrowings		**(80,360)**	(45,364)
Dividend paid		**(32,629)**	–
Net cash generated from financing activities		**121,692**	106,572
Net (decrease)/increase in cash and cash equivalents		**(10,348)**	115,834
Cash and cash equivalents at beginning of the year	12	**268,634**	152,800
Cash and cash equivalents at end of the year	12	**258,286**	268,634

The notes on pages 43 to 89 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007
(All amounts in Renminbi thousands unless otherwise stated)

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavours 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. The address of its registered office is: Century Yard, Cricket Square, Hutchins Drive, P.O, Box 2681 GT, George Tower, Grand Cayman, Cayman Islands, British West Indies.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company on 29 October 2004, CFF Holdings Limited ("CFF Holdings"), acquired the entire capital of Shenzhen Guanlida Boton Spice Co., Ltd. (renamed as Shenzhen Boton Spice Co., Ltd. on 7 June 2006, "Shenzhen 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. As a result, the Company became the holding company of the Group and CFF Holdings acts as an intermediate company of another company, Shenzhen Boton.

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

These consolidated financial statements are presented in Renminbi (RMB) thousands, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 8 April 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) Standards, amendment and interpretations effective in 2007

- HKAS 1 (Amendment), Presentation of Financial Statements: Capital Disclosures, requires an entity to disclose the information that enables users of its financial statements to evaluate the entity's objectives, policies and process of managing capital. The Group has applied this amendment from 1 January 2007.

- HKFRS 7, Financial Instruments: Disclosures, requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risks, including sensitivity analysis to market risks. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Group has applied this standard from 1 January 2007.

- HK (IFRIC) Interpretation 8, Scope of HKFRS 2, requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instrument issued in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have material impact on the Group's financial statements.

- HK (IFRIC) Interpretation 10, Interim Financial Reporting and Impairment, 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. This interpretation does not have material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) *Standards, amendments and interpretations effective in 2007 but not relevant*

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 HKAS 29, Financial reporting in hyper-inflationary economies'; and
- HK (IFRIC) Interpretation 9, 'Re-assessment of embedded derivatives'.

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

The following standards, amendments and interpretations to existing standards have been published that 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

HKFRS 8, Operating Segments

HK (IFRIC) Interpretation 11, HKFRS 2 – Group and treasury Share Transactions

HKAS 23 (Amendment), Borrowing costs

HKAS 27 (Revised), Consolidated and Separate Financial Statements

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

The following 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.

HKFRS 3 (Revised), Business Combination

HKFRS 2 Amendment, Share-based Payment Vesting Conditions and Cancellations

HK (IFRIC) Interpretation 12, Service Concession Arrangements

HK (IFRIC) Interpretation 13, Customer Loyalty Programmes

HK (IFRIC) Interpretation 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

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

(a) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

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

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

2.3 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.6 Property, plant and equipment

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

Construction in progress are property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use and transferred to property, plant and equipment.

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

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

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Trademarks

Trademarks are acquired from business combinations. They have an infinite useful life and measured initially at fair value and subsequently carried at cost.

(c) Customer relationships

Customer relationships are acquired from business combinations. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over their estimated useful life of 20 years.

(d) Technology

Technology includes purchased technology and technology acquired from business combinations. They have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technology over their estimated useful lives of 5 to 10 years.

(e) Other intangible assets

Other intangible assets mainly include computer software and others acquired from business combinations. They have a finite useful life and carried at cost less accumulated amortisation. Other intangible assets are amortised on a straight-line method to allocate the cost of computer software over their estimated useful lives of 3 to 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

2.9 Inventories

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

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11 Cash and cash equivalents

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

2.12 Share capital

Shares issued are classified as equity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Trade payables

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

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.15 Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

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

2.16 Current and deferred income tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Current and deferred income tax *(continued)*

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

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

2.17 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

(b) Share-based compensation

The Group operates an equity-settled, share-based employee share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

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

Interest income is recognised on a time-proportion basis using the effective interest method.

2.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

2.20 Operating leases

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

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

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

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions are settled in RMB. The Group has foreign currency denominated cash of RMB49 million as at 31 December 2007 (2006: RMB147 million) but has not hedged foreign exchange risk because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	Currency denomination	**As at 31 December**	
		2007	2006
		RMB'000	RMB'000
Current assets			
Trade and other receivables	HK$/US$	**4,274**	11,788
Cash and cash equivalents	HK$	**48,933**	146,640
Current liabilities			
Trade and other payables	HK$/US$	**6,524**	11,601

If there is a 3% increase in RMB against the relevant currency, the effect in the profit for the year is a decrease in profit of RMB1,400,000.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Market risk *(continued)*

(ii) Price risk

The Group is not exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits at demand at variable interest rate and borrowings bearing fixed interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Company's loans to subsidiaries were interest free and expose the Company to fair value interest-rate risk. Other financial assets and liabilities do not have material interest rate risk. The Group did not purchase interest-rate swaps to hedge the fair value interest-rate risk arising from the borrowing at fixed rate.

As at 31 December 2007, if the interest rate of the short-term bank borrowing had been 1% higher/lower with all other variables held constant, the profit for the year would have been RMB283,000 lower/higher, mainly as a result of higher/lower interest expenses on the borrowing. If the interest rate on short-term deposits and cash and cash equivalents had been 1% higher/lower with all other variables held constant, the profit for the year would have been RMB2,687,000 higher/lower as a result of higher/lower interest income.

(b) Credit risk

Credit risk arises from cash and cash equivalents, and trade and other receivables.

For cash and cash equivalents, management manages the credit risk by placing all the bank deposits in state-owned financial institutions or reputable banks which are all high-credit-quality financial institutions.

For trade and other receivables, the Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding through an adequate amount of available financing, including short-term and long-term bank loans. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

The Group's non-derivative financial liabilities are due within 12 months from the balance sheet date.

(d) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

As at 31 December 2007, the Group's cash and cash equivalents exceed borrowings.

(e) Fair value estimation

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and consequently related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) Estimate of fair values of acquired assets and liabilities from acquisition

On 13 September 2007, the Group acquired 50% equity interest in Wutong Aroma Chemicals Co., Ltd ("Wutong Aroma") at a cash consideration of HK$120,000,000 (RMB116,400,000). Details of the acquisition are set out in Note 29. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the date of acquisition in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill in the balance sheet or recognised directly in the income statement.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Estimate of fair values of acquired assets and liabilities from acquisition *(continued)*

In the absence of an active market for the above business combination undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made estimates from a variety of sources, in order to determine the fair values of identifiable assets and liabilities in the transaction, as summarised below:

– Fair values of all working capital items of Wutong Aroma are stated at their net book value as at the acquisition date, after making applicable adjustments according to the latest audited results;

– The long-term assets which were subject to significant fair value adjustment were assessed by an independent professional valuer close to the acquisition date. The market approach and depreciated replacement cost approach were applied in determining the market value of the long-term assets;

– Additional intangible assets identified in the acquisition were assessed by an independent professional valuer close to the acquisition date, which fair value was ascertained based on the discounted projected projected cash flow model.

As a result of the above assessment, the directors of the Company determined the fair value of the net identifiable assets acquired in the transaction. The difference between the cost of acquisition and the fair value of the Group's share of net assets acquired amounted to RMB46,211,000 and has been recognised as goodwill for the year ended 31 December 2007 in relation to the acquisition of Wutong Aroma.

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of certain key assumptions (Note 7). Change such key assumptions selected by management, including the discount rates or the growth rate assumptions, could materially affect the net present value used in the impairment test.

(All amounts in Renminbi thousands unless otherwise stated)

5. LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments for land occupied by the Group in the PRC and its net book amount is analysed as follows:

	2007	2006
Opening net book amount	**2,001**	2,048
Additions	**58,597**	–
Acquisition of subsidiary (Note 29)	**17,500**	–
Amortisation charge (Note 20)	**(1,135)**	(47)
Closing net book amount	**76,963**	2,001

	2007	2006
Cost	**78,424**	2,327
Accumulated amortisation	**(1,461)**	(326)
Net book amount	**76,963**	2,001

The lease periods of land use rights are 50 years; the remaining lease periods of land use rights are 38 to 50 years.

As at 31 December 2007, land use rights certificates of certain parcels of land of the Group with an aggregate carrying amounts of approximately RMB75,009,000 (2006: Nil) had not yet been obtained by the Group. After consultation made with a legal counsel, the directors consider that there is no legal restriction for the Group to apply for and obtain the land use right certificates.

(All amounts in Renminbi thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Group						Company
	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total	Furniture, fixtures and equipment
At 1 January 2006							
Cost	34,913	8,291	7,888	25,910	565	77,567	183
Accumulated depreciation	(7,678)	(3,716)	(5,918)	(9,273)	–	(26,585)	(6)
Net book amount	27,235	4,575	1,970	16,637	565	50,982	177
Year ended 31 December 2006							
Opening net book amount	27,235	4,575	1,970	16,637	565	50,982	177
Additions	–	3,794	5,667	1,463	13,857	24,781	91
Disposals	–	–	(13)	–	–	(13)	–
Transfers	–	309	–	–	(309)	–	–
Depreciation (Note 20)	(1,567)	(795)	(811)	(4,091)	–	(7,264)	(50)
Closing net book amount	25,668	7,883	6,813	14,009	14,113	68,486	218
At 31 December 2006							
Cost	34,913	12,394	13,542	27,373	14,113	102,335	274
Accumulated depreciation	(9,245)	(4,511)	(6,729)	(13,364)	–	(33,849)	(56)
Net book amount	25,668	7,883	6,813	14,009	14,113	68,486	218
Year ended 31 December 2007							
Opening net book amount	**25,668**	**7,883**	**6,813**	**14,009**	**14,113**	**68,486**	**218**
Acquisition of subsidiary (Note 29)	**17,375**	**28,039**	**1,918**	**668**	**1,568**	**49,568**	**–**
Additions	**1,368**	**12,980**	**3,471**	**1,081**	**6,773**	**25,673**	**–**
Disposals	**–**	**(409)**	**(7)**	**(46)**	**–**	**(462)**	**(20)**
Transfers	**2,772**	**–**	**–**	**–**	**(2,772)**	**–**	**–**
Depreciation (Note 20)	**(2,005)**	**(2,099)**	**(1,911)**	**(3,907)**	**–**	**(9,922)**	**(44)**
Closing net book amount	**45,178**	**46,394**	**10,284**	**11,805**	**19,682**	**133,343**	**154**
At 31 December 2007							
Cost	**56,774**	**59,036**	**18,654**	**29,062**	**19,682**	**183,208**	**254**
Accumulated depreciation	**(11,596)**	**(12,642)**	**(8,370)**	**(17,257)**	**–**	**(49,865)**	**(100)**
Net book amount	**45,178**	**46,394**	**10,284**	**11,805**	**19,682**	**133,343**	**154**

6. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expense of RMB3,153,000 (2006: RMB1,510,000) has been expensed in cost of goods sold and RMB6,769,000 (2006: RMB5,754,000) in administrative expenses.

Lease rentals amounting to RMB2,624,000 (2006: RMB1,200,000) and RMB1,620,000 (2006: RMB1,134,000) for the lease of buildings and motor vehicles, respectively, are included in the consolidated income statement (Note 20).

The buildings as at 31 December 2006 were pledged for bank borrowings, which were repaid during the year (Note 17).

As at 31 December 2007, building ownership certificates for the buildings acquired from business combinations with the carrying values of approximately RMB18,415,000 (2006: Nil) had not yet been obtained. After consultation made with a legal adviser, the Company's directors consider that there is no legal restriction for the Group to apply for and obtain the building ownership certificates.

(All amounts in Renminbi thousands unless otherwise stated)

7. INTANGIBLE ASSETS – GROUP

	Goodwill	Customer relationship	Technology	Trademark	Computer software and others	Total
Year ended 31 December 2006						
Opening net book amount	–	–	–	–	–	–
Additions	–	–	25,000	–	–	25,000
Amortisation charge (Note 20)	–	–	(687)	–	–	(687)
Closing net book amount	–	–	24,313	–	–	24,313
At 31 December 2006						
Cost	–	–	25,000	–	–	25,000
Accumulated amortisation	–	–	(687)	–	–	(687)
Net book amount	–	–	24,313	–	–	24,313
Year ended 31 December 2007						
Opening net book amount	**–**	**–**	**24,313**	**–**	**–**	**24,313**
Acquisition of subsidiary (Note 29)	**48,306**	**45,400**	**28,200**	**40,800**	**2,714**	**165,420**
Additions	**–**	**–**	**–**	**–**	**91**	**91**
Amortisation charge (Note 20)	**–**	**(681)**	**(5,813)**	**–**	**(154)**	**(6,648)**
Closing net book amount	**48,306**	**44,719**	**46,700**	**40,800**	**2,651**	**183,176**
At 31 December 2007						
Cost	**48,306**	**45,400**	**53,200**	**40,800**	**2,805**	**190,511**
Accumulated amortisation	**–**	**(681)**	**(6,500)**	**–**	**(154)**	**(7,335)**
Net book amount	**48,306**	**44,719**	**46,700**	**40,800**	**2,651**	**183,176**

Amortisation of RMB6,648,000 (2006: RMB687,000) was charged to administrative expenses.

(All amounts in Renminbi thousands unless otherwise stated)

7. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment tests for goodwill

The goodwill was aroused from the acquisition of Wutong Aroma, which was treated as a separate CGU. The recoverable amount of Wutong Aroma has been determined based on a value-in-use calculation, which uses cash flow projection based on a financial forecast approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The key assumptions used for value-in-use calculation are as follows:

Gross margin (Estimated gross margin)	36.5%
Growth rate (Weighted average growth rate)	13.6%
Discount rate	11.71%

Management determined estimated gross margin based on past performance and its expectations for the market development. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relating to business operated by Wutong Aroma.

According to the valuation results produced by management based on certain assumptions, management considered that there was no impairment charge needed to be made against goodwill arising from acquisition of Wutong Aroma as at 31 December 2007.

8. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2007	2006
Unlisted shares at cost	**100,598**	100,598
Investments arising from share-based compensation (Note i)	**3,732**	3,237
Amount due from subsidiaries (Note ii)	**49,701**	49,701
	154,031	153,536

(i) The amount represents injection of capital by way of granting of share options of the Company to employees of subsidiaries in exchange for their services rendered to the subsidiaries.

(ii) The amount due from a subsidiary is unsecured, non-interest bearing and provided as part of owner's equity.

(All amounts in Renminbi thousands unless otherwise stated)

8. INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

The following is a list of the major subsidiaries at 31 December 2007:

Name	Place of incorporation and kind of legal entity	Authorised/ Registered capital	Paid up capital	Interest held	Principal activities and place of operation
Directly held:					
CFF Holdings	British Virgin Islands, limited liability company	HKD389,500 divided into 38,950,000 shares of HKD0.01 each	HKD300	100%	Investment holding, British Virgin Islands
Boton Investments Limited	British Virgin Islands, limited liability company	USD50,000 divided into 50,000 shares of USD1 each	USD1	100%	Investment holding, British Virgin Islands
Indirectly held:					
Shenzhen Boton	The PRC, limited liability company	RMB215,000,000	RMB215,000,000	100%	Manufacturing and sale of flavours and fragrance products, in the PRC
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading, Hong Kong
Citiwell International Group Limited	British Virgin Islands, limited liability company	USD50,000 divided into 50,000 shares of USD1 each	USD50,000	100%	Investment holding, British Virgin Islands
Best Fortune International Investment Limited	Hong Kong limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Investment holding Hong Kong
中香香料(深圳)有限公司 (Zhongxiang Aroma (Shenzhen) Co., Ltd.)	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacturing and sale of food flavors products, in the PRC
滕州市悟通香料有限責任公司 (Wutong Aroma Chemicals Co., Ltd. (Note 29))	The PRC, limited liability company	RMB5,000,000	RMB5,000,000	50%	Manufacturing and sale of flavors, fragrance products and food additives, in the PRC

(All amounts in Renminbi thousands unless otherwise stated)

9. INVESTMENT IN AN ASSOCIATE – GROUP

	2007	2006
Beginning of the year	**–**	–
Acquisition of subsidiary (Note 29)	**940**	–
Share of profit	**193**	–
End of the year	**1,133**	–

The Group's share of the results of an unlisted associate, and its aggregated assets and liabilities as at 31 December 2007 are as follows:

Name	**Place of incorporation and kind of legal entity**	**Authorised/ registered capital**	**Paid up capital**	**Assets**	**Liabilities**	**Revenues**	**Profit**	**% interest held**
新牟精細化工有限責任公司 Xin Mou Aroma . Chemicals Co., Ltd	The PRC, limited liability company	RMB2,000,000	RMB2,000,000	5,550	3,140	26,304	410	47

10. INVENTORIES – GROUP

	2007	2006
Raw materials	**29,846**	19,113
Work in progress	**3,585**	391
Finished goods	**25,357**	11,142
	58,788	30,646

The cost of inventories recognised as expense and included in cost of sales for the year amounted to RMB170,812,000 (2006: RMB109,890,000).

(All amounts in Renminbi thousands unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2007	Group 2006	Company 2007	Company 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 subsidiaries	(e)	**–**	–	**283,633**	104,122
Due from an associate	(e)	**2,900**	–	**–**	–
Other receivables		**8,872**	7,973	**271**	213
		234,817	128,459	**283,904**	104,335

(a) The carrying amounts of trade and other receivables approximate their fair values. And majority of the carrying amounts are denominated in RMB.

(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**	10,243
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 subsidiaries and associate are unsecured, interest-free and repayable on demand.

12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
Cash at bank and in hand	**52,288**	86,735	**3,816**	5,511
Short-term bank deposits	**205,998**	181,899	**42,856**	60,318
	258,286	268,634	**46,672**	65,829

(a) The effective interest rate on short-term bank deposits was 3% (2006: 4%). These deposits have an average maturity of 40 days (2006: 60 days).

(b) The carrying amounts of cash and cash equivalents approximate their fair values and represent maximum exposure to credit risk.

13. SHARE CAPITAL

Movements of the share capital of the Company are as follows:

	Authorised	
	Number of shares (of HK$0.1 each)	RMB'000
At 31 December 2005, 2006 and 2007	800,000,000	83,200

		Issued and fully paid	
	Note	Number of shares (of HK$0.1 each)	RMB'000
At 31 December 2005		400,000,000	41,600
Issue of shares	(a), (b)	44,455,000	4,587
Share options exercised	(e)	430,000	43
At 31 December 2006		444,885,000	46,230
Issue of shares	(c)	37,334,000	3,614
Share options exercised	(e)	2,170,000	211
At 31 December 2007		**484,389,000**	**50,055**

13. SHARE CAPITAL *(continued)*

(a) The over-allotment option granted to underwriters in connection with the new issue of shares for listing was partially exercised on 4 January 2006 and 7,892,000 shares were issued and allotted by the Company at HK$1.18 per share. The difference between the proceeds from over-allotment option and the increased issued and fully-paid share capital, amounting to RMB8,864,000, was credited to the share premium account (Note 14).

(b) On 3 July 2006, 36,563,000 shares of HK$0.1 per share were issued at HK$3.15 per share to Creative China pursuant to the placing and subscription agreement. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB114,863,000, was credited to the share premium account (Note 14).

(c) On 20 July 2007, 37,334,000 shares of HK$0.1 per share were issued at HK$5.20 per share to Creative China pursuant to the placing and subscription agreement. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB184,307,000, was credited to the share premium account (Note 14).

(d) All shares issued have the same rights as the other shares in issue.

(e) Share options

The Company has a share option scheme adopted on 25 November 2005 (the "Share Option Scheme").

On 28 April 2006 and 7 September 2006 the Group respectively granted 4,560,000 and 6,200,000 share options with an exercise price of HK$2.95 and HK$3.20 each to existing employees. 430,000 shares of theses options were exercised during the year of 2006. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB1,226,000, was credited to the share premium account.

On 17 April 2007 and 18 May 2007 the Group respectively granted 2,170,000 and 400,000 share options with an exercise price of HK$3.35 and HK$4.00 each to existing employees. 2,170,000 shares of theses options were exercised during the year of 2007. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB6,862,000, was credited to the share premium account.

13. SHARE CAPITAL *(continued)*

(e) Share options *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2007		2006	
	Average exercise price in HK$ per share	**Number of options ('000)**	Average exercise price in HK$ per share	Number of options ('000)
At 1 January	**3.20**	**6,200**	–	–
Granted	**3.45**	**2,570**	3.09	10,760
Exercised	**3.35**	**(2,170)**	2.95	(430)
Lapsed	**3.25**	**(6,400)**	2.95	(4,130)
At 31 December	**3.20**	**200**	3.20	6,200

Share options outstanding (in thousands) at the end of the year have the following expiry dates and exercise prices:

Expiry date	**Exercise price HK$ per share**	**Numbers of options 2007**	2006
6 March 2007	3.20	**–**	4,200
6 September 2008	3.20	**200**	2,000
		200	6,200

13. SHARE CAPITAL *(continued)*

(e) Share options *(continued)*

The fair values of the options granted to the employees during the year of 2007 and 2006, determined using the Black-Scholes Model, are as follows:

Year ended 31 December 2007:

Date of grant	Fair value of options	Number of options granted ('000)	Exercise price in HK$ per share	Closing share price at date of grant	Risk free rate	Dividend yield	Expected volatility	Expected option life
17 April 2007	**441**	**2,170**	**3.35**	**3.35**	**3.74%**	**0%**	**28.54%**	**3 months**
18 May 2007	**54**	**400**	**4.00**	**3.80**	**3.80%**	**0%**	**31.13%**	**3 months**
	495	**2,570**						

Year ended 31 December 2006:

Date of grant	Fair value of options	Number of options granted ('000)	Exercise price in HK$ per share	Closing share price at date of grant	Risk free rate	Dividend yield	Expected volatility	Expected option life
28 April 2006	807	4,560	2.95	2.80	3.87%	8%	33.90%	6 months
7 September 2006	1,458	4,200	3.20	3.20	3.67%	0%	45.23%	4 months
7 September 2006	973	2,000	3.20	3.20	3.64%	0%	51.96%	6 months
	3,238	10,760						

(All amounts in Renminbi thousands unless otherwise stated)

14. OTHER RESERVES

The Group

	Reserve fund Note (a)	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Share premium	Total
At 1 January 2006	13,934	6,034	6,966	22,920	65,692	115,546
Employee share option scheme:						
– value of employee services	–	–	–	–	3,238	3,238
– proceeds from shares issued (Note 13(e))	–	–	–	–	1,226	1,226
Issue of shares (Note 13(a), (b))	–	–	–	–	123,727	123,727
Share issuance costs	–	–	–	–	(4,647)	(4,647)
Profit appropriations	8,807	–	–	–	–	8,807
At 31 December 2006	22,741	6,034	6,966	22,920	189,236	247,897
Employee share option scheme:						
– value of employee services (Note 13(e))	–	–	–	–	495	495
– proceeds from shares issued (Note 13(e))	–	–	–	–	6,862	6,862
Issue of shares (Note 13(c))	–	–	–	–	184,307	184,307
Share issuance costs	–	–	–	–	(5,559)	(5,559)
Profit appropriations	11,228	–	–	–	–	11,228
At 31 December 2007	**33,969**	**6,034**	**6,966**	**22,920**	**375,341**	**445,230**

(a) In accordance with relevant laws and regulations of the PRC, the PRC subsidiaries of the Group should make the appropriations from the net profit to the reserve fund, discretionary surplus reserve and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders.

The appropriation for the reserve fund of Shenzhen Boton and Zhongxiang Aroma (Shenzhen) Co., Ltd. is no less than 10% of the net profit and it will cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. The percentages to be appropriated to the discretionary surplus reserve and the enterprise expansion fund are determined by the Board of Directors of Shenzhen Boton and Zhongxiang Aroma (Shenzhen) Co., Ltd.

The percentages to be appropriated to the reserve fund, discretionary surplus reserve and the enterprise expansion fund of Wutong Aroma are determined by the Board of Directors of Wutong Aroma.

Upon approval from the Board of Directors, the reserve fund can be used to offset accumulated losses or to increase capital; the enterprise expansion fund can be used to expand production or to increase capital.

(b) Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

(All amounts in Renminbi thousands unless otherwise stated)

14. OTHER RESERVES *(continued)*

The Company

	Share premium
At 1 January 2006	164,210
Employee share option scheme:	
– value of employee services (Note 13(e))	3,238
– proceeds from shares issued (Note 13(e))	1,226
Issue of shares (Note 13(a), (b))	123,727
Share issuance costs	(4,647)
At 31 December 2006	287,754
Employee share option scheme:	
– value of employee services (Note 13(e))	495
– proceeds from shares issued (Note 13(e))	6,862
Issue of shares (Note 13(c))	184,307
Share issuance costs	(5,559)
At 31 December 2007	**473,859**

15. DEFERRED GRANTS – GROUP

Amounts represents various subsidies granted by and received from local government authorities in the PRC for subsidising the research and development projects conducted by the Group. The movements are as follows:

	2007	2006
At 1 January	**854**	1,630
Receipt of grants	**1,600**	1,689
Recognised in consolidated income statement (Note 19)	**(1,131)**	(2,465)
At 31 December	**1,323**	854

(All amounts in Renminbi thousands unless otherwise stated)

16. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	**2007**	2006	**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	**–**	–
Due to a subsidiary	(b)	**–**	–	**2,938**	4,293
Other payables		**15,778**	7,302	**3,421**	1,554
		90,592	42,670	**6,359**	5,847

(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

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

17. BORROWINGS – GROUP

	2007	2006
Short-term bank loans	**–**	27,000
Other short-term loans	**23,427**	–
	23,427	27,000

The short-term bank loans as at 31 December 2006 were secured by buildings of the Group (Note 6) and repaid during the year.

Other short-term loans mainly represent the borrowings obtained from the employees and third parties at an annual interest rate of 7.2% or 9.6% and are repayable on demand.

(All amounts in Renminbi thousands unless otherwise stated)

17. BORROWINGS – GROUP *(continued)*

All the borrowings are denominated in RMB.

The effective annual interest rates at the balance sheet dates were as follows:

	2007	2006
Bank borrowings	**–**	6.14%
Other loans	**7.79%**	–

The carrying amounts of short-term loans approximate their fair value, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the average borrowing rate of 7.79% (2006: 6.14%) per annum.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	2007	2006
6 months or less	**–**	27,000
6 – 12 months	**23,427**	–
	23,427	27,000

(All amounts in Renminbi thousands unless otherwise stated)

18. DEFERRED INCOME TAX – GROUP

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 (Note 29)	**(42,166)**	–
Credited to the income statement (Note 23)	**2,111**	–
At 31 December 2007	**(40,055)**	–

(All amounts in Renminbi thousands unless otherwise stated)

18. DEFERRED INCOME TAX – GROUP *(continued)*

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 (Note 29)	–	–	–	(4,392)	(32,416)	(5,358)	(42,166)
Credited to the income statement (Note 23)	604	680	1,284	69	521	237	827
At 31 December 2007	**604**	**680**	**1,284**	**(4,323)**	**(31,895)**	**(5,121)**	**(41,339)**

19. REVENUE AND OTHER GAINS

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

	2007	2006
Revenue		
Sales of goods	**428,762**	292,580
Other gains		
Government grants (Note 15)	**1,131**	2,465
Sales of raw materials	**437**	346
Others	**1,283**	–
	2,851	2,811

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

(All amounts in Renminbi thousands unless otherwise stated)

20. EXPENSES BY NATURE

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

	2007	2006
Depreciation and amortisation (Notes 5, 6 and 7)	**17,705**	7,998
Employee benefit expenses, excluding amount included in research and development costs (Note 21)	**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 (Note 6)	**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 (Note 21)	**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

21. EMPLOYEE BENEFIT EXPENSES

	2007	2006
Wages, allowance and bonus	**43,676**	31,169
Retirement scheme contribution (Note (a))	**1,959**	1,573
Share options granted to directors and employees (Note 13(e))	**495**	3,238
Others	**542**	299
	46,672	36,279

(a) Retirement scheme contribution

Shenzhen Boton and Wutong Aroma make defined contribution to retirement scheme managed by local government in the PRC based on 15.7% and 18.8% respectively of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

21. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2007 is set out below.

Name of director	Fees RMB'000	Salary RMB'000	Share options granted RMB'000	Other benefits and allowance RMB'000	Pension scheme contribution RMB'000	Total RMB'000
Mr. Wong Ming Bun	–	1,756	–	–	–	1,756
Mr. Wang Ming Fan	–	1,647	–	120	10	1,777
Mr. Li Qing Long	–	1,136	–	30	10	1,176
Mr. Qian Wu (Note)	–	712	–	30	10	752
Mr. Wang Ming You (Note)	–	523	–	30	10	563
Mr. Goh Gen Cheung	146	–	–	–	–	146
Mr. Leung Wai Man, Roger	146	–	–	–	–	146
Mr. Zhou Xiao Xiong	146	–	–	–	–	146
	438	5,774	–	210	40	6,462

Note: Mr Qian Wu and Mr Wang Ming You were appointed on 15 March 2007.

The remuneration of every director for the year ended 31 December 2006 is set out below.

Name of director	Fees RMB'000	Salary RMB'000	Share options granted RMB'000	Other benefits and allowance RMB'000	Pension scheme contribution RMB'000	Total RMB'000
Mr. Wong Ming Bun	–	1,800	–	–	–	1,800
Mr. Wang Ming Fan	–	1,499	–	120	6	1,625
Mr. Li Qing Long	–	1,197	301	30	7	1,535
Mr. Goh Gen Cheung	150	–	–	–	–	150
Mr. Leung Wai Man, Roger	150	–	–	–	–	150
Mr. Zhou Xiao Xiong	150	–	–	–	–	150
	450	4,496	301	150	13	5,410

(All amounts in Renminbi thousands unless otherwise stated)

21. EMPLOYEE BENEFIT EXPENSES *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 include four directors (2006: three directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2006: two individuals) during the year are as follows:

	2007	2006
Basic salaries, housing allowance, other allowance and benefits in kind	**445**	914
Pension scheme contribution	**–**	26
Share options	**136**	–
	581	940

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

22. FINANCE INCOME AND COSTS

	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)

(All amounts in Renminbi thousands unless otherwise stated)

23. INCOME TAX EXPENSES

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

	2007	2006
Current income tax		
– PRC income tax	**31,185**	16,382
Deferred income tax (Note 18)	**(2,111)**	–
	29,074	16,382

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions.

(b) In 2007, Shenzhen Boton was subject to PRC enterprise income tax at a rate of 15% (2006: 15%), the preferential tax rate for enterprise established in the Shenzhen Special Economic Zone.

(c) Wutong Aroma, a subsidiary acquired in the year of 2007, was subject to PRC enterprise income tax at a rate of 33%.

(d) Zhongxiang Aroma (Shenzhen) Co., Ltd., a newly established subsidiary in 2007, was subject to PRC enterprise income tax at a rate of 15%, the preferential tax rate for enterprise established in the Shenzhen Special Economic Zone.

(e) Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax for domestic and foreign enterprises is unified at 25%, effective 1 January 2008. In addition, the PRC Enterprise Income Tax Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the "Circular to Implementation the Transitional Preferential Policies for the Enterprise Income Tax". Pursuant to this Circular, the transitional income tax rates for the Group's subsidiaries established in Shenzhen Special Economic Zone before 31 March 2007 would be 18%, 20%, 22%, 24% and 25% in the years 2008, 2009, 2010, 2011 and 2012 respectively.

23. INCOME TAX EXPENSES *(continued)*

(f) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the tax rate enacted in Shenzhen Special Economic Zone, where the principal activities of the Group are conducted, as follows:

	2007	2006
Profit before tax	**129,628**	91,766
Tax calculated at the tax rate of 15% (2006: 15%)	**19,444**	13,765
Effect of different tax rates available to different companies of the Group	**4,105**	–
Tax losses not recognised	**7**	–
Expenses not deductible for tax purpose	**5,518**	2,617
Taxation charge	**29,074**	16,382

24. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB3,030,000 (2006: a loss of RMB15,318,000).

25. 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

25. EARNINGS PER SHARE *(continued)*

(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

26. DIVIDENDS

The dividends paid in 2007 were RMB32.6 million (2006: Nil). 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

(All amounts in Renminbi thousands unless otherwise stated)

27. CASH GENERATED FROM OPERATIONS

	2007	2006
Profit before income tax	**129,628**	91,766
Adjustments for:		
– Depreciation and amortisation (Notes 5, 6 and 7)	**17,705**	7,998
– Loss on disposal of property, plant and equipment	**462**	13
– Interest income (Note 22)	**(4,777)**	(4,040)
– Interest expense (Note 22)	**1,903**	2,057
– Share of profit from an associate (Note 9)	**(193)**	–
– Share options granted to directors and employees (Note 13)	**495**	3,238
Changes in working capital:		
– Inventories	**(3,075)**	(3,975)
– Trade and other receivables	**(79,064)**	(29,687)
– Trade and other payables and deferred grants	**17,375**	4,086
Cash generated from operations	**80,459**	71,456

28. COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure of the Group at the balance sheet date but not yet incurred is as follows:

	2007	2006
Property, plant and equipment contracted but not provided for	**17,644**	4,099
Technology contracted but not provided for	**2,200**	–
	19,844	4,099

(All amounts in Renminbi thousands unless otherwise stated)

28. COMMITMENTS – GROUP *(continued)*

(b) Operating lease commitments

The Group leases various plant, offices and vehicles under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
Not later than 1 year	**1,349**	1,728
Later than 1 year and not later than 5 years	**1,222**	1,110
	2,571	2,838

29. BUSINESS COMBINATIONS – GROUP

On 13 September 2007, Boton Investments Limited ("BIL"), a wholly owned subsidiary of the Company entered into an agreement with an independent party to acquire 100% equity interests in Citiwell International Group Limited ("Citiwell"), a company incorporated in the British Virgin Islands. The sole asset of Citiwell is its 50% equity interests in Wutong Aroma Chemicals Co., Ltd ("Wutong Aroma"), a company established in the PRC. Pursuant to the acquisition agreement, BIL was entitled to appoint, via Citiwell, 60% or more of the members of the board of directors in Wutong Aroma, and also the financial controller and supervisor of Wutong Aroma. The management considers the Company has de facto control over Wutong Aroma. Accordingly, Wutong Aroma is accounted for as a subsidiary of the Group.

The acquired business contributed revenue of RMB70,238,000 and net profit of RMB13,366,000 to the Group for the period from 13 September 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group revenue would have been RMB486,759,000, net profit would have been RMB106,361,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration-cash paid	116,400
Fair value of net assets acquired – shown as below	(68,094)
Goodwill (Note 7)	48,306

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Wutong Aroma.

(All amounts in Renminbi thousands unless otherwise stated)

29. BUSINESS COMBINATIONS – GROUP *(continued)*

The assets and liabilities as of 13 September 2007 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	4,022	4,022
Land use rights (Note 5)	17,500	–
Property, plant and equipment (Note 6)	49,568	28,366
Trademark (included in intangibles) (Note 7)	40,800	–
Customer relationship (included in intangibles) (Note 7)	45,400	–
Technology (included in intangibles) (Note 7)	28,200	–
Computer software and others (Note 7)	2,714	1,014
Investment in an associate (Note 9)	940	940
Inventories	25,067	25,067
Trade and other receivables	24,394	24,394
Amount due from an associate (Note 30)	6,100	6,100
Trade and other payables	(30,820)	(30,820)
Borrowings	(31,541)	(31,541)
Current tax liabilities	(3,990)	(3,990)
Deferred income tax liabilities (Note 18)	(42,166)	–
Net assets	136,188	23,552
Minority interests (50%)	(68,094)	
Net assets acquired	68,094	
Purchase consideration settled in cash		116,400
Cash and cash equivalents in subsidiary acquired		(4,022)
Cash outflow on acquisition		112,378

There were no acquisitions in the year ended 31 December 2006.

(All amounts in Renminbi thousands unless otherwise stated)

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 51% of the Company's shares. The remaining 49% of the shares are widely held. The ultimate controlling party of the Group is Mr. Wong Ming Bun.

The following transactions were carried out with related parties:

(a) Purchases of goods

	2007	2006
Purchases of goods from an associate	**9,513**	–

Goods bought from an associate are on normal commercial terms and conditions.

(b) Key management compensation is disclosed under note 21.

(c) Year-end balances arising from purchases of goods

	2007	2006
Payable to an associate	**286**	–

The payable to an associate arises from purchase transactions and are due one month after the date of purchase. The payable bears no interest.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

(d) Loans to an associate

	2007	2006
Beginning of the year	**–**	–
Balance at acquisition of subsidiary (Note 29)	**6,100**	–
Loan repayments received	**(3,200)**	–
End of year	**2,900**	–

The loans to an associate are unsecured, interest-free and repayable on demand.

FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
Turnover	130,331	158,539	221,667	292,580	**428,762**
Net profit for the year	34,791	42,477	59,763	75,384	**100,554**

ASSETS AND LIABILITIES

	As at 31 December				
	2003	2004	2005	2006	**2007**
Total assets	169,447	169,273	331,273	522,539	**947,790**
Total liabilities	(80,742)	(93,464)	(88,603)	(76,311)	**(175,613)**
Shareholders' funds	88,705	75,809	242,670	446,228	**772,177**

Notes:

1. The financial information for each of the two years ended 31 December 2004 has been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for the two years ended 31 December 2004, and the assets and liabilities as at 31 December 2003 and 2004 have been extracted from the Company's prospectus dated 30 November 2005.

2. The results for year ended 31 December 2007, and the assets and liabilities as at 31 December 2007 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 40 and 38 respectively, of the financial statements.