



2009  
Annual Report




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)*

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China Flavors and Fragrances Company Limited  
Annual Report 2009



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## 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 Chung\* (*retired on 16 December 2009*)  
Mr. Ng Kwun Wan\* (*appointed on 16 December 2009*)  
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  
Shenzhen Ping An Bank

### 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  
68 West Bay Road  
Grand Cayman, KY-1106  
Grand Cayman  
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 has followed the macro economy of the PRC to enter a "plateau" stage of growth in 2009.

### DIVIDEND

The Board does not recommend the payment of any dividend for the year.

### BUSINESS REVIEW

The Group recorded a growth of 17.0% of turnover as compared to the turnover for the year ended 31 December 2008. Such growth is the result of our strong technology, focus in our core business, prudence but ambitious business strategy and the rebound of the food industry after experiencing the incident of poisoned milk powder. The Board trusts that a satisfactory growth of our Group turnover could be achieved given that the Group is very clear in terms of business strategy and development, in particularly to the segment of food segment and fine fragrances segment. Although we are optimistic in our future, we would still have concern the increase in our cost of good sold which is the impact from the incident of milk powder which arouse the awareness of the quality and standard of food products of the PRC government. The material cost of flavor enhancer and food flavor has been increased in year 2009 as a result of the mandatory standard in food product imposed by "Food Safety Law of the People's Republic of China" in 2009. Tobacco, which is inhaled into the human body, is categorized as food and would not be exempted from such mandatory standard. Despite the effort in controlling cost of good sold in year 2009 through the assistance of our technology, it would be unavoidable that cost of good sold in year 2009 has been increased by 24.4%.

### FUTURE PROSPECTS

We are still very confidence on the future prospect of our Group as we possess several criteria to become one of the leading flavor and fragrance companies in PRC, which is (i) strong technology; (ii) tailored made after sale services; and (iii) most importantly enhancement in our product capacity. It is worth to mention that our new production base should be completed in second half of 2010 which should allow the overseas food industry player in PRC to have confidence on our production capacity to meet their demand. This may march an era to substitute the imported flavor for the overseas food industry players in PRC.

### APPRECIATION

I would take this opportunity to express my appreciation to our management team and staff for their contribution in year 2009 which certainly was a difficult year to them.

**Wong Ming Bun**

*Chairman*

Hong Kong  
12 April 2010

## 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 2009 was a very interesting year because no one would expect the economy would recover so quickly, especially PRC after such serious poisoned milk powder. However the reality is that the macro economy of the PRC entered a "plateau" stage of growth. The gross domestic product (GDP) for the third quarter of 2009 grew by 8.9% over the same period of last year, a clear increase as compared to the growth rate of 7.9% in the second quarter and 6.1% in the first quarter. Those indexes have been rising, indicating the economy has shaken off deflation, and has entered a stage of recovery.

Although we are optimistic in our future, we would still have concern the increase in our cost of good sold which is the impact from the incident of milk powder. The incident arouses the awareness of the quality and standard of food products of the PRC government. The material cost of flavor enhancer and food flavor has been increased in year 2009 as a result of the mandatory standard in food product imposed by "Food Safety Law of the People's Republic of China" in 2009. Tobacco, which is inhaled into the human body, is categorized as food and would not be exempted from such mandatory standard. Despite the effort in controlling cost of good sold in year 2009 through the assistance of our technology, it would be unavoidable that cost of good sold in year 2009 has been increased by 24.4%.

We are still very confident in the future prospect of our Group as we possess several criteria to become one of the leading flavor and fragrance companies in the PRC, which is (i) strong technology; (ii) tailored made after sale services; and (iii) most importantly enhancement in our production capacity. It is worth to mention that our new production base should be completed in second half of 2010 which should allow the overseas food industry players in the PRC to have confidence in our production capacity to meet their demand. This may march an era to substitute the imported flavor for the overseas food industry players in the PRC.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONAL AND FINANCIAL REVIEW

#### Revenue

For the year ended 31 December 2009, the Group recorded a turnover of approximately RMB589.6 million (2008: RMB503.8 million), representing an increase of approximately 17.0% 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; (ii) increase in the turnover of food flavorings and fine fragrances by 14.7% and 14.7% respectively; (iii) increase in sales contribution by our upstream subsidiary, Wutong Aroma.

#### Gross Profit

The gross profit of the Group increased by 8.6% as compared to year 2008 to only RMB255.8 million due to the fact that the Group's overall gross profit margin has been reduced from 46.8% to 43.4% only. This reduction in gross profit margin is mainly attributable by the increase in material costs and production cost. The major reason is due to the fact that cost of raw material has been increased after the standard of the food has been stringent by the relevant government department.

#### Net Profit

The Group's net profit attributable to equity holders for the year ended 31 December 2009 was approximately RMB61.1 million (2008: RMB31.3 million), approximately 95.2% more than in 2008. Net profit margin for the year ended 31 December 2009 increased by 237.5% as compared to year 2008 which was mainly due to the impairment loss of intangible assets amounting to RMB40.2 million.

#### Expenses

Selling and distribution costs amounted to approximately RMB88.2 million (2008: RMB82.7 million), representing approximately 15.0% (2008: 16.4%) of turnover for the year ended 31 December 2009. The increase in the selling and distribution cost during the year is mainly attributable by the increase in office expenses of the sales department and sales commission.

Administrative expenses amounted to approximately RMB98.1 million (2008: RMB145.7 million), representing approximately 16.6% (2008: 28.9%) of turnover for the year ended 31 December 2009. The major components in the administrative expenses includes employee benefit expenses, depreciation and amortization, impairment charge, legal and professional fees, entertainment expenses which, in aggregate, accounted for 75.2% of the total administrative expenses (2008: 81.4%).

Finance income – net amounted to approximately RMB2.0 million (2008: RMB2.4 million). The decrease of the finance income – net is mainly due to the decrease in average bank deposit interest rate during the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FUTURE PLANS AND PROSPECTS

The management of the Group is very confident to the future prospect of the Group even though we 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 2010 is another 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 2010 is promising and encouraging to the shareholders of the Company.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had net current assets of approximately RMB449.9 million (2008: RMB395.7 million). The Group had cash and bank deposits of approximately RMB217.6 million (2008: RMB179.7 million). The current ratio of the Group was approximately 5.9 (2008: 6.8).

Total equity of the Group as at 31 December 2009 was approximately RMB834.9 million (2008: RMB770.2 million). As at 31 December 2009 the Group does not have any bank borrowings (2008: Nil).

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

### FINANCING

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

### USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, after deduction of related expenses, amounted to approximately HK\$115.6 million. These proceeds were fully applied up to 31 December 2009 in accordance with the proposed applications set out in the Company's prospectus dated 30 November 2005.

### CAPITAL STRUCTURE

The share capital of the Company comprises ordinary shares for the year ended 31 December 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group has net exchange loss of RMB0.8 million in 2009 (2008: exchange loss of RMB0.6 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.

### CHARGE ON GROUP'S ASSETS

As at 31 December 2009, the Group does not have any pledge or charge on assets.

### CAPITAL EXPENDITURE

During the year, the Group invested approximately RMB38.5 million (2008: RMB23.1 million) in fixed assets, of which RMB4.0 million (2008: RMB10.1 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2009, the Group had capital commitments of approximately RMB198.4 million (2008: RMB13.4 million) in respect of fixed assets, which are to be funded by internal resources.

### STAFF POLICY

The Group had 820 employees in the PRC and 10 employees in Hong Kong as at 31 December 2009. 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 2009, the Group does not have material investment.

### 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 52, 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 44, 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 56, 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 49, 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 45, 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 (Anhui 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. LEUNG Wai Man, Roger (梁偉民)**, aged 53, 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.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. ZHOU Xiao Xiong (周小雄)**, aged 49, 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 obtained a master degree in Master of Businesses Administration from 清華大學 (Qing Hua University) in 2008. 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.

**Mr. NG Kwun Wan (吳冠雲)**, aged 46, is an associate member of the Hong Kong Society of Accountants and an associate member of the Australian Society of Certified Public Accountants. He obtained his bachelor degree in Accounting and Finance from the University of Manchester and master degree in professional accounting from the University of New South Wales. Mr. Ng has over 15 years experience in the accounting and finance industry with expertise in direct investment in industrial, infrastructure and property projects. Being the general manager of Tianjin Region of South China (China) Limited (Stock Code: 413), a listed company on The Stock Exchange of Hong Kong Limited, since 2006, Mr. Ng has enormous experience in direct investment in enterprises in People's Republic of China. From 1998 to 2004, Mr. Ng was the deputy general manager of New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and participated in the initial public offering of New World Infrastructure Co. Ltd. in 1997.

### SENIOR MANAGEMENT

**Mr. QIU Jing (邱京)**, aged 33, 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. Yeung Yin Chun (楊迎春)**, aged 35, is the financial controller of the Group. He is responsible for the Group's overall financial planning and management of the Group. He obtained his bachelor degree of finance and economics, majoring in accounting from Tianjin University. Mr. Yeung joined the Group since 2005 and has accumulated for nearly 15 years experience in finance industry. Prior to joining the Group, Mr. Yeung worked with different companies as finance manager.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. MA Man Wai (馬文威)**, aged 40, 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 68, 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 上海輕工業專科學校 (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.

**Mr. XU Zhong Wei (徐仲偉)**, aged 45, 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 67, 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學研究所 (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”) recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and protect the interests of the Company’s shareholders. The Company believes that good corporate practice is essential for effective management, a healthy corporate culture, successful business growth. These include a board comprising high calibre members, board committees and effective internal systems and controls.

Throughout the year ended 31 December 2009, the Company has, as far as possible, complied with requirements of 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. Having made specific enquiry, all directors confirmed in writing their compliance with the required standard set out in the Model Code 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 2009 were:

##### *Executive Directors*

Mr. Wong Ming Bun (*Chairman*)  
Mr. Wang Ming Fan (*Chief Executive Officer*)  
Mr. Li Qing Long  
Mr. Wang Ming You  
Mr. Qian Wu

##### *Independent Non-executive Directors*

Mr. Goh Gen Cheung (retired on 16 December 2009)  
Mr. Leung Wai Man, Roger  
Mr. Ng Kwun Wan (appointed on 16 December 2009)  
Mr. Zhou Xiao Xiong

The biographical details of all directors and the relationships among them are set out in "Directors' Biographies" on pages 8 to 10. 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. Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business 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 constantly examine its size and, with a view of 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.

## CORPORATE GOVERNANCE 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, 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.

## CORPORATE GOVERNANCE REPORT

### (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 pages 31 to 32.

### (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 Financial Controller 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 Group'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.



## CORPORATE GOVERNANCE REPORT

### (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 2009 with full minutes kept by the company secretary.

	<b>Attendance</b>
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 (retired on 16 December 2009)	3/4
Mr. Leung Wai Man, Roger	4/4
Mr. Ng Kwun Wan (appointed on 16 December 2009)	1/4
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. All the independent non-executive directors served in the year under review have given annual confirmation of their independence to the Company. Based on the contents of such confirmation, the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with Code A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual to ensure a balance of power and authority. The Chairman and Chief Executive Officer of the Company are Mr. Wong Ming Bun and Mr. Wang Ming Fan respectively. The Board recognises power is not concentrated in any one individual both on 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. Ng Kwun Wan, 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

## CORPORATE GOVERNANCE REPORT

- 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 24 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 got approval by Remuneration Committee. As recommended, the remuneration of all directors would remain unchanged for the year 2009.

There was 1 meeting held in the financial year ended 31 December 2009 with full minutes kept by the company secretary.

### Attendance

Mr. Wong Ming Bun	1/1
Mr. Goh Gen Cheung	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Ng Kwun Wan	0/1
Mr. Zhou Xiao Xiong	1/1

### NOMINATION OF DIRECTORS

The Company established a Nomination Committee with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Nomination Committee comprises Mr. Wong Ming Bun, an Executive Director and the three Independent Non-executive Directors, namely Mr. Goh Gen Cheung (retired on 16 December 2009), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan (appointed on 16 December 2009). 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.

## CORPORATE GOVERNANCE REPORT

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 appointments will result on the constitution of strong and diverse Board.

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

There were 2 meetings held in the financial year ended 31 December 2009 with full minutes kept by the company secretary.

### Attendance

Mr. Wong Ming Bun	2/2
Mr. Goh Gen Cheung (retired on 16 December 2009)	1/2
Mr. Leung Wai Man, Roger	2/2
Mr. Ng Kwun Wan (appointed on 16 December 2009)	1/2
Mr. Zhou Xiao Xiong	2/2

## CORPORATE GOVERNANCE REPORT

### AUDITORS' REMUNERATION

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

	<b>Fee paid/payable</b> RMB'000
Services rendered	
Audit services	
Annual audit of accounts	1,750
Non-audit services	—
	<hr/> 1,750 <hr/>

### 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 (retired on 16 December 2009), Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan (appointed on 16 December 2009) and Mr. Zhou Xiao Xiong. Mr. Ng Kwun Wan 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;

## CORPORATE GOVERNANCE REPORT

- 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;

## CORPORATE GOVERNANCE REPORT

- 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 3 meetings held in the financial year ended 31 December 2009 with full minutes kept by the company secretary.

### Attendance

Mr. Goh Gen Cheung (retired on 16 December 2009)	2/3
Mr. Leung Wai Man, Roger	3/3
Mr. Ng Kwun Wan (appointed on 16 December 2009)	1/3
Mr. Zhou Xiao Xiong	3/3

## INTERNAL CONTROLS

The Board, through the Audit Committee, reviews annually the effectiveness of system of internal control of the Company and its subsidiaries. Sound 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.

## CORPORATE GOVERNANCE REPORT

### 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 also advertised in a local newspaper and made available on *HKExNET*. 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 24 May 2010.



## CORPORATE GOVERNANCE REPORT

### 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 to 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 2009.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 9 to the accounts.

### RESULTS AND APPROPRIATIONS

Details of the Group's result for the year ended 31 December 2009 are set out in the consolidated income statement on page 35.

No dividend will be paid for the year (2008: Nil).

### 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 7 to the accounts.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 15 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 16 to the accounts and the consolidated statement of changes in equity respectively.

### 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. Wang Ming You  
Mr. Li Qing Long  
Mr. Qian Wu

#### Independent Non-executive Directors

Mr. Goh Gen Cheung (*Retired on 16 December 2009*)  
Mr. Leung Wai Man, Roger  
Mr. Zhou Xiao Xiong  
Mr. Ng Kwun Wan (*Appointed on 16 December 2009*)

## DIRECTORS' REPORT

In accordance with Articles 86(3) of the Articles of Association of the Company, all directors will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Messrs. Wong Ming Bun, Wang Ming Fan and Li Qing Long entered into service contract with Company for an initial term of three years. All of the above service contract commenced from 9 December 2005, Messrs. Wang Ming You and Qian Wu entered into service contract with Company for an initial term of three years. All of the above service contract commenced from 15 March 2007 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 24 to the accounts respectively.

### DIRECTORS' INTEREST IN SECURITIES

At 31 December 2009, 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) *Interest in the Shares and underlying shares of the Company*

Name of Director	Capacity/Nature of Interest	Number of Shares	Percentage of issued Shares
Mr. Wang Ming Fan	Interest in a controlled corporation (Note 2)	286,851,000 (L)	59.22%
Mr. Wong Ming Bun	Beneficial owner	1,860,000 (L)	0.38%

Notes:

- The letter "L" denotes a long position in the Shares
- By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in all the 286,851,000 Shares held by Creative China, being 59.22% of the issued share capital of the Company, in which 37.95% of its issued share capital of Creative China is owned by Mr. Wang Ming Fan.

## DIRECTORS' REPORT

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

<b>Name of Director</b>	<b>Class and number of shares held in associated corporation</b>	<b>Percentage of issued Shares</b>
Mr. Wang Ming Fan	3,795 ordinary shares	37.95%
Mr. Wong Ming Bun	3,110 ordinary shares	31.10%
Mr. Wang Ming You	2,130 ordinary shares	21.30%
Mr. Qian Wu	529 ordinary shares	5.29%
Mr. Li Qing Long	436 ordinary shares	4.36%

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 2009.

### DIRECTORS' SERVICE CONTRACT

Each of the Executive Directors has entered into a service contract with the Company for an initial term of 36 months commencing on 9 December 2005. 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.

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.

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.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 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 Shareholder	Capacity/Nature of Interest	Number of Shares	Percentage of issued Shares
Creative China (Note 2)	Beneficial owner (Note 2)	286,851,000 (L)	59.22%
UBS AG	Beneficial owner	27,458,000 (L)	5.67%

Notes:

1. The letter "L" denotes a long position in the Shares
2. Creative China is owned as to 37.95% by Mr. Wang Ming Fan, as to 31.10% by Mr. Wong Ming Bun, as to 21.30% by Mr. Wang Ming You, as to 5.29% by Mr. Qian Wu and as to 4.36% 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 2009.

### SHARE OPTIONS

The Group has no share option outstanding as at 31 December 2009 (2008: Nil).

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 25.8% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 7.8% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 37.5% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 14.7% 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.

## DIRECTORS' REPORT

### **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.

### **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.

The audited annual results of the Group for the year ended 31 December 2009 have been reviewed by the audit committee of the Company.

### **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31 December 2009 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### **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.

## DIRECTORS' REPORT

### 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 complied with the required standard set out in the model code throughout the year ended 31 December 2009.

### 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  
12 April 2010

## INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22/F Prince's Building  
Central, Hong Kong

### **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 33 to 89, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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 2009 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, 12 April 2010

## CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	6	74,817	80,754
Property, plant and equipment	7	160,682	140,050
Intangible assets	8	137,321	148,262
Investment in an associate	10	1,756	2,388
Available-for-sale financial assets	11	27,081	23,724
Deferred income tax assets	21	8,315	4,370
		<b>409,972</b>	399,548
<b>Current assets</b>			
Inventories	12	93,828	89,400
Trade and other receivables	13	230,788	195,293
Short-term bank deposits	14	26,782	28,364
Cash and cash equivalents	14	190,823	151,368
		<b>542,221</b>	464,425
<b>Total assets</b>		<b>952,193</b>	863,973
<b>EQUITY</b>			
<b>Attributable to the Company's equity holders</b>			
Share capital	15	50,055	50,055
Share premium and capital reserve	15	375,341	375,341
Other reserves	16	85,682	74,751
Retained earnings		243,880	190,390
		<b>754,958</b>	690,537
<b>Minority interest</b>		<b>79,947</b>	79,614
<b>Total equity</b>		<b>834,905</b>	770,151
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants	18	402	267
Deferred income tax liabilities	21	24,566	24,829
		<b>24,968</b>	25,096
<b>Current liabilities</b>			
Trade and other payables	19	80,328	59,464
Current income tax liabilities		9,272	225
Borrowings	20	2,720	9,037
		<b>92,320</b>	68,726
<b>Total liabilities</b>		<b>117,288</b>	93,822
<b>Total equity and liabilities</b>		<b>952,193</b>	863,973
Net current assets		<b>449,901</b>	395,699
Total assets less current liabilities		<b>859,873</b>	795,247

The financial statements on pages 33 to 89 were approved by the Board of Directors on 12 April 2010 and were signed on its behalf.

**Wong Ming Bun**  
Director

**Wang Ming Fan**  
Director

The notes on pages 39 to 89 are an integral part of these financial statements.

## BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2009	2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	58	106
Investments in subsidiaries	9	154,032	154,032
		<b>154,090</b>	154,138
<b>Current assets</b>			
Trade and other receivables	13	286,320	293,106
Cash and cash equivalents	14	1,373	3,206
		<b>287,693</b>	296,312
<b>Total assets</b>		<b>441,783</b>	450,450
<b>EQUITY</b>			
<b>Attributable to the Company's equity holders</b>			
Share capital	15	50,055	50,055
Share premium and capital reserve	15	473,859	473,859
Accumulated losses	17	(87,187)	(78,630)
<b>Total equity</b>		<b>436,727</b>	445,284
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	5,056	5,166
<b>Total equity and liabilities</b>		<b>441,783</b>	450,450
Net current assets		<b>282,637</b>	291,146
Total assets less current liabilities		<b>436,727</b>	445,284

The financial statements on pages 33 to 89 were approved by the Board of Directors on 12 April 2010 and were signed on its behalf.

**Wong Ming Bun**  
Director

**Wang Ming Fan**  
Director

The notes on pages 39 to 89 are an integral part of these financial statements.

## CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December	
		2009	2008
Revenue	22	<b>589,612</b>	503,838
Cost of sales	23	<b>(333,773)</b>	(268,231)
<b>Gross profit</b>		<b>255,839</b>	235,607
Selling and marketing expenses	23	<b>(88,153)</b>	(82,691)
Administrative expenses	23	<b>(98,110)</b>	(145,658)
Other gains – net	22	<b>5,276</b>	4,698
<b>Operating profit</b>		<b>74,852</b>	11,956
Finance income	25	<b>3,212</b>	4,561
Finance costs	25	<b>(1,248)</b>	(2,156)
Finance income – net		<b>1,964</b>	2,405
Share of profit of an associate	10	<b>308</b>	1,255
<b>Profit before income tax</b>		<b>77,124</b>	15,616
Income tax (charge)/credit	26	<b>(13,727)</b>	479
<b>Profit for the year</b>		<b>63,397</b>	16,095
<b>Attributable to:</b>			
Equity holders of the Company		<b>61,064</b>	31,258
Minority interest		<b>2,333</b>	(15,163)
		<b>63,397</b>	16,095
<b>Earnings per share for profit attributable to equity holders of the Company during the year</b> (expressed in RMB per share)			
– basic and diluted	27	<b>0.13</b>	0.06
		<b>2009</b>	<b>2008</b>
<b>Dividend</b>	28	–	–

The notes on pages 39 to 89 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2009	2008
<b>Profit for the year</b>	<b>63,397</b>	16,095
Fair value gains/(losses) on available-for-sale financial assets	<b>3,357</b>	(2,276)
<b>Total comprehensive income for the year</b>	<b>66,754</b>	13,819
<b>Attributable to:</b>		
Equity holders of the Company	<b>64,421</b>	28,982
Minority interest	<b>2,333</b>	(15,163)
<b>Total comprehensive income for the year</b>	<b>66,754</b>	13,819

The notes on pages 39 to 89 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to equity holders of the Company						Total equity
	Share capital (Note 15)	Share premium and capital reserve (Note 15)	Other reserves (Note 16)	Retained earnings	Total	Minority interest	
Balance at 1 January 2008	50,055	375,341	69,889	202,115	697,400	74,777	772,177
<b>Comprehensive income</b>							
Profit for the year	-	-	-	31,258	31,258	(15,163)	16,095
Fair value losses on available-for-sale financial assets	-	-	(2,276)	-	(2,276)	-	(2,276)
<b>Total comprehensive income</b>	-	-	(2,276)	31,258	28,982	(15,163)	13,819
<b>Transactions with owners</b>							
Capital contributed by minority shareholder	-	-	-	-	-	20,000	20,000
Appropriated to reserve	-	-	7,138	(7,138)	-	-	-
Dividends related to 2007	-	-	-	(35,845)	(35,845)	-	(35,845)
<b>Total transactions with owners</b>	-	-	7,138	(42,983)	(35,845)	20,000	(15,845)
<b>Balance at 31 December 2008</b>	<b>50,055</b>	<b>375,341</b>	<b>74,751</b>	<b>190,390</b>	<b>690,537</b>	<b>79,614</b>	<b>770,151</b>
<b>Balance at 1 January 2009</b>	<b>50,055</b>	<b>375,341</b>	<b>74,751</b>	<b>190,390</b>	<b>690,537</b>	<b>79,614</b>	<b>770,151</b>
<b>Comprehensive income</b>							
Profit for the year	-	-	-	61,064	61,064	2,333	63,397
Fair value gains on available-for-sale financial assets	-	-	3,357	-	3,357	-	3,357
<b>Total comprehensive income</b>	-	-	3,357	61,064	64,421	2,333	66,754
<b>Transactions with owners</b>							
Appropriated to reserve	-	-	7,574	(7,574)	-	-	-
Dividends related to 2008	-	-	-	-	-	(2,000)	(2,000)
<b>Total transactions with owners</b>	-	-	7,574	(7,574)	-	(2,000)	(2,000)
<b>Balance at 31 December 2009</b>	<b>50,055</b>	<b>375,341</b>	<b>85,682</b>	<b>243,880</b>	<b>754,958</b>	<b>79,947</b>	<b>834,905</b>

The notes on pages 39 to 89 are an integral part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December	
		2009	2008
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	<b>85,690</b>	54,352
Interest paid		<b>(465)</b>	(1,508)
Income tax paid		<b>(8,888)</b>	(37,824)
Net cash generated from operating activities		<b>76,337</b>	15,020
<b>Cash flows from investing activities</b>			
Purchase of land use rights		–	(5,730)
Proceeds from disposal of land use rights	29	<b>3,982</b>	–
Purchase of property, plant and equipment		<b>(38,494)</b>	(23,104)
Proceeds from disposal of property, plant and equipment	29	<b>683</b>	1,234
Purchase of intangible assets		–	(7,200)
Acquisition of available-for-sale financial assets		–	(26,000)
Loan repayments received from an associate		–	2,900
Dividend received from an associate		<b>470</b>	–
Decrease/(increase) of short-term bank deposits		<b>1,582</b>	(28,364)
Interest received		<b>3,212</b>	4,561
Net cash used in investing activities		<b>(28,565)</b>	(81,703)
<b>Cash flows from financing activities</b>			
Contribution from a minority shareholder		–	10,000
Proceeds from borrowings		<b>4,398</b>	4,000
Repayment of borrowings		<b>(10,715)</b>	(18,390)
Dividend paid		<b>(2,000)</b>	(35,845)
Net cash used in financing activities		<b>(8,317)</b>	(40,235)
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year	14	<b>151,368</b>	258,286
<b>Cash and cash equivalents at end of the year</b>	14	<b>190,823</b>	151,368

The notes on pages 39 to 89 are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(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 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. 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 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 holding company of 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.

## 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, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.1 Basis of preparation (*continued*)

##### Changes in accounting policy and disclosures

###### (a) *New and amended standards adopted by the Group*

The Group has adopted the following new and amended HKFRSs as of 1 January 2009. All of these have no impact on earnings per share:

- HKFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.
- HKAS 1 (revised) 'Presentation of financial statements' – effective 1 January 2009. The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.
- HKFRS 2 (amendment) 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted HKFRS 2 (amendment) from 1 January 2009. The Group has no share option outstanding as at 31 December 2009. The amendment does not have a material impact on the Group's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.1 Basis of preparation *(continued)*

##### *(a) New and amended standards adopted by the Group (continued)*

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group has adopted HKAS 23 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.
- HKFRS 8, 'Operating segments' (effective 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard on disclosures about segments of an enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has applied this standard from 1 January 2009, prior year presentation has been changed to conform to current year presentation under HKFRS 8. The Group also early adopted the amendment to HKFRS 8 in the annual improvement projects published in May 2009, which allows that the total segment assets is to be disclosed only when such information is regularly provided to the chief operation decision makers, like segment liabilities under current HKFRS 8. Since the segment assets and liabilities of the Group are not regularly provided to its chief operation decision makers, no such information has been disclosed in these financial statements.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The Group will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.1 Basis of preparation *(continued)*

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

- HKAS 27 (revised) 'Consolidated and separate financial statements' (effective from 1 July 2009). The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest (renamed as "non-controlling interests") from 1 January 2010.
- HKFRS 3 (revised) 'Business combinations' (effective from 1 July 2009). The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.
- HKAS 38 (amendment) 'Intangible assets' (effective from 1 July 2009). The amendment will not result in a material impact on the Group's financial statements.
- HKFRS 5 (amendment) 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The Group will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- HKAS 1 (amendment) 'Presentation of financial statements'. The Group will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.
- HKFRS 2 (amendments) 'Group cash-settled share-based payment transactions' (effective from 1 January 2010). The Group does not have cash-settled share-based payment transactions. The new guidance is not expected to have a material impact on the Group's financial statements.
- HKFRS 9 'Financial instruments' (effective from 1 January 2013). The new guidance is not expected to have a material impact on the Group's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 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*

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, whichever is shorter, 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.

##### *(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.2 Consolidation *(continued)*

##### *(b) Subsidiaries (continued)*

Except for the business combinations applying merger accounting under Note 2.2 (a) above, 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 (Note 2.7(a)). 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.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. 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 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### *(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

#### 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 or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 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 is 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	3 – 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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net', in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 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 is 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 that are not larger than the operating segments under HKFRS 8 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 indefinite useful life and are measured initially at fair value at the acquisition date and subsequently carried at cost less impairment.

(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 and impairment. Amortisation is calculated using the straight-line basis 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 and impairment. Amortisation is calculated using the straight-line basis to allocate the cost of technology over their estimated useful lives of 4 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 are carried at cost less accumulated amortisation. Other intangible assets are amortised on a straight-line basis to allocate the cost of the assets over their estimated useful lives of 3 to 10 years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.8 Research and development expenditure

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

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

Assets that have an indefinite useful life 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), which are not larger than the operating segments under HKFRS 8. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.9 Impairment of investments in subsidiaries, associates and non-financial assets *(continued)*

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 2.10 Financial assets

##### 2.10.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'short-term bank deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.13 and 2.14).

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are designated in this category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.10 Financial assets *(continued)*

##### 2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Dividends on available-for-sale financial assets are recognised in the consolidated income statement when the Group's right to receive payments is established.

Change in the fair value of available-for-sale financial assets is recognised in other comprehensive income.

#### 2.11 Impairment of financial assets

##### *(a) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.11 Impairment of financial assets *(continued)*

##### *(a) Assets carried at amortised cost (continued)*

- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.11 Impairment of financial assets *(continued)*

##### *(b) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### 2.12 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). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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.

#### 2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.15 Share capital

Ordinary shares issued are classified as equity.

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

#### 2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

#### 2.17 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.

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.

#### 2.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.19 Current and deferred income tax

The tax expense for the period comprised current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 (and laws) 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.

Deferred tax assets are recognised only 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.

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 taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.20 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 compensation 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:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

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

(b) *Interest income*

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

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

#### 2.22 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.

#### 2.23 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 dividends are approved by the Company's shareholders or board of directors, as appropriate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 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.

#### 3.1 Financial risk factors

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group currently does not have any foreign exchange contract 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	
		2009 RMB'000	2008 RMB'000
<b>Current assets</b>			
Trade and other receivables	HKD/USD	<b>3,414</b>	7,646
Cash and cash equivalents	HKD/USD	<b>4,943</b>	6,491
<b>Current liabilities</b>			
Trade and other payables	HKD/USD/EUR	<b>3,977</b>	2,945

If there is a 3% increase in RMB against the relevant currencies, the effect in the profit for the year is a decrease in profit of RMB131,000 (2008: RMB336,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 3. FINANCIAL RISK MANAGEMENT *(continued)*

#### 3.1 Financial risk factors *(continued)*

##### (a) Market risk *(continued)*

##### (ii) 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 variable interest rate and borrowings bearing fixed interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Other financial assets and liabilities do not have material interest rate risk. The Group does not hedge its fair value interest-rate risk arising from the borrowing at fixed rates.

As at 31 December 2009, the Group has insignificant borrowings and the change in interest rate does not have a material impact to the interest expenses of the Group. 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 RMB1,294,000 higher/lower (2008: RMB1,657,000) as a result of higher/lower interest income.

##### (b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short term bank deposits and trade and other receivables.

For cash and cash equivalents and short term bank deposits, 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.

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

##### (c) Liquidity risk

The Group has adequate cash and cash equivalents to finance its operating activity. 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 through having available sources of financing.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### 3.2 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 total borrowings divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus total borrowings.

The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009	2008
Total borrowings	2,720	9,037
Total equity	834,905	770,151
Total capital	837,625	779,188
<b>Gearing ratio</b>	<b>0.3%</b>	1.2%

As at 31 December 2009 and 2008, the Group's cash and cash equivalents exceed borrowings.

#### 3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2009, available-for-sale financial assets of the Group were included in level 3 of the above hierarchy.

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques, such as estimated discounted cash flows. The Group uses its judgment to select a variety of methods and makes assumptions that are based on market conditions and unobservable data at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 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 of its property, plant and equipment and consequently the 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) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. 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) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7(a). The recoverable amounts of cash-generating units, which are not larger than the operating segments under HKFRS 8, have been determined based on value-in-use calculations. These calculations require the use of certain key assumptions (Note 8). Change in 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.

#### (d) Indefinite useful live of trademark

The Group's management determines the useful live of trademark as indefinite. The estimate is based on the historical experience of similar trademark in the industry and the assumption that there is no foreseeable limit to the period over which trademark is expected to generate net cash inflows for the entity. Management will re-estimate the useful live of trademark as a result of change of business environment, cash flow contribution of the trademark, technical innovations or competitor actions in response to severe industry cycles.

At 31 December 2009, if the useful lives of the trademark were reduced to 20 years, the carrying amount of the trademark would be RMB500,000 lower.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### (e) Impairment of intangible assets other than goodwill

Trademark with an indefinite useful life is tested for impairment annually. Intangible assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.9.

The recoverable amount of the intangible assets other than goodwill is determined based on value-in-use calculation. These calculations require the use of certain key assumptions (Note 8). Changes in such key assumptions selected by management, could materially affect the recoverable amount used in the impairment test.

At 31 December 2009, if the budgeted gross margin used in the impairment test had been decreased by 5%, with all other variables held constant, RMB2,294,000 of impairment charges would be made against intangible assets other than goodwill. If the discount rate applied to the discounted cash flows had been increased by 5%, with all other variables held constant, RMB295,000 of impairment charges would be made against intangible assets other than goodwill. If the budgeted turnover growth rate used in the impairment test had been decreased by 5%, with all other variables held constant, no additional impairment charges would be made against intangible assets other than goodwill. If the budgeted gross margin/budgeted turnover growth rate increased or the discount rate decreased, with all other variables held constant, no additional impairment charges would be made against intangible assets other than goodwill.

#### (f) Land use rights and building ownership rights certificates

As at 31 December 2009, land use rights certificates of certain parcels of land with aggregate carrying amounts of approximately RMB15,890,000 (2008: RMB20,572,000) and building ownership certificates for the buildings with carrying values of approximately RMB20,041,000 (2008: RMB19,320,000) had not yet been obtained by the Group. After consultation with legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights and building ownership certificates. Also, the directors estimate that the Group is able to obtain the certificates in due course and will endeavour to speed up the application process of obtaining the certificates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

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

#### (g) Fair value of available-for-sale financial assets

Fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are based on market condition and unobservable data at each balance sheet date (Note 11).

At 31 December 2009, if the discounted rate applied to the valuation analysis had been decreased by 5%, with all other variables held constant, the carrying amount of available-for-sale financial assets would increase by RMB2,673,000. If the net profit margin rate increased by 5%, with all other variables held constant, the carrying amount of available-for-sale financial assets would increase by RMB1,715,000. If the discount rate increased or the net profit margin rate decreased, with all other variables held constant, the carrying amount of available-for-sale financial assets will remain unchanged as the fair value under the redemption method will be higher than that under the discounted cash flow method.

### 5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the board of directors of the Company. The board of directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The board of directors considers the business from a product perspective. The Group is organised into four segments:

- Flavors enhancers,
- Food flavors,
- Fine fragrances and
- Extracts.

The chief operating decision-maker assesses the performance of the segments based on the profit before income tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009  
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### 5. SEGMENT INFORMATION (continued)

The segment information for the year ended 31 December 2009 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
Segment revenue	289,310	109,472	56,597	136,788	592,167	-	592,167
Inter-segment revenue	-	-	(2,213)	(342)	(2,555)	-	(2,555)
Revenue from external customers	289,310	109,472	54,384	136,446	589,612	-	589,612
Operating profit/(loss)	69,924	18,468	(12,444)	6,712	82,660	(7,808)	74,852
Finance income	-	-	165	360	525	2,687	3,212
Finance costs	-	-	-	(1,174)	(1,174)	(74)	(1,248)
Finance income – net	-	-	165	(814)	(649)	2,613	1,964
Share of profit of an associate	-	-	-	308	308	-	308
Profit/(loss) before income tax	69,924	18,468	(12,279)	6,206	82,319	(5,195)	77,124
Income tax charge	(9,842)	(2,606)	(2)	(1,277)	(13,727)	-	(13,727)
Profit for the year	60,082	15,862	(12,281)	4,929	68,592	(5,195)	63,397
Depreciation and amortisation	7,865	6,693	2,313	11,329	28,200	294	28,494
Provision for doubtful trade and other receivables	500	1,865	3,184	246	5,795	-	5,795
Impairment charge of intangible assets	-	-	-	-	-	-	-
Provision for write-down of inventories	-	-	-	377	377	-	377



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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### 5. SEGMENT INFORMATION (continued)

The segment information for the year ended 31 December 2008 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
Segment revenue	242,973	95,419	49,067	118,396	505,855	-	505,855
Inter-segment revenue	-	-	(1,646)	(371)	(2,017)	-	(2,017)
Revenue from external customers	242,973	95,419	47,421	118,025	503,838	-	503,838
Operating profit/(loss)	79,611	8,270	(22,554)	(45,547)	19,780	(7,824)	11,956
Finance income	-	-	248	90	338	4,223	4,561
Finance costs	-	-	-	(1,297)	(1,297)	(859)	(2,156)
Finance income – net	-	-	248	(1,207)	(959)	3,364	2,405
Share of profit of an associate	-	-	-	1,255	1,255	-	1,255
Profit/(loss) before income tax	79,611	8,270	(22,306)	(45,499)	20,076	(4,460)	15,616
Income tax (charge)/credit	(12,753)	(1,418)	(16)	14,666	479	-	479
Profit for the year	66,858	6,852	(22,322)	(30,833)	20,555	(4,460)	16,095
Depreciation and amortisation	7,570	6,472	2,344	14,081	30,467	316	30,783
Provision/(reversal) for doubtful trade and other receivables	2,082	(828)	10,109	3,263	14,626	-	14,626
Impairment charge of intangible assets	-	-	-	40,183	40,183	-	40,183
Provision for write-down of inventories	-	-	-	1,264	1,264	-	1,264

Breakdown of revenue from all services is as follows:

Analysis of revenue by category	2009	2008
Sales of goods	589,612	503,838

The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2009 is RMB532,575,000 (2008: RMB443,259,000), and the total of revenue from external customers from other countries is RMB57,037,000 (2008: RMB60,579,000).

At 31 December 2009, the total of non-current assets other than financial instruments and deferred tax assets located in the PRC is RMB373,823,000 (2008: RMB370,388,000) the total of these non-current assets located in other countries is RMB753,000 (2008: RMB1,066,000).

Revenues of approximately RMB46,007,000 (2008: RMB52,887,000) are derived from a single external customer. These revenues are attributable to the extracts segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6. 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:

	2009	2008
Opening net book amount	<b>80,754</b>	76,963
Additions	–	5,730
Amortisation charge (Note 23)	<b>(1,955)</b>	(1,939)
Disposals (Note 29)	<b>(3,982)</b>	–
Closing net book amount	<b>74,817</b>	80,754

	2009	2008
Cost	<b>80,172</b>	84,154
Accumulated amortisation	<b>(5,355)</b>	(3,400)
Net book amount	<b>74,817</b>	80,754

The lease periods of land use rights are 50 years; the remaining lease periods of the Group's land use rights range from 36 to 48 years (2008: 37 to 49 years).

As at 31 December 2009, land use rights certificates of certain parcels of land with aggregate carrying amounts of approximately RMB15,890,000 (2008: RMB20,572,000) had not yet been obtained by the Group. After consultation made with a legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights certificates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 7. PROPERTY, PLANT AND EQUIPMENT

	Group					Company	
	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total	Furniture, fixtures and equipment
<b>At 1 January 2008</b>							
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
<b>Year ended 31 December 2008</b>							
Opening net book amount	45,178	46,394	10,284	11,805	19,682	133,343	154
Additions	2,261	2,703	3,337	920	15,454	24,675	-
Disposals	(123)	(871)	-	(61)	-	(1,055)	-
Transfers	367	7,396	-	-	(7,763)	-	-
Depreciation (Note 23)	(3,226)	(6,916)	(2,703)	(4,068)	-	(16,913)	(48)
Closing net book amount	44,457	48,706	10,918	8,596	27,373	140,050	106
<b>At 31 December 2008</b>							
Cost	58,952	68,152	21,991	29,882	27,373	206,350	254
Accumulated depreciation	(14,495)	(19,446)	(11,073)	(21,286)	-	(66,300)	(148)
Net book amount	44,457	48,706	10,918	8,596	27,373	140,050	106
<b>Year ended 31 December 2009</b>							
Opening net book amount	44,457	48,706	10,918	8,596	27,373	140,050	106
Additions	410	428	1,943	288	35,367	38,436	-
Disposals	(751)	(535)	(792)	(128)	-	(2,206)	-
Transfers	1,675	3,589	-	86	(5,350)	-	-
Depreciation (Note 23)	(3,342)	(6,386)	(2,702)	(3,168)	-	(15,598)	(48)
Closing net book amount	42,449	45,802	9,367	5,674	57,390	160,682	58
<b>At 31 December 2009</b>							
Cost	60,277	70,696	22,060	29,468	57,390	239,891	254
Accumulated depreciation	(17,828)	(24,894)	(12,693)	(23,794)	-	(79,209)	(196)
Net book amount	42,449	45,802	9,367	5,674	57,390	160,682	58

Depreciation expense of RMB8,564,000 (2008: RMB8,169,000) has been charged to cost of sales and RMB7,034,000 (2008: RMB8,744,000) to administrative expenses.

As at 31 December 2009, building ownership certificates for the buildings with the carrying values of approximately RMB20,041,000 (2008: 19,320,000) had not yet been obtained. After consultation with a legal adviser, the Company's directors concluded that there is no legal restriction for the Group to apply for and obtain the building ownership certificates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009  
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### 8. INTANGIBLE ASSETS – GROUP

	Goodwill	Customer relationship	Technology	Trademark	Computer software and others	Total
<b>At 1 January 2008</b>						
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
<b>Year ended 31 December 2008</b>						
Opening net book amount	48,306	44,719	46,700	40,800	2,651	183,176
Additions	-	-	17,200	-	-	17,200
Amortisation charge (Note 23)	-	(2,270)	(9,393)	-	(268)	(11,931)
Impairment charge (Note 23)	-	(4,949)	(15,534)	(19,700)	-	(40,183)
Closing net book amount	48,306	37,500	38,973	21,100	2,383	148,262
<b>At 31 December 2008</b>						
Cost	48,306	45,400	70,400	40,800	2,805	207,711
Accumulated amortisation	-	(2,951)	(15,893)	-	(422)	(19,266)
Accumulated impairment charge	-	(4,949)	(15,534)	(19,700)	-	(40,183)
Net book amount	48,306	37,500	38,973	21,100	2,383	148,262
<b>Year ended 31 December 2009</b>						
Opening net book amount	48,306	37,500	38,973	21,100	2,383	148,262
Amortisation charge (Note 23)	-	(2,005)	(8,663)	-	(273)	(10,941)
Closing net book amount	48,306	35,495	30,310	21,100	2,110	137,321
<b>At 31 December 2009</b>						
Cost	48,306	45,400	70,400	40,800	2,805	207,711
Accumulated amortisation	-	(4,956)	(24,556)	-	(695)	(30,207)
Accumulated impairment charge	-	(4,949)	(15,534)	(19,700)	-	(40,183)
Net book amount	48,306	35,495	30,310	21,100	2,110	137,321

Amortisation charge of RMB10,941,000 (2008: RMB11,931,000) were included in administrative expenses. No impairment charge was recognised in current year (2008: RMB40,183,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 8. INTANGIBLE ASSETS – GROUP (continued)

#### Impairment tests for goodwill

The goodwill arose from the acquisition of Wutong Aroma Chemicals Company Limited (“Wutong Aroma”), on 13 September 2007, which was treated as a separate cash-generating unit and operating segment. The recoverable amount of the investment in Wutong Aroma has been determined based on a value-in-use calculation, which uses a cash flow projection based on a financial forecast prepared by management covering a ten-year period using the estimated growth rate stated below. The key assumptions used for value-in-use calculation are as follows:

	2009	2008
Gross margin (Estimated average gross margin)	24%	22%
Growth rate (Weighted average growth rate)	10.9%	14.1%
Discount rate	12.5%	12.2%

Management determined estimated gross margin and the weighted average growth rate based on past performance and its expectations for the market development. 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 the goodwill as at 31 December 2009.

#### Impairment tests for intangible assets other than goodwill

Management carried out an impairment assessment for intangible assets other than goodwill, identified from the acquisition of Wutong Aroma at 31 December 2009. To assist their assessment, management had appointed an independent professional valuer to assess the valuation of these intangible assets. The recoverable amount of the intangible assets other than goodwill has been determined based on a value-in-use calculation, which use the valuation techniques and the assumptions as follows:

(a) *Customer relationships*

The valuation methodology of customer relationship is multi-period excess earning method and the key assumptions used for the value-in-use calculation are as follows:

	2009	2008
Forecast period	2010-2026 year	2009-2026 year
Growth rate (Weighted average growth rate)	7.8%	7.4%
Net profit margin (Average net profit margin)	12.8%	11.8%
Customer Churn Rate	9.3%	6.3%
Discount rate	15.5%	15.2%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 8. INTANGIBLE ASSETS – GROUP (continued)

#### Impairment tests for intangible assets other than goodwill (continued)

##### (b) Trademarks

The valuation methodology of trademark is relief-from-royalty method and the key assumptions used for the value-in-use calculation are as follows:

	2009	2008
Forecast period	indefinite	indefinite
Growth rate (Weighted average growth rate) in the first ten years	10.9%	11.2%
Royalty rate	1.5%	1.5%
Discount rate	15.5%	15.2%

##### (c) Technology

The valuation methodology of technology is relief-from-royalty method and the key assumptions used for the value-in-use calculation are as follows:

	2009	2008
Forecast period	2010-2017 year	2009-2017 year
Growth rate (Weighted average growth rate)	12.4%	12.0%
Royalty rate	1.5%	1.5%
Discount for change in technology	10%	10%
Discount rate	14.0%	13.7%

According to the above valuation results, management considered that no impairment charge (2008: RMB40,183,000) is needed to be made against intangible assets other than goodwill during the year.

### 9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2009	2008
Unlisted shares at cost	100,599	100,599
Investments arising from share-based compensation (Note i)	3,732	3,732
Amount due from a subsidiary (Note ii)	49,701	49,701
	154,032	154,032

- (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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### 9. INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities and place of operation
<i>Directly held:</i>					
CFF Holdings	British Virgin Islands, limited liability company	HK\$389,500 divided into 38,950,000 shares of HK\$0.01 each	HK\$300	100%	Investment holding, British Virgin Islands
Boton Investments Limited ("BIL")	British Virgin Islands, limited liability company	US\$50,000 divided into 50,000 shares of US\$1 each	US\$1	100%	Investment holding, British Virgin Islands
Neland Development Limited	British Virgin Islands, limited liability company	US\$100 divided into 100 shares of US\$1 each	US\$100	100%	Investment holding, British Virgin Islands
<i>Indirectly held:</i>					
Shenzhen Boton	The PRC, limited liability company	RMB75,000,000	RMB75,000,000	100%	Manufacturing and selling of flavors and fragrances products, the PRC
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HK\$10,000 divided into 10,000 shares of HK\$1 each	HK\$1	100%	Trading, Hong Kong
Citiwell International Group Limited ("Citiwell")	British Virgin Islands, limited liability company	US\$50,000 divided into 50,000 shares of US\$1 each	US\$50,000	100%	Investment holding, British Virgin Islands
Best Fortune International Investment Limited	Hong Kong, limited liability company	HK\$10,000 divided into 10,000 shares of HK\$1 each	HK\$1	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	HK\$15,000,000	HK\$15,000,000	100%	Manufacturing and selling of food flavors products, the PRC
滕州市悟通香料有限公司 (Wutong Aroma) (note (a))	The PRC, limited liability company	RMB45,000,000	RMB45,000,000	50%	Manufacturing and selling of flavors, fragrances products and food additives, the PRC
潍坊悟通化工科技有限公司 (Weifang Wutong Chemical Technology Co., Ltd.) (note (b))	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	50%	Manufacturing and selling of flavors, fragrances products and food additives, the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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### 9. INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

- (a) Pursuant to the acquisition agreement, Citiwell was entitled to appoint 60% or more of the members of the board of directors, and also the financial controller and supervisor of Wutong Aroma. As such, the management considers the Company to have control over Wutong Aroma. Accordingly, Wutong Aroma is accounted for as a subsidiary of the Group.
- (b) Weifang Wutong Chemical Technology Co., Ltd. is the wholly-owned subsidiary of Wutong Aroma.

### 10. INVESTMENT IN AN ASSOCIATE – GROUP

	2009	2008
Beginning of the year	2,388	1,133
Share of profit	308	1,255
Dividend	(940)	–
End of the year	1,756	2,388

As at 31 December 2009, the Group held 47% (2008: 47%) equity interest in Xin Mou Aroma Chemicals Company Limited (“Xinmou Aroma”), a limited liability company established in the PRC. The company is engaged in manufacturing and selling of flavors, fragrances and refined chemical products in the PRC.

The Group’s share of the results of this unlisted associate, and its aggregated assets and liabilities are as follows:

Authorised/ registered capital	Assets		Liabilities		Revenues		Profit		% Interest held	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
RMB2,000,000	7,218	10,727	3,482	5,646	14,371	55,100	656	2,670	47	47



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2009	2008
At 1 January	23,724	–
Additions	–	26,000
Fair value change credited/(charged) to other comprehensive income	3,357	(2,276)
At 31 December	27,081	23,724

Available-for-sale financial assets represent a 10% equity interest in Ludao Investments Holdings Limited (“Ludao”), an unlisted company established in the British Virgin Islands with limited liability. The only asset of Ludao is a 100% equity interest in Taizhou Ludao Cosmetics Company Limited, a company established in the PRC, which is mainly engaged in manufacturing and selling of aerosol.

The fair value of the 10% equity interest in Ludao is determined by using the higher of redemption method and discounted cash flow method. Management had appointed an independent professional valuer to assist the valuation as at 31 December 2009 and 2008. The key assumptions used for the fair value calculation are as follows:

	2009	2008
Forecast period	2010-2019 year	2009-2018 year
Net profit margin (Average net profit margin)	12.0%	11.5%
Discount rate	13.8%	13.3%

Available-for-sale financial assets are denominated in RMB.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. INVENTORIES – GROUP

	2009	2008
Inventories – Cost		
Raw materials	40,145	39,209
Work in progress	7,281	6,754
Finished goods	48,043	44,701
	<b>95,469</b>	90,664
Less: provision for write-down of inventories		
Raw materials	(135)	(433)
Work in progress	(1,284)	(196)
Finished goods	(222)	(635)
	<b>(1,641)</b>	(1,264)
Inventories – Net	<b>93,828</b>	89,400

The cost of inventories recognised as expense and included in cost of sales for the year amounted to RMB333,773,000 (2008: RMB268,231,000).

During the year, write-down of inventories to net realisable value amounting to RMB377,000 (2008: RMB1,264,000) has been made and charged to the income statement.

### 13. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2009	2008	2009	2008
Trade receivables	(a)	158,023	126,517	–	–
Less: provision for impairment	(b)	(27,138)	(21,406)	–	–
Trade receivables – net		130,885	105,111	–	–
Bills receivables	(c)	46,467	42,072	–	–
Prepayments		36,251	32,437	–	–
Advances to staff		4,200	2,046	–	–
Staff benefit payments		4,027	4,510	–	–
Due from subsidiaries	(d)	–	–	286,153	292,932
Other receivables		8,958	9,117	167	174
		<b>230,788</b>	195,293	<b>286,320</b>	293,106

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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### 13. TRADE AND OTHER RECEIVABLES (continued)

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

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group	
	2009	2008
RMB	227,374	187,647
USD	3,412	951
HKD	2	3,842
JPY	–	2,531
EUR	–	322
	<b>230,788</b>	195,293

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

	Group	
	2009	2008
Up to 3 months	88,167	59,305
3 to 6 months	23,683	10,515
6 to 12 months	7,134	22,191
Over 12 months	39,039	34,506
	<b>158,023</b>	126,517

As at 31 December 2009, trade receivables of RMB34,700,000 (2008: RMB36,382,000) were past due but not impaired. These relate to a number of independent creditworthy customers that have a good track record of repayment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	Group	
	2009	2008
Up to 6 months	21,032	10,458
6 to 12 months	7,041	15,674
Over 12 months	6,627	10,250
	<b>34,700</b>	36,382

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 13. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2009, trade receivables of RMB32,558,000 (2008: RMB31,668,000) were impaired and provided for. The amount of the provision was RMB27,138,000 as of 31 December 2009 (2008: RMB21,406,000). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2009	2008
Up to 6 months	53	895
6 to 12 months	93	6,517
Over 12 months	32,412	24,256
	<b>32,558</b>	<b>31,668</b>

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

	Group	
	2009	2008
At 1 January	(21,406)	(6,975)
Provision for receivable impairment (Note 23)	(5,795)	(14,626)
Receivables written off during the year as uncollectible	63	195
At 31 December	<b>(27,138)</b>	<b>(21,406)</b>

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

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

### 14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
Cash at bank and on hand	48,389	23,602	1,373	3,206
Short-term bank deposits	169,216	156,130	–	–
Less: Short-term bank deposits with maturity over 3 months	(26,782)	(28,364)	–	–
	<b>190,823</b>	<b>151,368</b>	<b>1,373</b>	<b>3,206</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 14. CASH AND CASH EQUIVALENTS (continued)

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group	
	2009	2008
RMB	<b>185,880</b>	144,877
USD	<b>2,842</b>	57
HKD	<b>2,101</b>	6,434
	<b>190,823</b>	151,368

- (a) The effective interest rate on short-term bank deposits with maturity within 3 months was 1.80% (2008: 3.0%) per annum. These deposits have an average maturity of 75 days (2008: 50 days).
- (b) The effective interest rate on short-term bank deposits with maturity over 3 months was 2.15% (2008: 3.4%) per annum.
- (c) The carrying amounts of cash and cash equivalents approximate their fair values and represent maximum exposure to credit risk.

### 15. SHARE CAPITAL, SHARE PREMIUM AND CAPITAL RESERVE

	Group		Company	
	2009	2008	2009	2008
Authorised: 800,000,000 shares at HK\$0.1 per share				
Issued and fully paid: 484,389,000 shares at 31 December 2009, 2008 and 1 January 2008				
Issued shares	<b>50,055</b>	50,055	<b>50,055</b>	50,055
Share premium	<b>375,341</b>	375,341	<b>375,341</b>	375,341
Capital reserve (Note (a))	–	–	<b>98,518</b>	98,518
	<b>375,341</b>	375,341	<b>473,859</b>	473,859
Total	<b>425,396</b>	425,396	<b>523,914</b>	523,914

- (a) Capital reserve of the Company represents the difference between the consideration paid and nominal value of the shares allotted by the Company during the group reorganisation carried out on 25 November 2005 (Note 1).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 16. OTHER RESERVES – GROUP

	Reserve fund	Discretionary surplus reserve	Enterprise expansion fund	Merger reserve	Available-for-sale financial assets reserve	Total
	Note(a)	Note(a)	Note(a)	Note(b)		
<b>At 1 January 2008</b>	33,969	6,034	6,966	22,920	–	69,889
Fair value change of available-for-sale financial assets	–	–	–	–	(2,276)	(2,276)
Profit appropriations	7,138	–	–	–	–	7,138
<b>At 31 December 2008</b>	41,107	6,034	6,966	22,920	(2,276)	74,751
Fair value change of available-for-sale financial assets	–	–	–	–	3,357	3,357
Profit appropriations	7,574	–	–	–	–	7,574
<b>At 31 December 2009</b>	<b>48,681</b>	<b>6,034</b>	<b>6,966</b>	<b>22,920</b>	<b>1,081</b>	<b>85,682</b>

- (a) In accordance with relevant laws and regulations of the PRC, the PRC subsidiaries of the Group should make 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 appropriations to the reserve fund are made at 10% of the net profit until the balance of the fund reaches 50% of their registered capital. The amounts of appropriations to the discretionary surplus reserve and the enterprise expansion fund are determined by the directors of the PRC subsidiaries.

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 par value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 17. ACCUMULATED LOSSES – COMPANY

	2009	2008
At 1 January	<b>(78,630)</b>	(45,512)
(Loss)/profit for the year	<b>(8,557)</b>	2,727
Dividend paid relating to 2007	–	(35,845)
At 31 December	<b>(87,187)</b>	(78,630)

(Loss)/profit for the year represents (loss)/profit attributable to equity holders of the Company dealt with in the financial statements of the Company.

### 18. DEFERRED GOVERNMENT GRANTS – GROUP

	2009	2008
At 1 January	<b>267</b>	1,323
Receipt of grants	<b>4,795</b>	2,410
Recognised in consolidated income statement (Note 22)	<b>(4,660)</b>	(3,466)
At 31 December	<b>402</b>	267

Amounts mainly represent various subsidies granted by and received from local government authorities in the PRC for subsidising the research and development expenditures incurred by the Group.

### 19. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2009	2008	2009	2008
Trade payables	(a)	<b>62,143</b>	42,624	–	–
Other tax payables		<b>4,848</b>	1,956	–	–
Accrued expenses		<b>4,816</b>	3,843	–	–
Due to a subsidiary	(b)	–	–	<b>3,977</b>	3,977
Other payables		<b>8,521</b>	11,041	<b>1,079</b>	1,189
		<b>80,328</b>	59,464	<b>5,056</b>	5,166

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009  
(All amounts in Renminbi thousands unless otherwise stated)

### 19. TRADE AND OTHER PAYABLES (continued)

The carrying amounts of trade and other payables are denominated in the following currencies:

	Group	
	2009	2008
RMB	76,351	56,519
USD	2,015	–
HKD	1,949	2,945
EUR	13	–
	<b>80,328</b>	<b>59,464</b>

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

	Group	
	2009	2008
Up to 3 months	53,871	33,512
3 to 6 months	4,445	5,337
6 to 12 months	1,465	1,006
Over 12 months	2,362	2,769
	<b>62,143</b>	<b>42,624</b>

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

### 20. BORROWINGS – GROUP

	2009	2008
Other short-term loans	2,720	9,037

Other short-term loans mainly represent the borrowings denominated in RMB obtained from the employees and are repayable on demand.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 20. BORROWINGS – GROUP *(continued)*

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

	2009	2008
Other short-term loans	3.0%	9.6%

The carrying amounts of short-term loans approximate their fair value, as the impact of discounting is not significant.

There is no exposure of the Group's borrowings to interest-rate changes as these loans will not be renewed when due.

### 21. DEFERRED INCOME TAX – GROUP

	2009	2008
Deferred tax assets:		
– to be recovered after more than 12 months	3,591	1,414
– to be recovered within 12 months	4,724	2,956
	<b>8,315</b>	4,370
Deferred tax liabilities:		
– to be settled after more than 12 months	(22,944)	(23,954)
– to be settled within 12 months	(1,622)	(875)
	<b>(24,566)</b>	(24,829)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009  
(All amounts in Renminbi thousands unless otherwise stated)

### 21. DEFERRED INCOME TAX – GROUP (continued)

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

	2009	2008
At 1 January	(20,459)	(40,055)
Credited to income statement relating to temporary differences (Note 26)	4,208	11,056
Effect of change in tax rates recognised in income statement	–	8,540
At 31 December	(16,251)	(20,459)

The movement in deferred tax assets and liabilities during the year before offsetting of balances relating to the same company is as follows:

Deferred tax assets:

	Accelerated amortisation of intangible assets	Provision for impairment losses of trade and other receivables	Provision for impairment of inventory	Accrued expense	Impairment charge of intangible assets	Total
At 1 January 2008	604	680	–	–	–	1,284
Credited to income statement relating to temporary differences	810	2,358	190	–	6,028	9,386
Effect of change in tax rates recognised in income statement	–	(272)	–	–	–	(272)
At 31 December 2008	1,414	2,766	190	–	6,028	10,398
<b>At 1 January 2009</b>	<b>1,414</b>	<b>2,766</b>	<b>190</b>	<b>–</b>	<b>6,028</b>	<b>10,398</b>
Credited to income statement relating to temporary differences	854	1,432	56	1,603	–	3,945
At 31 December 2009	2,268	4,198	246	1,603	6,028	14,343

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 21. DEFERRED INCOME TAX – GROUP (continued)

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 Group did not recognise deferred income tax assets of RMB240,000 (2008: RMB449,000) in respect of tax losses amounting to RMB1,348,000 (2008: RMB2,200,000) that can be carried forward against future taxable income. These are not recognised because they are considered not probable of being realised.

Deferred tax liabilities:

	Fair value gain on land use right from business acquisition	Fair value gain on intangible assets from business acquisition	Fair value gain on property, plant and equipment from business acquisition	Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note (a))	Total
At 1 January 2008	(4,323)	(31,895)	(5,121)	-	(41,339)
Credited/(charged) to income statement relating to temporary differences	105	1,265	435	(135)	1,670
Effect of change in tax rates recognised in income statement	211	7,974	627	-	8,812
At 31 December 2008	(4,007)	(22,656)	(4,059)	(135)	(30,857)
<b>At 1 January 2009</b>	<b>(4,007)</b>	<b>(22,656)</b>	<b>(4,059)</b>	<b>(135)</b>	<b>(30,857)</b>
Credited/(charged) to income statement relating to temporary differences	104	482	289	(612)	263
<b>At 31 December 2009</b>	<b>(3,903)</b>	<b>(22,174)</b>	<b>(3,770)</b>	<b>(747)</b>	<b>(30,594)</b>

- (a) Pursuant to the Corporate Income Tax Law of the People's Republic of China (hereinafter "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 2009, the Group recognised the relevant deferred tax liabilities of RMB747,000 on approximately RMB7,470,000 of profits confirmed to be remitted by Wutong Aroma in the foreseeable future. Having considered the cash flow requirements of the Group, the directors confirmed that no dividends would be declared by Shenzhen Boton out of its profits generated after 1 January 2008 in the foreseeable futures.
- (b) As at 31 December 2009, deferred tax assets and deferred tax liabilities balances of RMB6,028,000 (2008: RMB6,028,000) were related to the same company and were offset against each other.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 22. REVENUE AND OTHER GAINS

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Revenue consists of sales of extracts, flavors and fragrances, net of value-added tax, returns, rebates and discounts. Revenue and other gains recognised during the year are as follows:

	2009	2008
Revenue		
Sales of goods	<b>589,612</b>	503,838
Other gains		
Government grants (Note 18)	<b>4,660</b>	3,466
Others	<b>616</b>	1,232
	<b>5,276</b>	4,698

### 23. EXPENSES BY NATURE

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

	2009	2008
Depreciation and amortisation (Notes 6, 7 and 8)	<b>28,494</b>	30,783
Employee benefit expenses, excluding amount included in research and development costs (Note 24)	<b>54,779</b>	52,393
Changes in inventories of finished goods and work in progress	<b>(3,869)</b>	(22,513)
Raw materials used	<b>307,483</b>	259,165
Impairment charge for bad and doubtful debts (Note 13(b))	<b>5,795</b>	14,626
Impairment charge for intangible assets (Note 8)	<b>–</b>	40,183
Provision for write-down of inventories (Note 12)	<b>377</b>	1,264
Sales commission	<b>25,994</b>	24,164
Transportation and travelling	<b>16,787</b>	16,264
Advertising costs	<b>7,904</b>	11,566
Consulting expenses	<b>6,968</b>	7,777
Lease expenses	<b>4,983</b>	5,370
Auditors' remuneration	<b>2,125</b>	2,738
Research and development costs		
– Employee benefit expenses (Note 24)	<b>9,831</b>	5,551
– Others	<b>3,943</b>	655
Entertainment	<b>15,463</b>	18,092
Office expenses	<b>17,921</b>	14,321
Other expenses	<b>15,058</b>	14,181
Cost of sales, selling and marketing expenses and administrative expenses	<b>520,036</b>	496,580

Lease rentals expenses amounting to RMB3,363,000 (2008: RMB3,750,000) and RMB1,620,000 (2008: RMB1,620,000) for the lease of buildings and motor vehicles respectively, are included in administrative expenses and cost of sales in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 24. EMPLOYEE BENEFIT EXPENSES

	2009	2008
Wages, allowance and bonus	<b>58,353</b>	54,113
Retirement scheme contribution (Note (a))	<b>2,552</b>	2,212
Others	<b>3,705</b>	1,619
	<b>64,610</b>	57,944

#### (a) Retirement scheme contribution

Shenzhen Boton and Wutong Aroma make defined contributions to retirement scheme managed by local government in the PRC based on 18.6% and 28% 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.

#### (b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2009 is set out below.

Name of director	Fees	Salary	Other benefits and allowance	Pension scheme contribution	Total
Mr. Wong Ming Bun	-	<b>1,425</b>	-	-	<b>1,425</b>
Mr. Wang Ming Fan	-	<b>1,532</b>	-	<b>10</b>	<b>1,542</b>
Mr. Li Qing Long	-	<b>1,064</b>	-	<b>10</b>	<b>1,074</b>
Mr. Qian Wu	-	<b>947</b>	-	<b>10</b>	<b>957</b>
Mr. Wang Ming You	-	<b>905</b>	-	<b>10</b>	<b>915</b>
Mr. Goh Gen Cheung (i)	<b>127</b>	-	-	-	<b>127</b>
Mr. Leung Wai Man, Roger	<b>132</b>	-	-	-	<b>132</b>
Mr. Zhou Xiao Xiong	<b>132</b>	-	-	-	<b>132</b>
Mr. Ng Kwun Wan (i)	<b>5</b>	-	-	-	<b>5</b>
	<b>396</b>	<b>5,873</b>	-	<b>40</b>	<b>6,309</b>

(i) Mr. Goh Gen Cheung retired and Mr Ng Kwun Wan was appointed on 16 December 2009.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 24. EMPLOYEE BENEFIT EXPENSES *(continued)*

#### (b) Directors' and senior management's emoluments *(continued)*

The remuneration of every director for the year ended 31 December 2008 is set out below.

Name of director	Fees	Salary	Other benefits and allowance	Pension scheme contribution	Total
Mr. Wong Ming Bun	–	1,584	–	–	1,584
Mr. Wang Ming Fan	–	1,584	120	10	1,714
Mr. Li Qing Long	–	1,201	30	10	1,241
Mr. Qian Wu	–	1,090	30	10	1,130
Mr. Wang Ming You	–	976	30	10	1,016
Mr. Goh Gen Cheung	132	–	–	–	132
Mr. Leung Wai Man, Roger	132	–	–	–	132
Mr. Zhou Xiao Xiong	132	–	–	–	132
	396	6,435	210	40	7,081

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.

#### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2009 include five directors (2008: five directors) whose emoluments are reflected in the analysis presented above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 25. FINANCE INCOME AND COSTS

	2009	2008
Finance income		
– Interest income	<b>3,212</b>	4,561
Finance costs		
– Interest expense		
Bank loans	–	(59)
Others	<b>(465)</b>	(1,449)
– Exchange loss	<b>(783)</b>	(648)
	<b>(1,248)</b>	(2,156)
Finance income – net	<b>1,964</b>	2,405

### 26. INCOME TAX CHARGE/(CREDIT)

The amount of taxation charged to the income statement represents:

	2009	2008
Current income tax	<b>20,898</b>	19,117
Over provision of income tax in prior year	<b>(2,963)</b>	–
Deferred income tax (Note 21)		
– relating to the temporary differences	<b>(4,208)</b>	(11,056)
– resulting from change in tax rates	–	(8,540)
	<b>13,727</b>	(479)

- (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) Pursuant to the CIT Law 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 and Wutong Aroma, were qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% for the years from 2008 to 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 26. INCOME TAX CHARGE/(CREDIT) (continued)

- (c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of two major subsidiaries of the Group, as follows:

	2009	2008
Profit before income tax	77,124	15,616
Tax calculated at the tax rate of 15% (2008:15%)	11,569	2,342
Tax losses not recognised (Note 21)	240	449
Effect of change in tax rate (Note 21)	–	(8,540)
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 21)	612	135
Expenses not deductible for tax purpose	4,269	5,135
Over provision of income tax in prior year	(2,963)	–
Taxation charge/(credit)	13,727	(479)

### 27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Profit attributable to equity holders of the Company	61,064	31,258
Weighted average number of ordinary shares in issue (thousands of shares)	484,389	484,389
Basic earnings per share (RMB per share)	0.13	0.06

In both 2009 and 2008, diluted earnings per share are the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at year end date.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 28. DIVIDEND

No final dividend was proposed in respect of the year ended 31 December 2009 (2008: Nil).

### 29. CASH GENERATED FROM OPERATIONS

	2009	2008
Profit before income tax	77,124	15,616
Adjustments for:		
– Depreciation and amortisation (Notes 6, 7 and 8)	28,494	30,783
– Impairment charge for intangible assets (Note 8)	–	40,183
– Loss/(gain) on disposal of property, plant and equipment	1,523	(179)
– Interest income (Note 25)	(3,212)	(4,561)
– Interest expense (Note 25)	465	1,508
– Share of profit from an associate (Note 10)	(308)	(1,255)
Changes in working capital:		
– Inventories	(4,428)	(30,612)
– Trade and other receivables	(35,025)	36,624
– Trade and other payables and deferred grants	21,057	(33,755)
Cash generated from operations	85,690	54,352

In the cash flow statement, proceeds from disposal comprise:

	Land use right		Property, plant and equipment	
	2009	2008	2009	2008
Net book amount (Notes 6, 7)	3,982	–	2,206	1,055
(Loss)/gain on disposal	–	–	(1,523)	179
Proceeds from disposal	3,982	–	683	1,234

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

(All amounts in Renminbi thousands unless otherwise stated)

### 30. COMMITMENTS – GROUP

#### (a) Capital commitments

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

	2009	2008
Property, plant and equipment contracted but not provided for	<b>198,445</b>	13,394

#### (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:

	2009	2008
Not later than 1 year	<b>882</b>	1,201
Later than 1 year and not later than 5 years	<b>328</b>	1,248
Later than 5 years	–	91
	<b>1,210</b>	2,540

### 31. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 59.22% of the Company's shares. The ultimate controlling party of the Group is Mr. Wong Ming Fan.

The following transactions were carried out with related parties:

- (a) Purchases of raw materials from an associate on normal commercial terms and conditions during the year amounted to RMB18,302,000 (2008: RMB52,573,000).
- (b) Year-end balances with the associate comprised dividends receivable from the associate amounting to RMB470,000 (2008: Nil). There was no prepayment to the associate for the purchase of raw materials during the year (2008: RMB2,179,000).

The balances with the associate are unsecured, interest-free and repayable on demand.

- (c) Key management compensation is disclosed under Note 24.

## FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2005	2006	2007	2008	2009
Turnover	221,667	292,580	428,762	503,838	<b>589,612</b>
Net profit for the year	59,763	75,384	100,554	16,095	<b>63,397</b>

## ASSETS AND LIABILITIES

	As at 31 December				
	2005	2006	2007	2008	2009
Total assets	331,273	522,539	947,790	863,973	<b>952,193</b>
Total liabilities	(88,603)	(76,311)	(175,613)	(93,822)	<b>(117,288)</b>
Shareholders' funds	242,670	446,228	772,177	770,151	<b>834,905</b>

### Notes:

1. The results for year ended 31 December 2009, and the assets and liabilities as at 31 December 2009 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 35 and 33 respectively, of the consolidated financial statements.