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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors & Fragrances Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008, together with the comparative figures for the same period in 2007.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Revenue	*4*	**503,838**	428,762
Cost of sales	*5*	**(268,231)**	(170,812)
Gross profit		**235,607**	257,950
Selling and marketing expenses	*5*	**(82,691)**	(50,114)
Administrative expenses	*5*	**(145,658)**	(78,779)
Other gains – net	*4*	**4,698**	2,851
Operating profit		**11,956**	131,908
Finance income	*6*	**4,561**	4,777
Finance costs	*6*	**(2,156)**	(7,250)
Finance income/(costs) – net		**2,405**	(2,473)
Share of profit of an associate		**1,255**	193
Profit before income tax		**15,616**	129,628
Income tax credit/(charge)	*7*	**479**	(29,074)
Profit for the year		**16,095**	100,554
Attributable to:			
Equity holders of the Company		**31,258**	93,871
Minority interest		**(15,163)**	6,683
		16,095	100,554
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	*8a*	**0.06**	0.20
– diluted	*8b*	**0.06**	0.20
Dividends	*9*	**–**	37,792

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

	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Land use rights		**80,754**	76,963
Property, plant and equipment		**140,050**	133,343
Intangible assets		**148,262**	183,176
Investment in an associate		**2,388**	1,133
Available-for-sale financial assets		**23,724**	–
Deferred income tax assets	*12*	**4,370**	1,284
		399,548	395,899
Current assets			
Inventories		**89,400**	58,788
Trade and other receivables	*10*	**195,293**	234,817
Short-term bank deposit with maturity over 3 months		**28,364**	–
Cash and cash equivalents		**151,368**	258,286
		464,425	551,891
Total assets		**863,973**	947,790
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**50,055**	50,055
Other reserves		**450,092**	445,230
Retained earnings			
– Proposed final dividend	*9*	**–**	37,792
– Others		**190,390**	164,323
		690,537	697,400
Minority interest in equity		**79,614**	74,777
Total equity		**770,151**	772,177
LIABILITIES			
Non-current liabilities			
Deferred grants		**267**	1,323
Deferred income tax liabilities	*12*	**24,829**	41,339
		25,096	42,662
Current liabilities			
Trade and other payables	*11*	**59,464**	90,592
Current income tax liabilities		**225**	18,932
Borrowings		**9,037**	23,427
		68,726	132,951
Total liabilities		**93,822**	175,613
Total equity and liabilities		**863,973**	947,790
Net current assets		**395,699**	418,940
Total assets less current liabilities		**795,247**	814,839

Notes:

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the research and development, trading, manufacturing and selling of flavors and fragrances in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standars ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value. These financial statements are presented in Renminbi (RMB) thousands, unless otherwise stated.

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 process of applying the Group's accounting policy.

The following amendment and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not currently relevant for the Group.

HKAS 39	Financial Instruments: Recognition and Measurement
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group and the Company have not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	'Financial Instrument: Presentation' and 'Puttable Financial Instruments and Obligations Arising on Liquidation'[1]
HKFRS 1 & HKAS 27 (Amendments)	'First Time Adoption of HKFRS' and 'Consolidated and Separate Financial Statement'[1]
HKFRS 2 (Amendment)	Share-based Payment[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[5]
HKSA & HKFRSs	Improvements to HKFRSs published in October 2008[6]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfer on or after 1 July 2009
6 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

There are a number of minor amendments to HKFRS 7, 'Financial Instruments: Disclosures', HKSA 8, 'Accounting policies, Changes in accounting estimate and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. Management is assessing the impact of these new requirements.

3. SEGMENT REPORTING

No segment information is presented as the Group's revenue and profit are generated from trading, R&D, manufacturing and selling of extracts, flavors and fragrances in PRC.

4. REVENUE AND OTHER GAINS

The Group is principally engaged in the research and development, trading, manufacturing and selling 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:

	2008	2007
Revenue		
Sales of goods	**503,838**	428,762
Other gains		
Government grants	**3,466**	1,131
Sales of raw materials	**191**	437
Others	**1,041**	1,283
	4,698	2,851

5. EXPENSES BY NATURE

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

	2008	2007
Depreciation and amortisation	**30,783**	17,705
Employee benefit expenses, excluding amount included in research and development costs	**52,393**	42,810
Changes in inventories of finished goods and work in progress	**(22,513)**	710
Raw materials used	**259,165**	146,863
Impairment charge for bad and doubtful debts *(Note 10)*	**14,626**	4,721
Impairment charge for intangible assets	**40,183**	–
Provision for write-down of inventories	**1,264**	–
Sales commission	**24,164**	4,330
Transportation and travelling	**16,264**	19,790
Advertising costs	**11,566**	5,908
Marketing expenses	**7,777**	3,698
Lease expenses	**5,370**	4,244
Auditors' remuneration	**2,738**	2,156
Research and development costs		
– Employee benefit expenses	**5,551**	3,862
– Others	**655**	2,035
Entertainment	**18,092**	21,315
Office expenses	**14,321**	10,372
Other expenses	**14,181**	9,186
Cost of sales, selling and marketing expenses and administrative expenses	**496,580**	299,705

6. FINANCE INCOME AND COSTS

	2008	2007
Finance income		
– Interest income	**4,561**	4,777
Finance cost		
– Interest expenses		
Bank loans	**(59)**	(1,156)
Others	**(1,449)**	(747)
– Exchange loss	**(648)**	(5,347)
	(2,156)	(7,250)
Finance income/(costs) – net	**2,405**	(2,473)

7. INCOME TAX EXPENSES

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

	2008	2007
Current income tax		
– PRC income tax	**19,117**	31,185
Deferred income tax *(Note 12)*		
– relating to the temporary differences	**(11,056)**	(2,111)
– resulting from change in tax rates	**(8,540)**	–
	(479)	29,074

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.

Pursuant to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the CIT Law"), with effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Two subsidiaries of the Group, Shenzhen Boton Flavors and Fragrances Company Limited ("Shenzhen Boton") and Wutong Aroma Chemicals Company Limited ("Wutong Aroma"), were qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% during the years of 2008 to 2010.

8. 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.

	2008	2007
Profit attributable to equity holders of the Company	**31,258**	93,871
Weighted average number of ordinary shares in issue (thousand shares)	**484,389**	462,566
Basic earnings per share (RMB per share)	**0.06**	0.20

(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 in 2007: 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.

	2008	2007
Profit attributable to equity holders of the Company	**31,258**	93,871
Weighted average number of ordinary shares in issue (thousands)	**484,389**	462,566
Adjustments for share options (thousands)	**–**	20
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**484,389**	462,586
Diluted earnings per share (RMB per share)	**0.06**	0.20

9. DIVIDENDS

The dividends paid in 2008 were RMB35,845,000 (2007: RMB32,629,000). No final dividend was proposed in respect of the year ended 31 December 2008.

	2008	2007
Proposed final dividend per ordinary share: Nil (2007: HKD0.083 per share)	**–**	37,792

10. TRADE AND OTHER RECEIVABLES

	Note	Group 2008	Group 2007	Company 2008	Company 2007
Trade receivables	*(a)*	**126,517**	158,428	**–**	–
Less: provision for impairment	*(b)*	**(21,406)**	(6,975)	**–**	–
Trade receivables – net		**105,111**	151,453	**–**	–
Bills receivable	*(c)*	**42,072**	39,843	**–**	–
Prepayments		**32,437**	23,501	**–**	–
Advances to staff		**2,046**	3,056	**–**	–
Staff benefit payments		**4,510**	5,192	**–**	–
Due from an associate	*(d)*	**–**	2,900	**–**	–
Due from subsidiaries	*(d)*	**–**	–	**292,932**	283,633
Other receivables		**9,117**	8,872	**174**	271
		195,293	234,817	**293,106**	283,904

Fair value of trade and other receivables approximate their carrying amounts.

Majority of the carrying amounts of the Group's trade and other receivables are denominated in RMB.

(a) 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:

	2008	2007
0 – 30 days	**27,571**	63,777
31 – 60 days	**16,429**	27,392
61 – 90 days	**15,305**	21,081
91 – 180 days	**10,515**	21,476
181 – 360 days	**22,191**	19,214
Over 360 days	**34,506**	5,488
	126,517	158,428

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

	2008	2007
At 1 January	**(6,975)**	(2,265)
Provision for receivable impairment	**(14,626)**	(4,721)
Receivables written off during the year as uncollectible	**195**	11
At 31 December	**(21,406)**	(6,975)

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

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

11. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	**2008**	2007	**2008**	2007
Trade payables	*(a)*	**42,624**	55,510	**–**	–
Bills payable		**–**	5,100	**–**	–
Other tax payables		**1,956**	7,718	**–**	–
Accrued expenses		**3,843**	6,486	**–**	–
Due to a subsidiary	*(b)*	**–**	–	**3,977**	2,938
Other payables		**11,041**	15,778	**1,189**	3,421
		59,464	90,592	**5,166**	6,359

Majority of the carrying amounts of the Group's trade and other payables are denominated in RMB.

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

	2008	2007
0 – 30 days	**18,136**	30,039
31 – 60 days	**13,778**	16,569
61 – 180 days	**6,935**	6,692
181 – 360 days	**1,006**	1,396
Over 360 days	**2,769**	814
	42,624	55,510

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

12. DEFERRED INCOME TAX

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 tax assets and liabilities relate to income taxed levied by the same authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. There are no offset amounts at the year end.

	2008	2007
Deferred tax assets:		
– to be recovered after more than 12 months	**1,414**	1,284
– to be recovered within 12 months	**2,956**	–
	4,370	1,284
Deferred tax liabilities:		
– to be settled after more than 12 months	**(23,954)**	(40,024)
– to be settled within 12 months	**(875)**	(1,315)
	(24,829)	(41,339)

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

	2008	2007
At 1 January	**(40,055)**	–
Acquisition of a subsidiary	**–**	(42,166)
Credited to income statement relating to temporary differences	**11,056**	2,111
Effect of change in tax rates recognised in income statement *(Note (i))*	**8,540**	–
At 31 December	**(20,459)**	(40,055)

Note:

(i) Two major substantial subsidiaries of the Group were approved as High/New Technology Enterprise in 2008 and are subject to a preferential tax rate of 15% during the years of 2008 to 2010.

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

Deferred tax assets:

	Accelerated amortisation of intangible assets	Provision for impairment losses of trade receivables	Provision for impairment losses of inventory	Total
At 1 January 2007	–	–	–	–
Credited to income statement relating to temporary differences	604	680	–	1,284
At 31 December 2007	604	680	–	1,284
At 1 January 2008	**604**	**680**	**–**	**1,284**
Credited to income statement relating to temporary differences	**810**	**2,358**	**190**	**3,358**
Effect of change in tax rates recognised in income statement	**–**	**(272)**	**–**	**(272)**
At 31 December 2008	**1,414**	**2,766**	**190**	**4,370**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The directors are not certain on whether future taxable profit would be available. As at 31 December 2008, the Group did not recognise deferred income tax assets of RMB449,000 (2007: RMB7,000) in respect of tax losses amounting to RMB2,200,000 (2007: RMB48,000) that can be carried forward against future taxable income.

Deferred tax liabilities:

	Fair value gain on land use right arose from business acquisition	Fair value gain on intangible assets arose from business acquisition	Impairment charge of intangible assets	Fair value gain on property, plant and equipment arose from business acquisition	Withholding tax on the earnings anticipated to be remitted by subsidiaries *(Note (a))*	Total
At 1 January 2007	–	–	–	–	–	–
Acquisition of subsidiary	(4,392)	(32,416)	–	(5,358)	–	(42,166)
Credited to income statement relating to temporary difference	69	521	–	237	–	827
At 31 December 2007	(4,323)	(31,895)	–	(5,121)	–	(41,339)
At 1 January 2008	**(4,323)**	**(31,895)**	**–**	**(5,121)**	**–**	**(41,339)**
(Charged)/credited to income statement relating to temporary differences	**105**	**1,265**	**6,028**	**435**	**(135)**	**7,698**
Effect of change in tax rates recognised in income statement	**211**	**7,974**	**–**	**627**	**–**	**8,812**
At 31 December 2008	**(4,007)**	**(22,656)**	**6,028**	**(4,059)**	**(135)**	**(24,829)**

Note:

(a) Pursuant to the CIT Law, a 10% withholding tax will be levied on the dividends declared by the companies established in the PRC from the profits generated after 1 January 2008 to their foreign investors. As at 31 December 2008, the Group recognised the relevant deferred tax liabilities of RMB135,000 on the profits of approximately RMB1,350,000 anticipated to be remitted by Wutong Aroma in the foreseeable future. Having considered the cash flow requirement of the Group, the directors anticipated that no dividends would be declared by Shenzhen Boton out of its profits generated in 2008 in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the research and development, trading, manufacturing and selling of flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors or fragrances in the customers' manufactured tobacco, food and daily consumer goods. The Group's products add value by enhancing tastes or smells of its customers' products and therefore improve the product quality of the products manufactured by the Group's customers. The Group's flavors are sold principally to manufacturers of tobacco, beverages, daily foods, preserved food, savory and confectionery products whereas the Group's fragrances are sold principally to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products.

Year 2008 is a very difficult year to all enterprises in the People's Republic of China ("PRC"). The impact of the incident of poisoned milk powder is profound to those enterprises, including upstream companies, in the food consumer products industry although some of them have never related to the poisoned milk powder incident. Time is the essence for the recovery in the confidence of the public. Unfortunately, the situation is even worst off by the global financial turmoil, which we foresee confidence of the public would be further shattered and spending power will continue to shrink in view of the gloomy future.

The deteriorating economy has not put out the enthusiasm of the management of the Group who will, at their best effort, maintain a small but encouraging growth of year 2009. High quality products with reasonable price and sale service is what our customers are looking for at this time. Our Group has, at all times, possessed the above technique and attitude, which help us to overcome the challenge in the coming year. Although people have a gloomy view towards the economy of year 2009, we have no fear to face the challenge as this is the year to show the competence, strong competitiveness and solid foundation of our group to the public. Challenge and difficulties will be our motivation and our future will not disappoint those who have faith on us.

Operational and Financial Review

Revenue

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB503.8 million (2007: RMB428.8 million), representing an increase of approximately 17.5% in comparison to the previous year. The increase in turnover was attributed to (i) increase in the demand of flavors enhancers as a result of the introduction of new flavor enhancer products to the tobacco; and (ii) an increase in sales contribution by our upstream subsidiary, Wutong Aroma. Being adversely affected by the poisoned milk powder incident and the reduction in Export Value Added Tax refund, the growth in the Group's turnover from the sales of food flavorings and fine fragrances has reduced by 1.8% and 26.7% respectively during the year.

Gross Profit

The gross profit of the Group decreased by 8.7% as compared to year 2007 to only RMB235.6 million due to the fact that the Group's overall gross profit margin has been reduced by 22.3% to 46.8% only. This reduction in gross profit margin is mainly attributable by the increase in material costs and production cost. The major loser during the year is the synthetic aroma business which is badly hit by the increases in oil prices in the first half year and production stoppages in the second half year due to power supply problems because of the Olympics with gross profit margin reduced from 42.6% in 2007 to only 17.1% in the current year.

Net Profit

The Group's net profit attributable to equity holders for the year ended 31 December 2008 was approximately RMB31.3 million (2007: RMB93.9 million), approximately 66.7% less than in 2007. Net profit margin for the year ended 31 December 2008 decreased by 86.4% as compared to year 2007 mainly due to the impairment loss of RMB40.2 million as a result of the revision of the profit guarantee relating to Citiwell Company Limited, a subsidiary of the Group acquired in year 2007 and impairment loss on receivables of RMB14.6 million.

Expenses

Selling and distribution costs amounted to approximately RMB82.7 million (2007: RMB50.1 million), representing approximately 16.4% (2007: 11.7%) of turnover for the year ended 31 December 2008. The increase in the selling and distribution cost during the year is mainly attributable by the payment of sales commission of RMB24.2 million (2007: RMB4.3 million) to our sales agents with commission rate at 35% of the sales value.

Administrative expenses amounted to approximately RMB145.7 million (2007: RMB78.8 million), representing approximately 28.9% (2007: 18.4%) of turnover for the year ended 31 December 2008. The major components in the administrative expenses continues to be salaries, depreciation and amortization, legal and professional fees and entertainment expenses which, in aggregate, accounted for 48.4% of the total administrative expenses (2007: 57.7%).

Finance income amounted to approximately RMB2.4 million (2007: finance costs of RMB2.5 million). The decrease of the finance cost is mainly due to no bank borrowings have been utilised by the Group during the year and the proceeds from share issuance are being kept in relatively higher interest bearing time deposits, thus, resulting in net finance income during the year.

Future Plans and Prospects

The management of the Group is very confident to the future prospect of the Group even though they are experiencing the most difficult time since the establishment of the Group. It is because stable development, low gearing, focused business line and strong techniques have been the overall strategy of the Group which has never been abandoned although the Company was listed on the main board of Hong Kong Stock Exchange since December 2005. Positive future prospectus of the Group is promising with strict adherence to the above strategy of the Group.

Year 2009 is a year to consolidate our resources in order to continue to carry out the strategy of the Group with a small but encouraging growth. Public will realize that our growth in 2009 is promising and encouraging to the shareholders of the Company.

Liquidity and Financial Resources

As at 31 December 2008, the Group had net current assets of approximately RMB395.7 million (2007: RMB418.9 million). The Group had cash and bank deposits of approximately RMB179.7 million (2007: RMB258.3 million). The current ratio of the Group was approximately 6.8 (2007: 4.2).

Shareholders' fund of the Group as at 31 December 2008 was approximately RMB770.2 million (2007: RMB772.2 million). As at 31 December 2008 the Group does not have any bank borrowings (2007: Nil).

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

Financing

As at 31 December 2008, the Group does not have any banking and loan facilities (2007: Nil).

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.

Foreign Exchange Risk and Interest Rate Risk

The Group has net exchange loss of RMB0.6 million in 2008 (2007: RMB5.3 million). The Group mainly operates in the PRC with most of the transactions denominated in RMB, hence, no financial instrument for hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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.

Capital Expenditure

During the year, the Group invested approximately RMB23.1 million (2007: RMB25.7 million) in fixed assets, of which RMB2.7 million (2007: RMB13.0 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2008, the Group had capital commitments of approximately RMB13.4 million (2007: RMB17.6 million) in respect of fixed assets, which are to be funded by internal resources.

Charge on Group's Assets

As at 31 December 2008, the Group does not have any pledge or charge on assets.

Staff Policy

The Group had 820 employees in the PRC and 12 employees in Hong Kong as at 31 December 2008. 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 2008, the Group does not have material investments.

Contingent Liabilities

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

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

The audited annual results of the Group for the year ended 31 December 2008 have been reviewed by the audit committee of the Company.

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

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

On behalf of the Board
中國香精香料有限公司
China Flavors and Fragrances Company Limited
WONG Ming Bun
Chairman

Hong Kong, 15 April 2009

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